

Chapter 11: Foreign Exchange Rates

Question 1

What is the foreign exchange?

Ans: Foreign exchange refers to all currencies other than the domestic currency of a given country.

Question 2

Mention the effects of exchange depreciation on exports

Ans: The currency/exchange depreciation leads to an increase in exports.

Question 3

State the three functions of the foreign exchange market?

Ans: The three functions of the foreign exchange market are :

- Transfer Function
- Credit Function
- Hedging Function

Question 4

What is meant by the spot exchange rate?

Ans: The rate of exchange, which prevails in the spot market at the time when a foreign currency is bought and sold, is termed as the spot exchange rate.

Question 5

Define the foreign exchange market.

Ans: The foreign exchange market is the market where foreign currencies are bought and sold.

Question 6

What is the shape of the demand curve of foreign exchange?

Ans: The demand curve sloping (due to the inverse relationship between the exchange rate and the demand for foreign exchange)

Question 7

Give the meaning of forward exchange rate.

Ans: The exchange rate quoted in the forward transaction is known as the forward exchange rate.