

Enrollment No./Seat No.:

GUJARAT TECHNOLOGICAL UNIVERSITY
MBA - SEMESTER - I EXAMINATION - SUMMER 2025

Subject Code: N2519303

Date: 31-05-2025

Subject Name: International Economic Environment

Time: 02:30 PM TO 05:30 PM

Total Marks: 70

Instructions

- 1. Attempt all questions.**
- 2. Make suitable assumptions wherever necessary.**
- 3. Figures to the right indicate full marks.**
- 4. USE of SIMPLE calculators AND non-programmable scientific calculators are permitted.**

	Marks
Q.1 ALL 7 Questions must be Compulsory.	14
(a) Elasticity of Demand	
(b) Production Function	
(c) Perfect Competition	
(d) Fiscal Policy	
(e) Tariff	
(f) Dumping	
(g) Exchange Rate	
Q.2 (a) How does elasticity of demand affect pricing decisions?	07
(b) Being a Manager of a multinational company use the concept of price elasticity of demand to set pricing strategies in different international markets?	07
OR	
(b) If your production cost is increased by 10% due to global inflation, how should your firm optimize its production function to maintain profitability?	07
Q.3 (a) Compare and contrast different market structures.	07
(b) Assume you are launching a product in a monopolistic competition market in Asia. How would you differentiate your product and set pricing?	07
OR	
(a) Discuss the role of monetary policy in controlling inflation.	07
(b) As an export manager, how would you adjust your strategy if the importing country suddenly imposes a non-tariff barrier like a quota?	07
Q.4 (a) Discuss the economic features of any two continents.	07

- (b) A US-based investor wants to invest in India. How should they consider real vs. nominal exchange rates before finalizing the deal? 07

OR

- (a) How does dumping affect domestic industries? 07
- (b) How can India use the Ricardian theory of comparative advantage to strengthen trade ties with European nations? 07

Q.5

The euro and the dollar are the two most dominant currencies in the world. As of 2006, the value of euro notes in circulation exceeded that of the dollar. This can be explained partly by a fall in the value of the dollar and partly by the preference for Europeans to pay in cash for most transactions, in contrast to Americans who prefer to use credit cards. In addition, more countries are qualifying to join the European Union, requiring the European Central Bank to print more euro notes and coins.

The success of the euro indicates that it is possible for the world to eventually adopt a single currency. The euro is successful because all countries using the euro agree to a common monetary system. A country has to be accepted into the eurozone in order to be a member of the monetary system. Another way for a country to attach on to another currency, preferably a stronger one, is to officially “adopt” the currency without being a member of the monetary system. The term for such official adoption is “dollarization,” and the term arose because the dollar was the most likely currency to be adopted in the past. Today, it could easily be called “euroization” or “rublization” or “yuanization,” depending on the currency adopted.

Two countries that recently “dollarized” their currencies were Ecuador in 2000 and El Salvador in 2001. Only five other independent nations in the past have adopted the dollar as their official currency, East Timor, the Marshall Islands, Micronesia, Palau, and Panama. This list excludes all U.S. territories and those countries that use the dollar “unofficially” (as a result of a failure of their local currency).

It is not clear whether countries benefit when they adopt a stronger currency like the dollar. In the case of Ecuador, the dollarization appears to have worked well; however, the experience for El Salvador has been mixed. The success or failure may depend more on the economic conditions that existed in the country both prior to and after the currency’s adoption.

In Ecuador, inflation had reached over 100 percent in 1999, the year before dollarization, leading to a dramatic depreciation of their local currency, the sucre. In 1997, the sucre was selling at 3,500 per dollar; by 2000, its value had fallen to over 25,000 per dollar. A room at a top-rated hotel that normally cost US\$50 in 1997 dropped to US\$7 per room for an American tourist. The country’s financial markets had collapsed, and adoption of the dollar was one of the few options available to the government. The aftermath was very encouraging, as inflation fell to 10.7 percent in 2002 and continued its downward drift thereafter to 3.9 percent in 2007. The reason for the drastic drop in inflation was obvious: local politicians could no longer print money as needed, and instead dollars had to be earned by exports or obtained through official borrowing.

The long-term results for Ecuador have also been encouraging. The U.S. State Department estimates the average GDP in Ecuador increased to 4.6 percent since 2000, supported by the exports of oil and nontraditional items and by remittances from abroad. Per capita income increased from US\$1,296 in 2000 to approximately US\$3,270 in 2007, and the poverty rate fell from 51 percent in 2000 to 38 percent in 2006. These statistics might have improved even more if not for the high level of corruption and political tension that still exists in the country. The growth rate finally slowed down in 2007. It is unclear how the global slowdown in 2008 will affect the country’s economic progress in the coming years.

Conditions in El Salvador were different from Ecuador when they dollarized their

currency. There was no immediate financial crisis and inflation rates were low prior to dollarization. A number of structural reforms had been initiated between 1998 and 2000, that including the privatization of banks, the strengthening of the tax code, and the breaking up of the state monopolies in telecommunications and electricity. Dollarization was chosen deliberately as a means to prevent deterioration in the value of their local currency.

The U.S. State Department reports that El Salvador's economy grew at 4.7 percent in 2007, and poverty has been reduced from 66 percent in 1991 to 30.7 percent in 2006. However inflation increased from 2.3 percent in 2001 to nearly 3.6 percent since the dollarization. Although the interest rate declined during this period, it did not manage to attract foreign investments into the country, primarily because of low productivity and overdependence on agriculture. When the dollar became strong in early 2000, exports from El Salvador also suffered as Chinese imports into the country increased.

- (a)** What were the key reasons behind Ecuador's decision to adopt the US dollar in 2000, and what were the initial outcomes of this move? **07**
- (b)** How did the conditions surrounding El Salvador's dollarization differ from those in Ecuador, and what were the mixed results experienced? **07**

OR

- (a)** What are the broader implications of dollarization or adopting a strong currency for small countries, according to the case study? **07**
- (b)** What does the case study imply about the future of global currencies and the role of the US dollar? **07**
