THIRD SEMESTER P.G. DEGREE EXAMINATION, NOVEMBER 2021

(CCSS)

Financial Economics

FEC 3C 11—INTERNATIONAL FINANCE

(2019 Admissions)

Time : Three Hours   Maximum : 80 Marks

Part A

*Answer **all** questions.*
Each question carries 1 mark.

1. Which of the following may be participants in the foreign exchange markets ?

    a) Bank and nonbank foreign exchange dealers.

    b) Central banks and treasuries.

    c) Speculators and arbitragers.

    d) All of the above.

2. Exchange rate between two countries is defined as :

    a) Amount of currency that must be paid in order to obtain a unit of another currency.

    b) Difference between total exports and imports within a country.

    c) Price at which sales and purchase of different goods take place.

    d) Ratio of import price to export price.

3. By definition, currency appreciation occurs when :

    a) The value of all currencies fall relative to gold.

    b) The value of all currencies rise relative to gold.

    c) The value of one currency rises relative to another currency.

    d) The value of one currency falls relative to another currency.

Turn over

4. The term Euro currency market refers to :

    a) Countries which have adopted Euro as their currency.

    b) The international forex market.

    c) The market in which Euro is exchanged for other currencies.

    d) None of the above.

5. Hedging is used by companies to :

    a) Decrease the variability of tax paid.

    b) Decrease the spread between spot and forward market quotes.

    c) Increase the variability of expected cash flows.

    d) Decrease the variability of expected cash flows.

6. The J-curve effect refers to the observation that ?

    a) GDP usually decreases before it increases after a currency depreciation.

    b) The trade balance usually gets worse before it improves after a currency depreciation.

    c) The trade balance usually gets better before it gets worse after a currency appreciation.

    d) GDP usually decreases before it increases after a currency appreciation.

7. If one anticipates that the rupee is going to appreciate against the US dollar, one might speculate by ——————— rupee call options or ——————— rupee put options.

    a) Buying ; buying.   b) Selling ; buying.

    c) Selling ; selling.   d) Buying ; selling.

8. A simultaneous purchase and sale of foreign exchange for two different dates is called :

    a) Currency devalue.   b) Currency swap.

    c) Currency valuation.   d) Currency exchange.

9. IMF was formally established in the year :

    a) 1940.   b) 1945.

    c) 1947.   d) 1972.

10. An arbitrageur in foreign exchange is a person who :

   a) Earns illegal profit by manipulating foreign exchange.

   b) Causes differences in exchange rates in different geographic markets.

   c) Simultaneously buys large amounts of a currency in one market and sell it in another market.

   d) None of the above.

$(10 \times 1 = 10 \text{ marks})$

Part B (Very Short Answer Questions)

Answer any **five** *questions.*
Each question carries 2 marks.
Answer in one **or** *two sentences each.*

11. What is PPP theory ?

12. How is real exchange rate determined ?

13. What is official reserve account ?

14. How are exchange rate and rate and interest rate connected ?

15. What is optimum currency area ?

16. What is forward market ?

17. Explain the advantages of flexible exchange rate system.

18. What do you mean by Currency Convertibility ?

$(5 \times 2 = 10 \text{ marks})$

Part C (Short Answer Questions)

Answer any **eight** *questions.*
Each question carries 5 marks.

19. Explain the emergence of Bretton Woods system.

20. How effective was the unification of Europe under a single currency ?

21. Explain the perils of financial globalization.

22. What role does IMF play in economic development ?

23. Explain the difference between gold standard and gold exchange standard.

24. Explain the collapse of Asian tigers in 1998.

25. Explain elasticity approach to BoP.

26. What role did sub-prime mortgages played in global financial crisis of 2008 ?

27. Explain the causes of exchange rate overshooting.

28. What causes disequilibrium in Balance of Payments ?

29. Explain the impact covid 19 pandemic on international finance.

30. What role does spot market and forward market play in foreign exchange transactions ?

(8 × 5 = 40 marks)

Part D

Answer any **two** *questions.*
Each question carries 10 *marks.*
Write essays.

31. What is the significance of Arbitrage, Hedging and Speculation in the foreign exchange market ?

32. Examine the role of World Bank IMF in the present world economy.

33. Explain Global Financial Crisis of 2008 ?

34. What are the benefits, consequences and impact of financial globalization ?

(2 × 10 = 20 marks)

THIRD SEMESTER P.G. DEGREE EXAMINATION, NOVEMBER 2021

(CCSS)

Financial Economics

FEC 3C 10—BASIC ECONOMETRICS

(2019 Admissions)

Time : Three Hours   Maximum : 80 Marks

Part A

Answer **all** *questions.*
Each question carries 1 mark.

Multiple Choice Questions :

1. ————— is a variable that takes on non-negative integer values.

    a) Count Variable.   b) Control Variable.

    c) Binary Variable.   d) Exogenous Variable.

2. The mistake of including too many dummy variables among the independent variables is :

    a) Errors in Variables.   b) Dummy dependent variable.

    c) Dummy variable trap.   d) Dummy variable regression.

3. The numerical value taken on by an estimator for a particular sample of data is :

    a) Estimator.   b) Parameter.

    c) Estimate.   d) Error Term.

4. In Multiple Regression, the partial effect of one explanatory variable depends on the value of a different explanatory variable is :

    a) Intercept shift.   b) Langrange Multiplier Statistic.

    c) Interaction Effect.   d) Intercept Parameter.

5. ————— is a data set constructed from repeated cross-sections overtime.

    a) Time series data.   b) Cross-sectional data.

    c) Panel data.   d) Data frequency.

6. ————— is an unknown value that describes a population relationship.

    a) Estimate.   b) Parameter.

    c) Estimator.   d) Error term.

Turn over

7. A variable whose outcome is uncertain is :

    a) Predictor variable.
    b) Random variable.

    c) Proxy variable.
    d) Dummy variable.

8. A function whose slope is not constant is :

    a) Non-linear function.
    b) Normal distribution.

    c) Linear function.
    d) Intercept shift.

9. A statistic used to test for first order serial correlation in the errors of a time series regression model under classical linear model assumption is :

    a) Descriptive Statistic.
    b) Durbin Watson Statistic.

    c) Chow Statistic.
    d) Asymptotic 't' Statistic.

10. The variance of the error term, given the explanatory variables, is not constant, known as :

    a) Auto correlation.
    b) Homoskedasticity.

    c) Heteroskedasticity.
    d) Multicollinearity.

(10 × 1 = 10 marks)

Part B (Very Short Answer Questions)

Answer any **five** *questions.*
Each question carries 2 marks.
Answer in one or two sentences each.

11. Define the Standard Error of the Estimate.

12. What is Multiple Linear Regression Model ?

13. State Gauss - Markov Theorem.

14. Distinguish between Parameter and estimator.

15. What do you mean by p Value ?

16. Write a note on Simultaneous Equation Model.

17. Explain Population regression function.

18. What do you mean by a null hypothesis ?

(5 × 2 = 10 marks)

Part C (Short Answer Questions)

Answer any **eight** *questions.*
Each question carries 5 marks.

19. Explain the Dummy Variable Trap. Illustrate your answer with an example.

20. Distinguish between single equation and simultaneous equation models.

21. What do you mean by an Instrument variable ? Explain its uses.

22. Write on autocorrelation and its causes.

23. What is the problem of heteroscedasticity ? How can it be avoided ?

24. What is meant by 'specification error' in a regression model ? Indicate the different types of specification error.

25. State the problem of Identification. Explain the rules for identification.

26. Explain the method of Indirect Least Square.

27. Discuss the Asymptotic properties of OLS.

28. Explain the Scope and limitations of econometric approach.

29. Define Multicollinearity. Discuss the remedies for it.

30. Describe the F test and ANOVA.

(8 × 5 = 40 marks)

Part D (Essay Type Questions)

Answer any **two** *questions.*
Each question carries 10 *marks.*

31. What distinguishes Econometrics from purely mathematical economics and from economic theory ? Briefly discuss the steps involved in econometric analysis.

32. Explain BLUE properties. State and prove that the OLS estimators are BLUE.

33. Evaluate the different methods of estimation of a system of simultaneous equations.

34. Give a brief idea about the distributive lag models.

(2 × 10 = 20 marks)

THIRD SEMESTER P.G. DEGREE EXAMINATION, NOVEMBER 2021

(CCSS)

Financial Economics

FEC 3C 10—BASIC ECONOMETRICS

(2018 Admissions)

Time : Three Hours　　　　　　　　　　　　　　　　　Maximum : 80 Marks

Part A

Answer **all** *questions.*
Each question carries 1 *mark.*

Multiple Choice Questions :

1. The term 'Econometrics' was coined by :

   (a) Ragnar Frish.　　　　　　　　(b) Jan Timbergen.

   (c) Koyck.　　　　　　　　　　　(d) Alt.

2. Linearity assumption coincides with ———— assumption.

   (a) Additive.　　　　　　　　　　(b) Proportionality.

   (c) Substitutability.　　　　　　　(d) Constancy.

3. Weighted least square method is a remedy for ———— problem.

   (a) Multicollinearity.　　　　　　(b) Autocorrelation.

   (c) Heteroscedasticity.　　　　　　(d) Specification error.

4. The equality between means of two sample data is tested with :

   (a) t-test.　　　　　　　　　　(b) F-test.

   (c) χ^2-test.　　　　　　　　　(d) ANOVA.

5. ———— is the difference between actual and estimated Y values.

   (a) Slope.　　　　　　　　　　　(b) Intercept.

   (c) Lag.　　　　　　　　　　　　(d) Residual.

6. Suppose that observations are available on the monthly bond prices of 100 companies for 5 years. What type of data are these ?

   (a) Cross-sectional.　　　　　　　(b) Time series.

   (c) Panel.　　　　　　　　　　　(d) Qualitative.

Turn over

7. Dummy variable trap arises due to ——————.

    (a) Multicollinearity.   (b) Heteroscedasticity.

    (c) Autocorrelation.   (d) Simultaneity.

8. If a Durbin-Watson statistic takes a value close to zero, what will be the value of the first order autocorrelation coefficient ?

    (a) Close to 0.   (b) Close to +1.

    (c) Close to –1.   (d) Ranges from –1 to +1.

9. Profits of a firm depend on the current sales and past period $(t-1)$ profits of the firm. This is an example of :

    (a) Distributed lag model.   (b) Autoregressive model.

    (c) Linear programming.   (d) Lagrangian model.

10. Expressing each endogenous variable as function of predetermined variable and random error term is :

    (a) The structural equation.   (b) Linear equation.

    (c) Reduced form equation.   (d) Simultaneous equation.

(10 × 1 = 10 marks)

Part B (Very Short Answer Questions)

Answer any **five** *questions.*
Each question carries 2 marks.
Answer in one **or** *two sentences each.*

11. Define cross-sectional data with an example.

12. State Gauss-Markov theorem.

13. Define an unbiased estimator with example.

14. Define dummy variable trap.

15. What do you mean by heteroscedasticity ?

16. Define AR (1) scheme.

17. What do you mean by short run in a distributed-lag model ?

18. When does an identified equation exactly identified and over identified ?

(5 × 2 = 10 marks)

Part C (Short Answer Questions)

*Answer any **eight** questions.*
Each question carries 5 marks.

19. Discuss the desirable properties of an econometric model.

20. Explain the assumptions of classical linear regression model.

21. Explain the remedial measures of multicollinearity.

22. Explain Goldfeld-Quandt test.

23. Explain the procedure of Durbin-Watson test for autocorrelation.

24. Explain the role of lags in economics.

25. Discuss the features of Koyck transformation.

26. Explain the rules for identification.

27. Explain log-lin and lin-log models.

28. Explain Park test and Glejser test.

29. Explain dummy variable regression model. Also explain its fetures.

30. Discuss the method of three stage least squares.

31. Given the following sample data on two variables, X and Y :

$$\sum X_i = 70, \ \sum Y_i = 50, \ \sum X_i^2 = 532, \ \sum Y_i^2 = 268, \ \sum X_i Y_i = 374 \text{ and sample size} = 10.$$

Estimate the linear regression of Y on X.

(8 × 5 = 40 marks)

Part D (Essay Type Questions)

*Answer any **two** questions.*
Each question carries 10 marks.

32. Explain the classical methodology of econometrics.

33. Explain the remedial measures of heteroscedasticity.

34. Discuss the nature of autocorrelation. Also explain its reasons and practical consequencces.

35. Explain simultaneous equation bias with an example.

(2 × 10 = 20 marks)