

- **Statement 2 is correct:** Trade protectionist policy of a country aims at reserving the economy and market for the residents or locals. It prohibits imports from other countries. Such a policy of USA is bound to decrease India's exports and hence would lead to deficit in the Current Account as trade in invisibles and visibles forms a part of the Current Account.

Q.32) Ans: a

Exp:

- **Statement 1 is correct:** Triffin Dilemma was associated with the fixed exchange rate system wherein IMF had fixed the exchange rate for every country with respect to the US dollar and this in turn was linked to gold prices. So, a country could print currency in accordance with the availability of gold in its reserves. However, this system was not effective as the supply of gold was fixed. Hence, the system of SDR was introduced as an alternative to this for the IMF. SDR or Special Drawing rights refers to the deposits made by a country in the IMF in accordance with the quota allocated to it.
- **Statement 2 is incorrect:** IMF offers a small rate of interest on the SDR deposited by the countries. These SDR deposits are given out to member countries as loans when they face any shortage or Balance of Payment crisis.
- **Statement 3 is incorrect:** SDRs are used by the IMF to extend loans to countries facing the Balance of Payment crisis. It is lent out as loans to the member countries on which the IMF charges interest. However, it can also be traded amongst the countries to solve the Balance of Payment crisis or to settle Balance of Payment transactions.

Q.33) Ans: b

Exp:

- **Statement 1 is correct:** In a **Managed Floating Exchange** rate system, the exchange rate of currency is determined by the market forces of demand and supply. Such a system allows interference by the Reserve Bank of India in situations when too much volatility is observed in the currency. **Currency convertibility** refers to the ease with which a currency can be converted into any other currency or dollar. Full convertibility of a currency may lead to high volatility and to

prevent this situation, RBI imposes certain limitations on the convertibility of rupee.

- **Statement 2 is incorrect:** There is no full currency convertibility in the Capital Account of the country. The RBI imposes sector specific limitations. The rupee is fully convertible on the current account as these deals with import-export, remittances, etc. Ensuring full convertible on the Capital account may lead to sudden incoming and outgoing of FPI or Portfolio Investments leading to huge volatility in the Indian market.

Q.34) Ans: c

Exp:

- **Option is C correct:** Allowing full currency convertibility in both the Capital Account and Current Account would ensure **easy movement of the Foreign Portfolio Investments** in the Indian market. They would invest during the periods of growth while withdrawing by immediately converting their assets during the periods of slowdown. The **problems of Non-Performing Assets would be better dealt** with if there is full convertibility as greater investments by FPIs would cause corporates to pay back the loans on time. Investors are more inclined to invest in the regions where the convertibility norms are relaxed. Similar is true for the companies. Relaxation in currency convertibility norms would discourage companies from shifting their profits to tax havens. The full currency convertibility increases the problems of **volatility witnessed in a currency exchange rate**. The ease of investment and withdrawal depending upon the economic situation of a country can cause fluctuations in its exchange rates.

Q.35) Ans: d

Exp:

- **Statement 1 is incorrect:** **Nominal Effective Exchange Rate (NEER)** is obtained by calculating the geometric average of the exchange rate of rupee in relation to different foreign currencies depending upon their trade volumes with India. **Real Effective Exchange Rate (REER)** is inflation adjusted exchange rate (CPI in case of India). Hence, both REER and NEER measures the position of a currency not just with