Q94

The problem of international liquidity is related to the non-availability of (a) goods and services (b) gold and silver (c) dollars and other hard currencies (d) exportable surplus Official key: C.

UPSC Civil Services Prelims 2015 · General Studies · 2 marks · Economy

Indian economy, budget, schemes - Prelims GS Paper I.

Explanation

(a)

Shortage of goods and services is a real-resource or supply problem, not what 'international liquidity' means in the exam sense. This option is not the key.

(b)

Gold and silver matter historically for reserves, but modern international liquidity is discussed mainly as hard-currency (especially dollar) availability. This option is therefore incomplete and not the key.

(c) Official key

International liquidity means the supply of reserve assets with which countries can settle external imbalances-chiefly US dollars and other hard currencies (and IMF-related assets). Non-availability of those is the liquidity problem. This option is the official key.

(d)

Exportable surplus is a trade concept, not the definition of international liquidity. This option is not the key.

Summary

Official key is (c) dollars and other hard currencies. International liquidity is the stock of means of international payment. After Bretton Woods the dollar has been the core reserve currency; euros, yen and others count as hard currencies. Goods, bullion alone, or export surplus are different problems. Only (c) matches the term.

Related possible facts

These can be asked in a future Prelims paper.

Hard currency

Widely accepted reserve currency (USD, EUR, JPY, GBP, etc.)

SDR

IMF Special Drawing Right; a supplementary reserve asset

Triffin dilemma
Tension between US domestic policy and world dollar liquidity

Forex reserves
RBI's foreign currency assets as India's liquidity buffer

Gold tranche / reserve position
IMF-related liquidity, still not 'goods and services'