Name: _____ Class: _____ Date: _____ ID: A

Quest 7 make up

Multiple Choice
Identify the choice that best completes the statement or answers the question.

____ 1. When the dollar value of the euro is high:
A. travel in the U.S. is less expensive for Europeans.
B. travel in the U.S. is more expensive for Europeans.
C. the dollar has appreciated.
D. travel in Europe is less expensive for Americans.
E. the euro has depreciated.

Chevrolet Motor Co. expands its operations by acquiring Hyundai Co.	$21,000
Chinese manufacturers sell t-shirts to L.L. Bean	2,000
The Bill Gates Foundation contributes to UNICEF's anti-polio fund	80,000
A German car collector buys a Kentucky-made Corvette	50,000
Microsoft pays dividends to European stock holders	2,000
A Japanese student enrolls at Princeton and pays tuition	3,000
A U.S. mutual fund receives dividends from its European stock holdings	2,000
American Express Co. acquires the Banco de Lisboa	30,000

Table 41-1: International Transactions

____ 2. Use **Table 41-1**. The merchandise trade balance is:
A. $51,000.
B. $48,000.
C. $46,000.
D. $2,000.
E. $60,000.

____ 3. When a Japanese investor buys stock in General Motors, which of the following balance of payments accounts is affected?
A. current account
B. financial account
C. reserve account
D. foreign exchange account
E. balance of trade account

____ 4. If a country has a current account deficit, it must have a:
A. balanced financial account.
B. balance of payment surplus.
C. financial account deficit.
D. balance of payments deficit.
E. financial account surplus.

____ 5. A current account surplus exists when:
A. the balance on the current account is positive.
B. net exports are negative.
C. spending flowing out of the country for goods and services exceeds spending flowing into the country for its goods and services.
D. imports exceed exports.
E. the balance on the current account is zero.

____ 6. If the United States imports more goods from Japan than it exports to Japan, how could the difference be financed?
A. U.S. consumers would simply borrow money from domestic banks.
B. The United States could buy more Japanese assets.
C. The United States could sell assets and create a liability obligating Americans to pay for those imports in the future.
D. The United States could sell assets to the Japanese which would in turn reduce its liabilities.
E. The United States could print more money and deposit it into the Japanese treasury.

____ 7. If the merchandise trade balance is –$15, net international transfer payments is $1, and net international factor income is $3, the balance of payments on goods and services is –$25, and the balance of payments on the financial account is $18, then the statistical discrepancy in the financial account is:
A. $15.
B. $3.
C. –$3.
D. –$1.
E. $1.

____ 8. American retailers import toys from China. In the U.S. balance of payments account, this transaction would be entered as:
A. a payment to foreigners in the financial account.
B. a payment from foreigners in the financial account.
C. a payment to foreigners in the current account.
D. a payment from foreigners in the current account.
E. a payment from foreigners in the net export account.

____ 9. An American buys a new Volvo, a car built in Sweden. In the U.S. balance of payments, this transaction would cause the balance on the _____ account to _____.
A. current; decrease
B. current; increase
C. financial; decrease
D. financial; increase
E. net export; increase

____ 10. The market in which foreign currencies are traded is known as the:
A. stock market.
B. bond market.
C. commodities market.
D. foreign exchange market.
E. export market.

____ 11. If the rate of exchange is 1€ = US$2, then US$1 =
A. 0.50€.
B. 2€.
C. $.50.
D. $1.00.
E. 1.50€.

Scenario 42-1: Exchange Rates
The value of a euro, the currency for most of Europe, goes from 1€ = US$1.25 to 1€ = US$1.50.

____ 12. Use **Scenario 42-1**. The exchange rate for the dollar has changed from:
A. 0.25€ to 0.50€.
B. 1.25€ to 1.50€.
C. 0.80€ to 0.67€.
D. 0.67€ to 0.80€.
E. 1€ to 2€.

____ 13. Use **Scenario 42-1**. French exports to the United States will:
A. be cheaper.
B. be more easily afforded by consumers in the U.S.
C. be unaffected.
D. increase in quantity.
E. be more expensive.

____ 14. If the British pound appreciates against the dollar, this will make:
A. British imports and exports more expensive.
B. American imports and exports more expensive
C. British imports and exports less expensive.
D. British exports more expensive but lower the price of American exports to Britain.
E. British exports less expensive but increase the price of American exports to Britain.

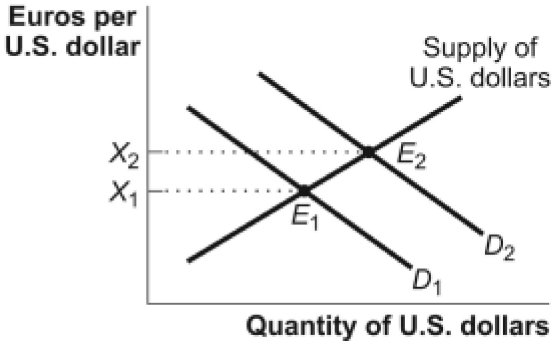
____ 15. When the value of the euro changes from $1.30 to $1.20, it follows that:
A. European Union imports from the United States increase.
B. U.S. exports to the European Union increase.
C. U.S. imports from the European Union increase.
D. European Union exports to the United States decrease.
E. t he dollar has depreciated against the euro.

____ 16. If the U.S. dollar changes from $1 = 200¥ to $1 = 100¥, then:
A. the dollar has depreciated relative to the yen.
B. the dollar has been fixed by the United States and Japan.
C. the dollar has appreciated relative to the yen.
D. U.S. goods are now more expensive in Japan.
E. Japanese goods are now less expensive in the United States.

____ 17. When the U.S. dollar appreciates relative to the Canadian dollar, then:
A. Canadian goods become more expensive here.
B. American goods become more expensive in Canada.
C. the US will tend to buy more from Canada.
D. the US will sell more goods to Canada.
E. the US will import fewer goods from Canada.

____ 18. The market in which currencies can be exchanged for each other is known as the:
A. loanable funds market.
B. money market
C. global stock market.
D. bond market.
E. foreign exchange market.

Figure 42-1: Change in the Demand for U.S. Dollars



____ 19. Use the "**Change in the Demand for U.S. Dollars**" **Figure 42-1**. A flow of capital from Europe to the United States would cause a movement in this foreign exchange market that is best represented by the shift from:
A. D_2 to D_1.
B. E_2 to E_1.
C. D_1 to D_2.
D. There would be no shift in the foreign exchange market.
E. X_2 to X_1.

____ 20. If the demand for British pounds in the United States rises, then:
A. the U.S. dollar appreciates.
B. the British pound price of the U.S. dollar increases.
C. the U.S. dollar price of the British pound increases.
D. the pound depreciates.
E. the supply of dollars decreases.

____ 21. If the U.S. dollar depreciates relative to currencies in other countries, then U.S. imports:
A. and exports will both increase.
B. and exports will both decrease.
C. will decrease and exports will increase.
D. will increase and exports will decrease.
E. will be unchanged, while exports will increase.

Scenario 42-2 Exchange Rate between the U.S. and India
Suppose that initially the nominal exchange rate between U.S. dollar and Indian rupee is such that 40 rupees exchange for $1. The nominal exchange rate has changed so that now 50 rupees exchange for $1.

____ 22. Use **Scenario 42-2**. Consider the information provided. Under which scenario, will the real exchange rate change by the greatest amount?
A. when the inflation rates in both U.S. and India are zero
B. when the U.S inflation rate is 5% and the Indian inflation rate is 2%
C. when the U.S inflation rate is 2% and the Indian inflation rate is 12%
D. when the inflation rates in both U.S. and India are 5%
E. when the price levels in both the U.S. and India fall by 5%.

____ 23. When a country's currency experiences a real appreciation, this causes:
A. exports to fall, and imports to rise.
B. exports to rise, and imports to fall.
C. merchandise trade balance to become positive.
D. exports and imports will not be affected.
E. an increase in the trade surplus balance.

____ 24. A floating exchange rate is:
A. determined by the market.
B. set by government.
C. set by the International Monetary fund.
D. determined by the UN.
E. set by the World Bank.

____ 25. A system in which exchange rates are set by government policy is a(n):
A. universal exchange system.
B. floating exchange rate system.
C. commodity standard system.
D. fixed exchange rate system.
E. purchasing power parity system.

____ 26. Assume that the foreign exchange market is trading the domestic currency at an exchange rate (U.S. dollars per unit of the domestic currency) above the exchange rate fixed by the government. To maintain the fixed exchange rate, the government must:
A. decrease foreign exchange reserves.
B. lower the domestic interest rate.
C. facilitate the domestic purchase of foreign financial assets.
D. raise the domestic interest rate.
E. petition the World Bank for permission.

____ 27. When countries seek to maintain fixed exchange rates through intervention, their governments or central banks:
A. never have to intervene in currency markets because the exchange rate is fixed.
B. may have to stop printing domestic currency.
C. must buy domestic currency when foreign demand for their currency increases.
D. must sell domestic currency when foreign demand for their currency decreases.
E. must sell domestic currency when foreign demand for their currency increases.

____ 28. Countries that follow floating exchange rate regimes:
A. tend to insulate themselves from economic fluctuations in other countries.
B. give up the ability to use monetary policy as a stabilization tool.
C. find that they are more susceptible to economic fluctuations in other countries.
D. give up the ability to use fiscal policy as a stabilization tool.
E. typically have both budget and trade deficits.

____ 29. With a floating exchange rate:
A. monetary policy is ineffective.
B. monetary policy is not independent.
C. a central bank can pursue an independent monetary policy.
D. an independent fiscal policy cannot be pursued.
E. the central government can control the balance of trade.

____ 30. Suppose a country has adopted a floating exchange rate regime and the central bank decides to engage in expansionary monetary policy. Which of the following is LIKELY to occur?
A. Interest rates will fall and there will be a capital inflow.
B. Interest rates will rise and there will be a capital outflow.
C. Interest rates will fall and there will be a capital outflow.
D. Its exchange rate will appreciate.
E. The financial account will move toward a surplus balance.

____ 31. All else equal, if the Federal Reserve decreases the money supply, interest rates will _____ and the dollar will _____ against other currencies.
A. increase; depreciate
B. decrease; depreciate
C. decrease; appreciate
D. increase; appreciate
E. increase; remain constant