Examcollection

http://www.ipass4sure.com/examcollection.htm http://www.ipass4sure.com

CIA-III

Financial

The Certified Internal Auditor Part 3

http://www.ipass4sure.com/exams.asp?examcode=CIA-III

QUESTION: 1
If a central bank wishes to implement an expansionary monetary policy, which one of the following actions would it take?

A. Raise the reserve requirement and the rate at which member banks may borrow from the central bank.
B. Purchase additional government securities and lower the rate at which member banks may borrow from the central bank.
C. Reduce the reserve requirement and raise the rate at which member banks may borrow from the central bank.
D. Raise the rate at which member banks may borrow from the central bank and sell government securities.

Answer : B
A central bank affects monetary policy primarily through the purchase and sale of government securities. A purchase of securities is expansionary because it increases bank reserves and the money supply. However, the sale of government securities by the central bank contracts the money supply by removing resources from the economy. Lowering the reserve requirement the percentage of deposits that a bank must keep on hand) also expands the money supply by increasing the loanable funds held by banks. Similarly, lowering the the rate at which member banks may borrow from the central bank encourages borrowing and increases the money supply.

QUESTION: 2
A tight monetary policy is frequently cited as an important policy instrument for fighting inflation. Keynesian n:mists believe that one of the possible undesirable side effects of such a policy is

A. Reduced business investment due to higher interest rates.
B. Reduced business investment due to lower interest rates.
C. Increased business investment due to decreased government spending.
D. Increased business investment because of reduced confidence in business.

Answer : A
A tight monetary policy means that little money is available for borrowing. When supply is reduced, the price increases. Thus, interest rates are increased when the money supply contracts. Because of high interest rates, the cost of investment is increased and investment is discouraged.

QUESTION: 3
Which of the following is a tool of monetary policy that a nation's central bank could use to stabilize the economy during an inflationary period?

A. Selling government securities.
B. Lowering bank reserve requirements.
C. Lowering bank discount rates.
D. Encouraging higher tax rates.

Answer : A
Selling government securities is contractional because it takes money out of circulation.

QUESTION: 4

The total exports of Vietnam are US $20,000,000 worth of rice to Greece, and the total exports of Greece are US $18 ,i i 11,111100 worth of olives to Vietnam. The terms of trade are

	Greece	Vietnam
A.	90	111
B.	120	180
C.	111	90
D.	97	103

Answer : A
A country's terms of trade are calculated by dividing its export price index by its import price index and multiplying by 100. Greece's total exports US $18,000,000) divided by its total imports US $20,000,000) equals 0.9 x 100 = 90. Vietnam's total exports US $20,000,000) divided by its total imports US $18,000,000) equals 1.11 x 100 = 111.

QUESTION: 5
The economic reasoning dictating that each nation specialize in the production of goods that it produces relatively more efficiently than other nations and import those goods that are produced relatively more efficiently by other nations is called the doctrine of

A. Efficient trade.
B. Diminishing returns.
C. Relative competition.
D. Comparative advantage.

Answer : D
The doctrine of comparative advantage relates to comparative costs within one country. It holds that a country should produce those products in which it has a comparative advantage, not necessarily those products in which it has an absolute advantage. The doctrine suggests that a country should produce those products for which the greatest efficiencies are attainable even if it could also produce other goods more efficiently than another nation. In the long run, importing a product in which a country has an absolute advantage but not a comparative advantage will result in an overall increase in global production.

QUESTION: 6
What is the economic term used to describe the situation in which each nation specializes in the production of goods that it produces relatively more efficiently than other nations and imports those goods that are produced relatively more efficiently by other nations?

A. Balance of trade.
B. Diminishing returns.
C. Relative competition.
D. Comparative advantage.

Answer : D
The relevant concept is comparative advantage, which compares the costs of inputs within a single country_ In contrast, the concept of absolute advantage with respect of inputs between countries. It is possible that a country might have an absolute advantage, with respect to every product, but comparative. advantage is different from absolute advantage. A particular nation can have a comparative advantage even though it does not

have an absolute advantage. For example assume that Country A can produce Item for US $100 and Item Y for US $200 and that Country B earl produce Item X for US $50 and Item Y for US $150. B has an absolute advantage in the production of both procedures however, B has a comparative advantage in producing Item X 50 100, or 50% of the A cost compared with 150 200, or 75% of the A cost for Item Y)_ A has a comparative advantage in producing Item Y 200 150. or 133% of the B cost, versus 100 50, or 200% for Item X). A nation will benefit by exporting goods in which it has a comparative advantage and importing goods in which it does not have a comparative advantage. Total output will be maximized when each nation specializes in the products in which it has the greatest comparative advantage or the least comparative disadvantage.

QUESTION: 7
If the value of the U.S. dollar in foreign currency markets changes from US $1 = .95 euros to US $1 = .90 euros.

A. The euro has depreciated against the dollar.
B. Products imported from Europe to the U.S. will become more expensive.
C. U.S. tourists in Europe will find their dollars will buy more European products.
D. U.S. exports to Europe should decrease.

Answer : B
The dollar has declined in value relative to the euro_ If an American had previously wished to purchase a European product that was priced at 10 euros, the price would have been about US $10.53. After the dollar's decline in value, the price of the item has increased to about US $11.11. Hence, imports from Europe should do-i --se and exports increase

QUESTION: 8
Exchange rates are determined by

A. Each industrial country's government.
B. The International Monetary Fund.
C. Supply and demand in the foreign currency market.
D. Exporters and importers of manufactured goods.

Answer : C
Although currencies can be supported by various means for short periods, the primary determinant of exchange, rates is the supply of and demand for the various currencies. Under current international agreements, exchange rates are allowed to "float_" During periods of extreme fluctuations, however, governments and control banks may intervene to maintain stability in the market.

QUESTION: 9
Two countries have flexible e change rate systems and an active trading relationship. If incomes <List A> in country 1, everything else being equal, then the currency of country 1 will tend to <List B> relative to the currency of country 2.

	List A	List B
A.	Rise	Remain constant
B.	Fall	Depreciate
C.	Rise	Depreciate
D.	Remain constant	Appreciate

Answer :C
If incomes in country 1 rise, consumers in country 1 will increase their imports from country 2. The resulting increase in the supply of currency 1 will result in a tendency for it to depreciate relative to the currency of country 2.

QUESTION: 10
If the exchange rate has changed from 1 local currency unit LCU) to 5 foreign currency units FCUs) to a rate of 1 LCU to 5.5 FCUs,

A. The LCU has appreciated by 10%.
B. The LCU has depreciated by 10%.
C. The FCU has appreciated by 20%.
D. The FCU has depreciated by 20%.

Answer : A
If the exchange rate changes from 1 LCU to 5 FCUs to 1 LCU to 5.5 FCUs, the LCU has appreciated by 10% [(5.5 - 5) 5].

QUESTION: 11
The value of the domestic currency in relation to foreign currencies is

A. Determined directly by the price of gold because the value of the domestic currency is tied to the price of gold.
B. Set by the domestic government in consultation with foreign governments.
C. Set along with the value of other currencies held by the International Monetary Fund.
D. Determined by the forces of supply and demand on the foreign exchange markets.

Answer : D
Exchange rates are determined by the forces of supply and demand on the exchange markets. Often other forces try to intervene in this process of exchange rate determination, but these reflect only short-run policies. An example of this type of policy would be government or central bank intervention in the international money markets.

QUESTION: 12
A domestic entity and a foreign entity purchased the same stock on the foreign stock exchange and held the stock for 1 year. The value of the foreign currency weakened against the domestic currency over this period. Comparing the returns of the two companies, what will be the domestic entity's return?

A. Lower.
B. Higher.
C. The same.
D. Higher in the short-run but lower in the long-run.