1. One year a country has negative net exports. The next year it still has negative net exports and imports have risen more than exports.
   a. its trade surplus fell.
   b. its trade surplus rose.
   c. its trade deficit fell.
   d. its trade deficit rose

   ANSWER: d

2. A country purchases $3 billion of foreign-produced goods and services and sells $2 billion dollars of domestically produced goods and services to foreign countries. It has
   a. exports of $3 billion and a trade surplus of $1 billion.
   b. exports of $3 billion and a trade deficit of $1 billion.
   c. exports of $2 billion and a trade surplus of $1 billion.
   d. exports of $2 billion and a trade deficit of $1 billion.

   ANSWER: d

3. If a country has $2.4 billion of net exports and purchases $4.8 billion of goods and services from foreign countries, then it has
   a. $7.2 billion of exports and $4.8 billion of imports.
   b. $7.2 billion of imports and $4.8 billion of exports.
   c. $4.8 billion of exports and $2.4 billion of imports.
   d. $4.8 billion of imports and $2.4 billion of exports.

   ANSWER: a

4. If a country had a trade surplus of $50 billion and then its exports rose by $30 billion and its imports rose by $20 billion, its net exports would now be
   a. $0 billion.
   b. $20 billion.
   c. $40 billion.
   d. $60 billion.

   ANSWER: d

5. If domestic residents of France purchase 1.2 trillion euros of foreign assets and foreigners purchase 1.5 trillion euros of French assets, then France’s net capital outflow is
   a. -3 trillion euros, so it must have a trade deficit.
   b. -3 trillion euros, so it must have a trade surplus.
   c. 3 trillion euros, so it must have a trade deficit.
   d. 3 trillion euros, so it must have a trade surplus.

   ANSWER: a
6. Suppose that foreign citizens decide to purchase more U.S. pharmaceuticals and U.S. citizens decide to buy more stock in foreign corporations. Other things the same, these actions
   a. raise both U.S. net exports and U.S. net capital outflows.
   b. raise U.S. net exports and lower U.S. net capital outflows.
   c. lower both U.S. net exports and U.S. net capital outflows.
   d. lower U.S. net exports and raise U.S. net capital outflows.
   \textit{Answer:} \hspace{2cm} a

7. Which of the following is an example of U.S. foreign direct investment?
   a. A U.S. based mutual fund buys stock in Eastern European companies.
   c. A Swiss bank buys a U.S. government bond.
   d. A German tractor factory opens a plant in Waterloo, Iowa.
   \textit{Answer:} \hspace{2cm} b

8. Matt and Melinda are American residents. Matt buys stock issued by a German corporation. Melinda opens a shoe factory in Panama. Whose purchase, by itself, increases the U.S.’s net capital outflow?
   a. Matt’s
   b. Melinda’s
   c. both Matt’s and Melinda’s
   d. neither Matt’s nor Melinda’s
   \textit{Answer:} \hspace{2cm} c

9. Alfonso, a citizen of Italy, decides to purchase bonds issued by Ireland instead of ones issued by the United States even though the Irish bonds have a higher risk of default. An economic reason for his decision might be that
   a. he dislikes U.S. foreign policy.
   b. the Irish bonds pay a higher rate of interest.
   c. the U.S. government is more stable than the Irish government.
   d. None of the above provide an economic reason for buying the riskier bond.
   \textit{Answer:} \hspace{2cm} b

10. Other things the same, which of the following would both make foreigners more willing to engage in U.S. portfolio investment?
    a. U.S. interest rates rise, the default risk of U.S. assets rise
    b. U.S. interest rates rise, the default risk of U.S. assets fall
    c. U.S. interest rates fall, the default risk of U.S. assets rise
    d. U.S. interest rates fall, the default risk of U.S. assets fall
    \textit{Answer:} \hspace{2cm} b

11. If the American company Stryker builds and operates a new factory in France,
    a. it engages in foreign direct investment. By itself this action lowers U.S. net capital outflow.
    b. it engages in foreign direct investment. By itself this action raises U.S. net capital outflow.
    c. it engages in foreign portfolio investment. By itself this action lowers U.S. net capital outflow.
    d. it engages in foreign portfolio investment. By itself this action raises U.S. net capital outflow.
12. Suppose that U.S. citizens purchase more cars made in Korea, and Koreans purchase more bonds issued by U.S. corporations. Other things the same, these actions
   a. raise both U.S. net exports and U.S. net capital outflows.
   b. raise U.S. net exports and lower U.S. net capital outflows.
   c. lower both U.S. net exports and U.S. net capital outflows.
   d. lower U.S. net exports and raise U.S. net capital outflows.

   ANSWER: c

13. Suppose that U.S. citizens purchase more cars made in Korea, and Koreans purchase more bonds issued by U.S. corporations. Other things the same, these actions
   a. raise both U.S. net exports and U.S. net capital outflows.
   b. raise U.S. net exports and lower U.S. net capital outflows.
   c. lower both U.S. net exports and U.S. net capital outflows.
   d. lower U.S. net exports and raise U.S. net capital outflows.

   ANSWER: c

14. Which of the following equations is always correct in an open economy?
   a. \( I = Y - C \)
   b. \( I = S \)
   c. \( I = S - NCO \)
   d. \( I = S + NX \)

   ANSWER: c

15. If saving is greater than domestic investment, then
   a. there is a trade deficit and \( Y > C + I + G \).
   b. there is a trade deficit and \( Y < C + I + G \).
   c. there is a trade surplus and \( Y > C + I + G \).
   d. there is a trade surplus and \( Y < C + I + G \).

   ANSWER: c

16. If a country has a trade deficit then
   a. \( S > I \) and \( Y > C + I + G \).
   b. \( S > I \) and \( Y < C + I + G \).
   c. \( S < I \) and \( Y > C + I + G \).
   d. \( S < I \) and \( Y < C + I + G \).

   ANSWER: d

17. A Japanese flour mill buys wheat from the United States and pays for it with yen. Other things the same, Japanese
   a. net exports increase, and U.S. net capital outflow increases.
   b. net exports increase, and U.S. net capital outflow decreases.
   c. net exports decrease, and U.S. net capital outflow increases.
   d. net exports decrease, and U.S. net capital outflow decreases.
18. A U.S. retailer buys shoes from an Italian company. The Italian firm then uses all of the revenues to buy leather from the U.S. These transactions
   a. increase both U.S. net exports and U.S. net capital outflow.
   b. decrease both U.S. net exports and U.S. net capital outflow.
   c. increase U.S. net exports and do not affect U.S. net capital outflow.
   d. None of the above is correct.

   **ANSWER:** d

19. A Turkish company exchanges liras for dollars and then uses the dollars to purchase medical equipment from a U.S. company. These transactions
   a. increase U.S. net exports, and increase Turkish net capital outflow.
   b. increase U.S. net exports, and decrease Turkish net capital outflow.
   c. decrease U.S. net exports, and increase Turkish net capital outflow.
   d. decrease U.S. net exports, and decrease Turkish net capital outflow.

   **ANSWER:** b

20. Last year a country had exports of $100 billion, imports of $70 billion, and purchased $60 billion worth of foreign assets. What was the value of domestic assets purchased by foreigners?
   a. $70 billion
   b. $40 billion
   c. $30 billion
   d. $10 billion

   **ANSWER:** c

21. In an open economy, gross domestic product equals $1,970 billion, government expenditure equals $300 billion, investment equals $500 billion, and net capital outflow equals $280 billion. What is consumption expenditure?
   a. $280 billion
   b. $780 billion
   c. $890 billion
   d. $1,170 billion

   **ANSWER:** c

22. The dollar is said to appreciate against the euro if
   a. the exchange rate falls. Other things the same, it will cost fewer euros to buy U.S. goods.
   b. the exchange rate falls. Other things the same, it will cost more euros to buy U.S. goods.
   c. the exchange rate rises. Other things the same, it will cost fewer euros to buy U.S. goods.
   d. the exchange rate rises. Other things the same, it will cost more euros to buy U.S. goods.

   **ANSWER:** d

23. If the price of a good in the U.S. is $10 and the unit of foreign currency is the dinar, in which case is the real exchange rate 5/4?
   a. the foreign price is 4 dinars and the exchange rate is 1/2 dinars per dollar
   b. the foreign price is 5 dinars and the exchange rate is 2.5 dinars per dollar
   c. the foreign price is 4 dinars and the exchange rate is 2 dinars per dollar

   **ANSWER:** c
d. the foreign price is 5 dinars and the exchange rate is 2/5 dinars per dollar

\[ \text{\textit{ANSWER: a}} \]

24. If the real exchange rate between the U.S. and Japan is 1, the nominal exchange rate is 100 yen per U.S. dollar and the price of chicken in the U.S. is $2.50 per pound, what is the price of chicken in Japan?
   a. 400 yen per pound
   b. 250 yen per pound
   c. 100 yen per pound
   d. 40 yen per pound

\[ \text{\textit{ANSWER: b}} \]

25. If the real exchange rate for coal is 1.5, the price of coal in the U.S. is $50 per ton, and the price of coal in Britain is 20 British pounds per ton, what is the nominal exchange rate?
   a. 15/4
   b. 5/3
   c. 3/5
   d. 4/15

\[ \text{\textit{ANSWER: c}} \]

26. If the real exchange rate between the U.S. and Argentina is 1, then
   a. purchasing-power parity holds, and 1 U.S. dollar buys 1 Argentinean bolivar.
   b. purchasing-power parity holds, and the amount of dollars needed to buy goods in the U.S. is the same as the amount needed to buy enough Argentinean bolivars to buy the same goods in Argentina.
   c. purchasing-power parity does not hold, but 1 U.S. dollar buys 1 Argentinean bolivar.
   d. purchasing-power parity does not hold, but the amount of dollars needed to buy goods in the U.S. is the same as the amount needed to buy enough Argentinean bolivars to buy the same goods in Argentina.

\[ \text{\textit{ANSWER: b}} \]

27. If purchasing-power parity holds, then the value of the
   a. nominal exchange rate is equal to one. A dollar buys as many goods in the U.S. as it does overseas.
   b. nominal exchange rate is equal to one. A dollar buys the quantity of foreign currency equal to the U.S. price level divided by the foreign country's price level.
   c. real exchange rate is equal to one. A dollar buys as many goods in the U.S. as it does overseas.
   d. real exchange rate is equal to one. A dollar buys the quantity of foreign currency equal to the U.S. price level divided by the foreign country's price level.

\[ \text{\textit{ANSWER: c}} \]

28. The nominal exchange rate is about 2 Aruban florin per dollar. If a basket of goods in the United States costs $40, how many florins must a basket of goods in Aruba cost for purchasing-power parity to hold?
   a. 20 florin
   b. 40 florin
   c. 60 florin
   d. 80 florin

\[ \text{\textit{ANSWER: d}} \]

29. The price of a basket of goods is $2000 in the U.S. If purchasing-power parity holds, and the dollar buys two units of some country’s currency, then how many units of foreign currency does the same basket of goods cost in that country?
31. A pair of jeans cost $25 in the U.S. and 1600 dinar in Algeria. If the nominal exchange rate is 75 dinar per U.S. dollar, then the real exchange rate is
   a. more than one, so a profit could be made by buying jeans in Algeria and selling them in the U.S.
   b. more than one, so a profit could be made by buying jeans in the U.S. and selling them in Algeria.
   c. less than one, so a profit could be made by buying jeans in Algeria and selling them in the U.S.
   d. less than one, so a profit could be made by buying jeans in the U.S. and selling them in Algeria.

   ANSWER:  

32. A Big Mac in Japan costs 400 yen while it costs $4.50 in the U.S.. The nominal exchange rate is 100 yen per dollar. Which of the following would both make the real exchange rate move towards purchasing-power parity?
   a. the price of Big Macs in the U.S. falls, the nominal exchange rate falls
   b. the price of Big Macs in the U.S. falls, the nominal exchange rate rises
   c. the price of Big Macs in the U.S. rises, the nominal exchange rate falls
   d. the price of Big Macs in the U.S. rises, the nominal exchange rate rises

   ANSWER:  

33. Prices in both the U.S. and India rise, but prices in India increase by a smaller percentage. According to purchasing-power parity the U.S. dollar
   a. gains value both in terms of the domestic goods and services it can buy and in terms of the Indian currency it can buy.
   b. gains value in terms of the domestic goods and services it can buy, but loses value in terms of the Indian currency it can buy.
   c. loses value in terms of the domestic goods and services it can buy, but gains value in terms of the Indian currency it can buy.
   d. loses value both in terms of the domestic goods and services it can buy and in terms of the Indian currency it can buy.

   ANSWER:  

34. According to purchasing-power parity, if it took 55 Indian rupees to buy a dollar today, but it took 58 to buy it a year ago, then the dollar has
   a. appreciated, indicating inflation was higher in the U.S. than in India.
   b. appreciated, indicating inflation was lower in the U.S. than in India.
   c. depreciated, indicating inflation was higher in the U.S. than in India.
   d. depreciated, indicating inflation was lower in the U.S. than in India.
35. According to purchasing-power parity, if prices in the United States increase by a larger percentage than prices in the United Kingdom, then the
   a. real exchange rate rises.
   b. nominal exchange rate rises.
   c. real exchange rate falls.
   d. nominal exchange rate falls.

   ANSWER: d

36. Other things the same, an increase in the U.S. interest rate causes the quantity of loanable funds supplied to
   a. rise because net capital outflow and domestic investment rise.
   b. rise because national saving rises.
   c. fall because net capital outflow and domestic investment rise.
   d. fall because national saving falls.

   ANSWER: b

37. A country has national saving of $50 billion, government expenditures of $30 billion, domestic investment of $10 billion, and net capital outflow of $40 billion. What is its supply of loanable funds?
   a. $20 billion
   b. $30 billion
   c. $50 billion
   d. $60 billion

   ANSWER: c

38. In the open-economy macroeconomic model, the supply of loanable funds comes from
   a. national saving. Demand comes from only domestic investment.
   b. national saving. Demand comes from domestic investment and net capital outflow.
   c. Only net capital outflow. Demand for loanable funds comes from national saving.
   d. domestic investment and net capital outflow. Demand for loanable funds comes from national saving.

   ANSWER: b

39. Other things the same, if the real interest rate in a country falls, domestic residents will desire to purchase
   a. more capital goods and more foreign bonds.
   b. more capital goods but fewer foreign bonds.
   c. more foreign bonds but fewer capital goods.
   d. fewer capital goods and fewer foreign bonds.

   ANSWER: a

40. If at a given real interest rate desired national saving is $140 billion, domestic investment is $90 billion, and net capital outflow is $60 billion, then at that real interest rate in the loanable funds market there is a
   a. surplus. The real interest rate will rise.
   b. surplus. The real interest rate will fall.
   c. shortage. The real interest rate will rise.
   d. shortage. The real interest rate will fall.
41. If the demand for loanable funds shifts right, then
   a. the real interest rate and the equilibrium quantity of loanable funds both fall.
   b. the real interest rate falls and the equilibrium quantity of loanable funds rises.
   c. the real interest rate and the equilibrium quantity of loanable funds both rise.
   d. the real interest rate rises and the equilibrium quantity of loanable funds falls.
   ANSWER: c

42. Which of the following would tend to shift the supply of dollars in the market for foreign-currency exchange in the open-economy macroeconomic model to the right?
   a. the exchange rate rises
   b. the exchange rate falls
   c. the expected rate of return on U.S. assets rises
   d. the expected rate of return on U.S. assets falls
   ANSWER: d

43. Which of the following make(s) demand for U.S. dollars in the market for foreign-currency exchange higher than otherwise?
   a. a U.S. airline wanting buy jets made in France and a Swedish hospital wanting to buy medical equipment made in the U.S.
   b. a U.S. airline wanting to buy jets made in France, but not a Swedish hospital wanting to buy medical equipment made in the U.S.
   c. a Swedish hospital wanting to buy medical equipment made in the U.S., but not a U.S. airline wanting to buy jets made in France
   d. neither a U.S. bank wanting to lend money to a Canadian company nor a U.S. firm wanting to buy computers made in South Korea
   ANSWER: c

44. If the real exchange rate for the dollar is above the equilibrium level, the quantity of dollars supplied in the market for foreign-currency exchange is
   a. greater than the quantity demanded and the dollar will appreciate.
   b. greater than the quantity demanded and the dollar will depreciate.
   c. less than the quantity demanded and the dollar will appreciate.
   d. less than the quantity demanded and the dollar will depreciate.
   ANSWER: b

45. If for some reason Americans desired to increase their purchases of foreign assets, then other things the same
   a. both the real exchange rate and the quantity of dollars exchanged in the market for foreign-currency exchange would fall.
   b. both the real exchange rate and the quantity of dollars exchanged in the market for foreign-currency exchange would rise.
   c. the real exchange rate would rise and the quantity of dollars exchanged in the market for foreign-currency exchange would fall.
   d. the real exchange rate would fall and the quantity of dollars exchanged in the market for foreign-currency exchange would rise.
46. In the open-economy macroeconomic model, net capital outflow rises if
   a. either the exchange rate rises or the real interest rate falls.
   b. either the exchange rate falls or the real interest rate rises.
   c. the real interest rate rises. Net capital outflow does not depend on the exchange rate.
   d. the real interest rate falls. Net capital outflow does not depend on the exchange rate.

   ANSWER: d

47. In the open-economy macroeconomic model, if a country's interest rate rises, then its
   a. net capital outflow and net exports rise.
   b. net capital outflow rises and its net exports fall.
   c. net capital outflow falls and its net exports rise.
   d. net capital outflow and net exports fall.

   ANSWER: d

48. The variable that links the market for loanable funds and the market for foreign-currency exchange is
   a. net capital outflow.
   b. national saving.
   c. exports.
   d. domestic investment.

   ANSWER: a

49. Other things the same, in the open-economy macroeconomic model, which of the following would make
   China's net capital outflow increase?
   a. an increase in U.S. interest rates
   b. an increase in Chinese interest rates
   c. an appreciation of the Chinese yuan
   d. None of the above is correct.

   ANSWER: a

50. In the open-economy macroeconomic model, if the supply of loanable funds increases, then the interest rate
   a. and the real exchange rate increase.
   b. and the real exchange rate decrease.
   c. increases and the real exchange rate decreases.
   d. decreases and the real exchange rate increases.

   ANSWER: b

51. In the open-economy macroeconomic model, if the supply of loanable funds shifts left
   a. the interest rate rises and the supply of dollars in the market for foreign currency exchange shifts right.
   b. the interest rate rises and the supply of dollars in the market for foreign currency exchange shifts left.
   c. the interest rate falls and the demand for dollars in the market for foreign currency exchange shifts right.
   d. the interest rate falls and the demand for dollars in the market for foreign currency exchange shifts left.

   ANSWER: b
52. An increase in a country’s budget surplus shifts its
   a. demand for loanable funds right and decreases investment spending.
   b. supply of loanable funds right and increases investment spending.
   c. supply of loanable funds left and decreases investment spending.
   d. None of the above is correct.

   \textit{ANSWER:} \quad b

53. An increase in the budget deficit
   a. reduces net capital outflow and domestic investment.
   b. reduces net capital outflow and raises domestic investment.
   c. raises net capital outflow and domestic investment
   d. raises net capital outflow and reduces domestic investment.

   \textit{ANSWER:} \quad a

54. An increase in a country’s budget deficit
   a. increases net capital outflow, so the demand for its currency in the market for foreign-currency exchange shifts right.
   b. increases net capital outflow, so the supply of its currency in the market for foreign-currency exchange shifts right.
   c. decreases net capital outflow, so the demand for its currency in the market for foreign-currency exchange shifts left.
   d. decreases net capital outflow, so the supply of its currency in the market for foreign-currency exchange shifts left.

   \textit{ANSWER:} \quad d

55. If the Japanese government raised its budget deficit, then the yen would
   a. depreciate and Japanese net exports would rise.
   b. depreciate and Japanese net exports would fall.
   c. appreciate and Japanese net exports would rise.
   d. appreciate and Japanese net exports would fall.

   \textit{ANSWER:} \quad d

56. If the French government increases its expenditures and reduces taxes, then France’s interest rate
   a. and its exchange rate rise.
   b. rises and its exchange rate falls.
   c. falls and its exchange rate rises.
   d. and its exchange rate fall.

   \textit{ANSWER:} \quad a

57. Which of the following contains a list only of things that increase when the budget deficit of the U.S. increases?
   b. U.S. imports, U.S. interest rates, the real exchange rate of the dollar
   c. U.S. interest rates, the real exchange rate of the dollar, U.S. domestic investment
   d. the real exchange rate of the dollar, U.S. net capital outflow, U.S. net exports

   \textit{ANSWER:} \quad b
58. The imposition of an import quota shifts
   a. the supply of currency right, so the exchange rate falls.
   b. the supply of currency left, so the exchange rate rises.
   c. the demand for currency right, so the exchange rate rises.
   d. the demand for currency left, so the exchange rate falls.

   **ANSWER:** c

59. At the original exchange rate an import quota
   a. creates a surplus in the market for foreign-currency exchange, so the exchange rate rises.
   b. creates a surplus in the market for foreign-currency exchange, so the exchange rate falls.
   c. creates a shortage in the market for foreign-currency exchange, so the exchange rate rises.
   d. creates a shortage in the market for foreign-currency exchange, so the exchange rate falls.

   **ANSWER:** c

60. When a country imposes an import quota, its
   a. net exports rise and its real exchange rate appreciates.
   b. net exports rise and its real exchange rate depreciates.
   c. net exports fall and its real exchange rate depreciates.
   d. None of the above is correct.

   **ANSWER:** d

61. Suppose that the U.S. imposes an import quota on lumber. The quota makes the real exchange rate of the U.S. dollar
   a. appreciate but does not change the real interest rate in the United States.
   b. appreciate and the real interest rate in the United States increase.
   c. depreciate and the real interest rate in the United States decrease.
   d. depreciate but does not change the real interest rate in the United States.

   **ANSWER:** a

62. When Mexico suffered from capital flight in 1994, Mexico's net exports
   a. decreased.
   b. did not change.
   c. increased.
   d. decreased until the peso appreciated, then increased.

   **ANSWER:** c

63. When Mexico suffered from capital flight in 1994, Mexico's real interest rate
   a. fell and the peso appreciated.
   b. fell and the peso depreciated.
   c. rose and the peso appreciated.
   d. rose and the peso depreciated.

   **ANSWER:** d

64. Suppose a country experiences capital flight. Of the demand for loanable funds and the supply of currency in the market for foreign-currency exchange, which shifts right?
a. only the demand for loanable funds  
b. only the supply of its currency in the market for foreign-currency exchange  
c. both curves shift right  
d. neither curve shifts right  

**ANSWER:** c

65. If a country experiences capital flight, which curves shift right?  
a. the demand for loanable funds and the demand for its currency in the market for foreign-currency exchange  
b. the demand for loanable funds and the supply of its currency in the market for foreign-currency exchange  
c. the supply of loanable funds and the demand for its currency in the market for foreign-currency exchange  
d. the supply of loanable funds and the supply of its currency in the market for foreign-currency exchange  

**ANSWER:** b