

Chapter 18

Policies and Prospects for Global Economic Growth

18.1 Labor Resources and Economic Growth

- 1) According to the text, population growth in many poor countries does not generally result in increased labor resources because
- A) many people do not join the labor force.
 - B) many people join the labor force.
 - C) many people work two jobs.
 - D) most jobs are for middle-age workers.

Answer: A

Diff: 2

Topic: 18.1 Labor Resources and Economic Growth

AACSB: Dynamics of the global economy

Question Status: Revised

- 2) Suppose that the real Gross Domestic Product (GDP) growth rate for a country was 4 percent and the population growth rate was 7 percent. What would the per capital real Gross Domestic Product (GDP) growth rate be for this country?
- A) -3 percent
 - B) -4 percent
 - C) 3 percent
 - D) 4 percent

Answer: A

Diff: 2

Topic: 18.1 Labor Resources and Economic Growth

AACSB: Analytic skills

Question Status: Revised

- 3) If population growth occurs while jobs are difficult to obtain or labor force participation does not increase,
- A) there may be little or no increase in a nation's labor resources.
 - B) a nation's labor resources will still continue to increase in both quality and quantity.
 - C) economic growth will be robust because any population gain is a plus.
 - D) per capita GDP is likely to increase sharply.

Answer: A

Diff: 1

Topic: 18.1 Labor Resources and Economic Growth

AACSB: Analytic skills

Question Status: Revised

- 4) If the level of aggregate real Gross Domestic Product (GDP) remains constant, a reduction in the population
- A) directly increases per capita real GDP.
 - B) directly reduces per capita real GDP.
 - C) indirectly reduces per capita real GDP.
 - D) has no effect on real per capita real GDP.

Answer: A

Diff: 2

Topic: 18.1 Labor Resources and Economic Growth

AACSB: Analytic skills

Question Status: Previous Edition

- 5) If real per capita Gross Domestic Product (GDP) grows at a constant annual rate of 4 percent and the annual population growth rate increases from 1 percent to 2 percent, the annual rate of growth of per capita real GDP will
- A) increase.
- B) decrease.
- C) remain unchanged.
- D) increase or decrease depending.

Answer: B

Diff: 2

Topic: 18.1 Labor Resources and Economic Growth

AACSB: Analytic skills

Question Status: Previous Edition

- 6) Suppose a nation's rate of growth of per capita real Gross Domestic Product (GDP) is 3 percent and its rate of growth in real GDP is 4 percent. Given this information, the nation's population growth rate is approximately equal to
- A) 1 percent B) 2 percent C) 3 percent D) 7 percent

Answer: A

Diff: 2

Topic: 18.1 Labor Resources and Economic Growth

AACSB: Analytic skills

Question Status: Previous Edition

- 7) Suppose a nation's real Gross Domestic Product (GDP) grows at a constant rate of 5 percent per year while its population grows 2 percent annually. Given this information, this nation's annual rate of per capita real GDP growth is approximately equal to
- A) 1 percent B) 2 percent C) 3 percent D) 5 percent

Answer: C

Diff: 2

Topic: 18.1 Labor Resources and Economic Growth

AACSB: Analytic skills

Question Status: Previous Edition

- 8) Over the past decade, a nation's real Gross Domestic Product (GDP) grew at a constant rate of 10 percent per year while its population grew 8 percent annually. Forecasters predict that during the coming decade, real GDP will continue to grow 10 percent annually, but the population growth rate is expected to drop to 6 percent annually. If the forecasters are correct, which of the following will be true?
- A) The annual rate of growth of per capita real GDP will decline from 4 percent to 2 percent.
 - B) The annual rate of growth of per capita real GDP will decline from 2 percent to 1 percent.
 - C) The annual rate of growth of per capita real GDP will increase from 2 percent to 4 percent.
 - D) The annual rate of growth of per capita real GDP will increase from 2 percent to 6 percent.

Answer: C

Diff: 2

Topic: 18.1 Labor Resources and Economic Growth

AACSB: Analytic skills

Question Status: Previous Edition

- 9) The term "economic freedom" means
- A) the right to own private property.
 - B) the right to trade goods and services.
 - C) the right to own financial assets.
 - D) all the above.

Answer: D

Diff: 1

Topic: 18.1 Labor Resources and Economic Growth

AACSB: Analytic skills

Question Status: Previous Edition

- 10) According to the text, the 17 countries with high degrees of economic freedom
- A) account for 81 percent of total world output.
 - B) account for less than 25 percent of total world output.
 - C) have the weakest economies.
 - D) have low productivity.

Answer: A

Diff: 2

Topic: 18.1 Labor Resources and Economic Growth

AACSB: Dynamics of the global economy

Question Status: Previous Edition

- 11) With respect to economic freedom, which is true?
- A) Three out of four people live in nations with governments that grant residents high degrees of economic freedom.
 - B) Where governments do not grant residents a high degree of economic freedom, economic growth rates tend to be above the annual average for the world's nations.
 - C) About three dozen nations with governments unwilling to grant much in the way of economic freedom are home to two-thirds of the world's population. Even so, these countries produce over 50 percent of the world's output.
 - D) As economic freedom increases, so does a nation's prospects for economic growth.

Answer: D

Diff: 2

Topic: 18.1 Labor Resources and Economic Growth

AACSB: Dynamics of the global economy

Question Status: Previous Edition

- 12) In the determination of economic growth, political freedom
- A) is more important than economic freedom.
 - B) appears to be less important than economic freedom.
 - C) contributes little to job growth.
 - D) is equally as important as economic freedom.

Answer: B

Diff: 1

Topic: 18.1 Labor Resources and Economic Growth

AACSB: Analytic skills

Question Status: Previous Edition

- 13) Political freedom can sometimes moderately reduce economic growth because
- A) special interest groups may gain at the expense of the overall economy.
 - B) campaign contributions rob the economy of investment.
 - C) most jobs are in unions that are politically connected.
 - D) none of the above.

Answer: A

Diff: 2

Topic: 18.1 Labor Resources and Economic Growth

AACSB: Analytic skills

Question Status: Previous Edition

- 14) In nondemocratic countries that have experienced consistent economic growth and improvements in their standards of living,
- A) there is no tendency to become more democratic over time because the current political situation is economically successful.
 - B) political freedom is apt to decrease over time as governments become more controlling.
 - C) the rise of special-interest groups usually promotes competition and growth.
 - D) there is a tendency to become democratic over time.

Answer: D

Diff: 2

Topic: 18.1 Labor Resources and Economic Growth

AACSB: Dynamics of the global economy

Question Status: Previous Edition

- 15) Country X has experienced GDP growth of 6 percent and a population growth of 4 percent. What is this country's growth of per capita real GDP?
- A) 2 percent
 - B) 10 percent
 - C) 6 percent
 - D) -2 percent

Answer: A

Diff: 1

Topic: 18.1 Labor Resources and Economic Growth

AACSB: Dynamics of the global economy

Question Status: Previous Edition

- 16) Assume that a country has had a relatively steady growth of aggregate real GDP. A higher population growth tends to
- A) reduce the growth of per capita real GDP.
 - B) increase the growth of per capita real GDP.
 - C) increase the level of economic freedom.
 - D) increase the level of dead capital.

Answer: A

Diff: 1

Topic: 18.1 Labor Resources and Economic Growth

AACSB: Analytic skills

Question Status: Previous Edition

- 17) The rate of growth in real GDP minus the rate of growth of the population is the
- A) rate of growth of nominal GDP.
 - B) unemployment rate.
 - C) population growth rate.
 - D) rate of growth of per capita real GDP.

Answer: D

Diff: 1

Topic: 18.1 Labor Resources and Economic Growth

AACSB: Analytic skills

Question Status: Previous Edition

- 18) What is the annual rate of growth of per capita real GDP if real GDP grows at a constant rate of 5 percent per year and the annual rate of population growth is 3 percent?
- A) 1.7 percent
 - B) 2 percent
 - C) 5 percent
 - D) 8 percent

Answer: B

Diff: 2

Topic: 18.1 Labor Resources and Economic Growth

AACSB: Analytic skills

Question Status: Previous Edition

- 19) What is the annual rate of growth of per capita real GDP if real GDP grows at a constant rate of 4 percent per year and the annual rate of population growth is 3 percent?
- A) 1 percent
 - B) 3 percent
 - C) 4 percent
 - D) 87 percent

Answer: A

Diff: 2

Topic: 18.1 Labor Resources and Economic Growth

AACSB: Analytic skills

Question Status: Previous Edition

- 20) What will happen to the annual rate of growth of per capita real GDP if real GDP grows at a constant rate of 4.5 percent and the annual rate of population growth goes from 3 percent to 3.5 percent?
- A) The annual rate of growth of per capita real GDP will increase from 7.5 percent to 8 percent.
 - B) The annual rate of growth of per capita real GDP will increase from -1.5 percent to -1 percent.
 - C) The annual rate of growth of per capita real GDP will remain unchanged.
 - D) The annual rate of growth of per capita real GDP will decrease from 1.5 percent to 1 percent.

Answer: D

Diff: 2

Topic: 18.1 Labor Resources and Economic Growth

AACSB: Analytic skills

Question Status: Previous Edition

- 21) Assume that in the economy real GDP grows at a constant rate. There has just been a decrease in the rate of growth of the population. This implies that the
- A) rate of growth of per capita real GDP will decrease.
 - B) rate of growth of per capita real GDP will increase.
 - C) rate of growth of capital accumulation will decrease.
 - D) rate of growth of capital accumulation will increase.

Answer: B

Diff: 1

Topic: 18.1 Labor Resources and Economic Growth

AACSB: Analytic skills

Question Status: Previous Edition

- 22) What will happen to the annual rate of growth of per capita real GDP if the annual rate of population growth increases and the annual rate of growth of real GDP goes down?
- A) It will increase since an increase in population means an increase in labor that translates into an increase in real GDP.
 - B) It will increase since the annual rate of growth of real GDP does not influence the growth rate of per capita real GDP.
 - C) It will decrease since an increase in the growth rate of population and a decrease in the growth rate of real GDP both work to decrease the growth of per capita real GDP.
 - D) The effect will depend upon whether the rate of population growth is greater than or less than the rate of growth of real GDP.

Answer: C

Diff: 2

Topic: 18.1 Labor Resources and Economic Growth

AACSB: Analytic skills

Question Status: Previous Edition

- 23) A higher population growth rate can potentially lead to a higher rate of growth in per capita real GDP if
- A) it leads to an increase in the amount of dead capital.
 - B) it leads to greater democracy in a nation.
 - C) young workers replace older workers.
 - D) there is a greater labor force participation rate.

Answer: D

Diff: 1

Topic: 18.1 Labor Resources and Economic Growth

AACSB: Analytic skills

Question Status: Revised

24) Which of the following equations is correct?

- A) Rate of growth of per capita real GDP = rate of growth in real GDP – rate of growth of population
- B) Rate of growth of per capita real GDP = rate of growth in real GDP + rate of growth of population
- C) Rate of growth in real GDP = rate of growth of per capita real GDP – rate of growth of population
- D) Rate of growth in real GDP = rate of growth of per capita real GDP + rate of growth of population

Answer: A

Diff: 1

Topic: 18.1 Labor Resources and Economic Growth

AACSB: Analytic skills

Question Status: Previous Edition

25) The rights to own private property and to exchange goods with minimal government interference is

- A) capital freedom.
- B) population freedom.
- C) economic freedom.
- D) political freedom.

Answer: C

Diff: 1

Topic: 18.1 Labor Resources and Economic Growth

AACSB: Analytic skills

Question Status: Previous Edition

26) Economic freedom is

- A) the right to vote in an election for a political leader.
- B) the right to own private property and to exchange goods with minimal government interference.
- C) the amount of control that the government has in a market.
- D) present as long as private individuals own businesses.

Answer: B

Diff: 1

Topic: 18.1 Labor Resources and Economic Growth

AACSB: Analytic skills

Question Status: Revised

27) Economic freedom is

- A) important in leading to positive economic growth.
- B) not an important factor in leading to positive economic growth.
- C) a confusing concept since the more economic freedom residents in a country have the lower the level of economic growth.
- D) a concept in theory since no country has pure economic freedom and therefore cannot be analyzed with respect to economic growth.

Answer: A

Diff: 1

Topic: 18.1 Labor Resources and Economic Growth

AACSB: Analytic skills

Question Status: Previous Edition

28) It has been noted that a country that grants a considerable amount of economic freedom will experience

- A) positive rates of per capita income growth.
- B) negative rates of per capita income growth.
- C) low levels of political freedom.
- D) dead capital.

Answer: A

Diff: 1

Topic: 18.1 Labor Resources and Economic Growth

AACSB: Analytic skills

Question Status: Previous Edition

29) The right to openly support and democratically select national leaders is

- A) capital freedom.
- B) population freedom.
- C) economic freedom.
- D) political freedom.

Answer: D

Diff: 1

Topic: 18.1 Labor Resources and Economic Growth

AACSB: Analytic skills

Question Status: Previous Edition

30) Which statement is true about a comparison of economic freedom with political freedom?

- A) Economic freedom cannot exist without political freedom.
- B) Economic freedom leads to positive economic growth while political freedom leads to negative economic growth.
- C) Political freedom is more important than economic freedom when considering positive economic growth.
- D) Economic freedom is more important than political freedom when considering positive economic growth.

Answer: D

Diff: 1

Topic: 18.1 Labor Resources and Economic Growth

AACSB: Analytic skills

Question Status: Previous Edition

31) Which of the following statements is true about the relationship between high birthrates and real GDP growth?

- A) High birthrates in countries with little economic freedom will lead to higher labor force participation rates that in turn lead to higher growth of real GDP.
- B) High birthrates reduce per capita incomes, and a lack of economic freedom inhibits real GDP growth.
- C) There is no relationship between birthrates and real GDP growth.
- D) The influence that birthrates have on real GDP growth is the same in countries whether or not economic freedom exists.

Answer: B

Diff: 1

Topic: 18.1 Labor Resources and Economic Growth

AACSB: Analytic skills

Question Status: Previous Edition

- 32) Population growth is more likely to contribute to economic growth when
- A) economic freedom is present.
 - B) capital accumulation is limited.
 - C) technological progress is limited.
 - D) the labor force participation rate does not increase.

Answer: A

Diff: 2

Topic: 18.1 Labor Resources and Economic Growth

AACSB: Analytic skills

Question Status: Previous Edition

- 33) A major contributor to a country's real rate of economic growth is its real GDP growth relative to its
- A) inflation.
 - B) unemployment rate.
 - C) money growth.
 - D) none of the above.

Answer: D

Diff: 1

Topic: 18.1 Labor Resources and Economic Growth

AACSB: Analytic skills

Question Status: Previous Edition

- 34) Economic freedom by its nature suggests
- A) minimal government interference.
 - B) zero government.
 - C) a lack of laws and regulations.
 - D) economic anarchy.

Answer: A

Diff: 1

Topic: 18.1 Labor Resources and Economic Growth

AACSB: Analytic skills

Question Status: Previous Edition

- 35) Political freedom seems to be _____ important to growth than economic freedom.
- A) less
 - B) more
 - C) equally
 - D) critically

Answer: A

Diff: 2

Topic: 18.1 Labor Resources and Economic Growth

AACSB: Analytic skills

Question Status: Previous Edition

- 36) Which of the following best represents economic growth?
- A) an increase in nominal GDP
 - B) an increase in real GDP
 - C) an increase in the per capita nominal GDP
 - D) an increase in the per capita real GDP

Answer: D

Diff: 1

Topic: 18.1 Labor Resources and Economic Growth

AACSB: Analytic skills

Question Status: Previous Edition

- 37) Economic growth is measured by
- A) the annual percentage change in nominal GDP.
 - B) the annual percentage change in the unemployment rate.
 - C) the annual percentage change in per capita nominal GDP.
 - D) the annual percentage change in per capita real GDP.

Answer: D

Diff: 1

Topic: 18.1 Labor Resources and Economic Growth

AACSB: Analytic skills

Question Status: Previous Edition

- 38) If the average annual growth rate in real GDP for a nation during the last decade was 4 percent per year and the average annual population growth rate was 3 percent per year during the same period, then the average annual growth rate of per capita GDP was
- A) 1.00 percent.
 - B) -1.00 percent.
 - C) 0.75 percent.
 - D) 1.33 percent.

Answer: A

Diff: 1

Topic: 18.1 Labor Resources and Economic Growth

AACSB: Analytic skills

Question Status: Previous Edition

- 39) The percentage change in per capita real GDP measures economic growth because it takes into account all of the following variables EXCEPT
- A) the percentage change in population.
 - B) the percentage change in the inflation rates.
 - C) the percentage change in nominal GDP.
 - D) the percentage change in the quality of life.

Answer: D

Diff: 2

Topic: 18.1 Labor Resources and Economic Growth

AACSB: Analytic skills

Question Status: Previous Edition

- 40) Which of the following is a barrier to economic growth in many developing nations?
- A) the shortage of labor
 - B) the lack of natural resources
 - C) the lack of economic freedom
 - D) the low level of restrictions in the labor market

Answer: C

Diff: 2

Topic: 18.1 Labor Resources and Economic Growth

AACSB: Analytic skills

Question Status: Previous Edition

- 41) A reduction in the rate of population growth
- A) always causes an increase in economic growth.
 - B) never causes an increase in economic growth.
 - C) may or may not cause an increase in economic growth.
 - D) will cause a reduction in economic growth if accompanied by an increase in the rate of growth of real GDP.

Answer: C

Diff: 1

Topic: 18.1 Labor Resources and Economic Growth

AACSB: Analytic skills

Question Status: Previous Edition

- 42) The right to private property and ability to exchange goods and services freely is known as
- A) political freedom.
 - B) economic freedom.
 - C) constitutional freedom.
 - D) external freedom.

Answer: B

Diff: 1

Topic: 18.1 Labor Resources and Economic Growth

AACSB: Analytic skills

Question Status: Previous Edition

- 43) The per capita real GDP is the
- A) rate of growth in real GDP plus the population growth rate.
 - B) real GDP divided by the population.
 - C) rate of growth in real GDP times the population growth rate.
 - D) rate of growth in real GDP minus the population growth rate.

Answer: B

Diff: 1

Topic: 18.1 Labor Resources and Economic Growth

AACSB: Analytic skills

Question Status: Previous Edition

- 44) Which of the following is the term used to describe the expansion of a country's per capita real GDP?
- A) economic growth
 - B) technological change
 - C) change in the labor force
 - D) change in factor incomes

Answer: A

Diff: 1

Topic: 18.1 Labor Resources and Economic Growth

AACSB: Analytic skills

Question Status: Previous Edition

- 45) The general set of rights to own private property and exchange goods, services, and financial assets with minimal government interference is defined as
- A) capitalism.
 - B) market socialism.
 - C) economic freedom.
 - D) economic privilege.

Answer: C

Diff: 1

Topic: 18.1 Labor Resources and Economic Growth

AACSB: Analytic skills

Question Status: Previous Edition

- 46) The right to openly support and to elect leaders in a democratic way is known as
- A) political freedom.
 - B) economic freedom.
 - C) constitutional freedom.
 - D) external freedom.

Answer: A

Diff: 1

Topic: 18.1 Labor Resources and Economic Growth

AACSB: Analytic skills

Question Status: Previous Edition

- 47) Laws that make it difficult to start a new business lead to a
- A) high rate of economic growth.
 - B) low rate of economic growth.
 - C) more political freedom.
 - D) laissez-faire.

Answer: B

Diff: 1

Topic: 18.1 Labor Resources and Economic Growth

AACSB: Analytic skills

Question Status: Previous Edition

- 48) If a country has a 4 percent annual growth in real GDP and a one percent growth in population, its per capita growth of real GDP is
- A) five percent.
 - B) four percent.
 - C) three percent.
 - D) $1/4 = 0.25$ percent.

Answer: C

Diff: 2

Topic: 18.1 Labor Resources and Economic Growth

AACSB: Analytic skills

Question Status: Previous Edition

- 49) In general, a country that adheres to the rule of law has
- A) a higher level of real GDP per capita.
 - B) a lower level of real GDP per capita.
 - C) no relationship to the level of real GDP per capita.
 - D) an inverse relationship to the level of real GDP per capita.

Answer: A

Diff: 2

Topic: 18.1 Labor Resources and Economic Growth

AACSB: Analytic skills

Question Status: Previous Edition

- 50) An increase in population growth in a country
- A) always causes an increase in labor resources.
 - B) may not necessarily cause an increase in per capita real GDP.
 - C) may not cause an increase in labor resources in rich countries because employers will cut down on the number of hours required of workers.
 - D) will always cause an increase in per capita real GDP.

Answer: B

Diff: 1

Topic: 18.1 Labor Resources and Economic Growth

AACSB: Analytic skills

Question Status: Previous Edition

51) Explain the role of economic freedom in economic development.

Answer: Economic freedom is a measurement of the extent to which one can pursue economic activity without interference from government. Economic freedom is based upon personal choice, voluntary exchange, and the security of property rights. Economic freedom stimulates economic growth when the markets are competitive. Greater economic freedom encourages investment, which in turn, creates jobs and economic growth.

Diff: 2

Topic: 18.1 Labor Resources and Economic Growth

AACSB: Analytic skills

Question Status: Previous Edition

18.2 Capital Goods and Economic Growth

1) Dead capital is

- A) machinery that fails to operate properly.
- B) machinery that requires constant maintenance.
- C) any capital resource that lacks clear title of ownership.
- D) a capital resource that depreciates rapidly.

Answer: C

Diff: 1

Topic: 18.2 Capital Goods and Economic Growth

AACSB:

Question Status: Previous Edition

2) The significance of dead capital is that

- A) it is difficult to allocate to its most efficient use.
- B) its fixed cost is too high.
- C) it is being removed from its most efficient use.
- D) it replaces too many workers.

Answer: A

Diff: 2

Topic: 18.2 Capital Goods and Economic Growth

AACSB: Analytic skills

Question Status: Previous Edition

3) Developing countries are damaged by dead capital because

- A) it replaces too many workers, creating unemployment.
- B) resulting inefficiencies greatly reduce the rate of return on investment.
- C) it must be sold as scrap.
- D) none of the above.

Answer: B

Diff: 2

Topic: 18.2 Capital Goods and Economic Growth

AACSB: Dynamics of the global economy

Question Status: Previous Edition

- 4) Which of the following has contributed to developing countries' poor economic performance?
- A) Low population growth
 - B) Corruption
 - C) High capital investment
 - D) Foreign direct investment

Answer: B

Diff: 2

Topic: 18.2 Capital Goods and Economic Growth

AACSB: Dynamics of the global economy

Question Status: Previous Edition

- 5) According to your text, is there any relationship between bureaucratic inefficiency and economic growth?
- A) Yes—the two are positively related.
 - B) Yes, but only in the most economically developed nations.
 - C) Yes—the two are inversely related.
 - D) No. Some nations' economies thrive in spite of their inefficient governments while others collapse under the weight of stifling bureaucracies.

Answer: C

Diff: 2

Topic: 18.2 Capital Goods and Economic Growth

AACSB:

Question Status: Previous Edition

- 6) Which of the following represents dead capital?
- A) capital that has worn out over time
 - B) capital that has become obsolete
 - C) capital that lacks clear title of ownership
 - D) none of the above

Answer: C

Diff: 1

Topic: 18.2 Capital Goods and Economic Growth

AACSB: Analytic skills

Question Status: Previous Edition

- 7) Dead capital refers to
- A) a capital resource that lacks clear title ownership.
 - B) a capital resource whose owner is deceased.
 - C) a capital resource jointly owned by more than one person.
 - D) a capital resource that has no more useful life.

Answer: A

Diff: 1

Topic: 18.2 Capital Goods and Economic Growth

AACSB:

Question Status: Previous Edition

- 8) There is a(n) _____ relationship between a nation's rate of growth in real GDP per capita and bureaucratic inefficiency.
- A) direct
 - B) inverse
 - C) proportional
 - D) undefined

Answer: B

Diff: 1

Topic: 18.2 Capital Goods and Economic Growth

AACSB: Analytic skills

Question Status: Previous Edition

- 9) Any capital resource that lacks clear title ownership is
- A) the result of foreign direct investment.
 - B) dead capital.
 - C) capital destruction.
 - D) free capital.

Answer: B

Diff: 1

Topic: 18.2 Capital Goods and Economic Growth

AACSB: Analytic skills

Question Status: Previous Edition

- 10) The role that dead capital plays in a country's economic growth is that
- A) growth increases because the dead capital is replaced with more technologically efficient capital.
 - B) growth increases since the firms using the dead capital are using it for free.
 - C) growth neither increases nor is impaired by dead capital.
 - D) growth is impaired since the capital cannot be allocated to its most efficient use.

Answer: D

Diff: 1

Topic: 18.2 Capital Goods and Economic Growth

AACSB: Analytic skills

Question Status: Previous Edition

- 11) The relationship of dead capital to inefficient production is
- A) without clear ownership it is not possible to sell or transfer a resource so that it can be used efficiently.
 - B) that outdated equipment will lead to inefficient production.
 - C) nonexistent since the capital is already dead.
 - D) that when the dead capital is replaced by more technologically advanced capital, economic growth occurs.

Answer: A

Diff: 1

Topic: 18.2 Capital Goods and Economic Growth

AACSB: Analytic skills

Question Status: Previous Edition

- 12) The following are impediments to economic growth EXCEPT
- A) dead capital.
 - B) increased education.
 - C) lack of economic freedom.
 - D) bureaucratic inefficiency.

Answer: B

Diff: 1

Topic: 18.2 Capital Goods and Economic Growth

AACSB: Analytic skills

Question Status: Previous Edition

- 13) When a country has a large amount of dead capital,
A) there is too much political freedom.
B) there is a large amount of economic growth.
C) large amounts of capital will be inefficiently employed.
D) a country's exports increase.

Answer: C

Diff: 1

Topic: 18.2 Capital Goods and Economic Growth

AACSB: Analytic skills

Question Status: Previous Edition

- 14) One of the most significant barriers to economic growth in the world's poorest nations is
A) environmental issues. B) political freedom.
C) dead capital. D) U.S. government interference.

Answer: C

Diff: 1

Topic: 18.2 Capital Goods and Economic Growth

AACSB: Analytic skills

Question Status: Previous Edition

- 15) The inefficiencies associated with dead capital can
A) lead to increased consumption.
B) reduce the rate of return on investment.
C) increase the amount of investment as businesses look for more technologically advanced capital.
D) lead to more economic freedom as firms try to get rid of the inefficient capital.

Answer: B

Diff: 1

Topic: 18.2 Capital Goods and Economic Growth

AACSB: Analytic skills

Question Status: Previous Edition

- 16) When government inefficiencies exist,
A) a country tends to grow at a slower rate.
B) a country tends to grow at a faster rate.
C) economic growth is not influenced.
D) dead capital is usually not a problem.

Answer: A

Diff: 1

Topic: 18.2 Capital Goods and Economic Growth

AACSB: Analytic skills

Question Status: Previous Edition

- 17) When government inefficiencies exist and government officials can be bribed, then
- A) dead capital will not exist.
 - B) the country will have positive economic growth.
 - C) a bribe will increase the cost of investing in capital.
 - D) property rights will be more secure since an official has been bribed to grant ownership to the business.

Answer: C

Diff: 1

Topic: 18.2 Capital Goods and Economic Growth

AACSB: Analytic skills

Question Status: Previous Edition

- 18) Which of the following is NOT true about dead capital?
- A) Dead capital can lead to a situation where resources are not efficiently employed.
 - B) Dead capital can inhibit economic growth.
 - C) Companies will be less likely to want to invest when a country has a lot of dead capital.
 - D) Dead capital will lead to higher investment returns.

Answer: D

Diff: 1

Topic: 18.2 Capital Goods and Economic Growth

AACSB: Analytic skills

Question Status: Previous Edition

- 19) Dead capital is
- A) unlikely to have any productive use.
 - B) unlikely to be applied to its most efficient use.
 - C) useful only if employed in a labor-intensive production process.
 - D) useful only if employed in a capital-intensive production process.

Answer: B

Diff: 2

Topic: 18.2 Capital Goods and Economic Growth

AACSB: Analytic skills

Question Status: Previous Edition

- 20) Which one of the following statements is true?
- A) Dead capital is most frequently found in countries with well-defined property rights.
 - B) Dead capital is most frequently found in the most prosperous countries.
 - C) It is easy for dead capital resources to be allocated to their best possible use.
 - D) It is difficult for dead capital resources to be insured or traded.

Answer: D

Diff: 1

Topic: 18.2 Capital Goods and Economic Growth

AACSB: Analytic skills

Question Status: Previous Edition

- 21) Dead capital is most likely to exist when
- A) there are restrictions on imports.
 - B) there are restrictions on exports.
 - C) property rights are well-defined.
 - D) residents of a country face barriers to establishing legal ownership of resources.

Answer: D

Diff: 2

Topic: 18.2 Capital Goods and Economic Growth

AACSB: Analytic skills

Question Status: Previous Edition

- 22) Extensive government restrictions on the use of capital are likely to
- A) create dead capital.
 - B) enhance economic growth.
 - C) enhance economic freedom.
 - D) result in capital resources being devoted to their most efficient uses.

Answer: A

Diff: 1

Topic: 18.2 Capital Goods and Economic Growth

AACSB: Analytic skills

Question Status: Previous Edition

- 23) Economic growth is enhanced when
- A) special interest groups acquire the political power to restrict competition.
 - B) capital resources are devoted to their most efficient use.
 - C) there are barriers to establishing legal ownership of capital resources.
 - D) scarce resources are made available for all citizens free of charge.

Answer: B

Diff: 2

Topic: 18.2 Capital Goods and Economic Growth

AACSB: Analytic skills

Question Status: Previous Edition

- 24) The problem of dead capital can be eliminated by
- A) changing the structure of import tariffs.
 - B) increasing the labor force participation rate.
 - C) making it easier for people to establish legal ownership of productive capital.
 - D) restricting population growth.

Answer: C

Diff: 1

Topic: 18.2 Capital Goods and Economic Growth

AACSB: Analytic skills

Question Status: Previous Edition

- 25) Countries with the highest degrees of governmental bureaucratic inefficiency index
- A) typically are nations with the highest real GDP per capita.
 - B) typically are nations with the lowest real GDP per capita.
 - C) normally have the lowest measured levels of dead capital.
 - D) normally have the highest measured levels of economic freedom.

Answer: B

Diff: 1

Topic: 18.2 Capital Goods and Economic Growth

AACSB: Dynamics of the global economy

Question Status: Previous Edition

- 26) Dead capital is
- A) a capital resource that lacks a clear title of ownership.
 - B) a capital resource that is obsolete.
 - C) a capital resource that is used to produce non-competitive products.
 - D) a capital resource associated with the defense industry.

Answer: A

Diff: 1

Topic: 18.2 Capital Goods and Economic Growth

AACSB:

Question Status: Previous Edition

- 27) When there is a building that is used for production, but no one has clear property rights to it,
- A) resources are guided to their best use by "the invisible hand."
 - B) this is known as "dead capital" and causes efficient production.
 - C) this is known as "dead capital" and causes no production.
 - D) this is known as "dead capital" and causes inefficient production.

Answer: D

Diff: 2

Topic: 18.2 Capital Goods and Economic Growth

AACSB: Analytic skills

Question Status: Previous Edition

- 28) All of the following are major factors limiting economic growth in developing countries EXCEPT

- | | |
|---------------------------------------|------------------|
| A) dead capital. | B) deregulation. |
| C) inefficient government regulation. | D) corruption. |

Answer: B

Diff: 2

Topic: 18.2 Capital Goods and Economic Growth

AACSB: Dynamics of the global economy

Question Status: Previous Edition

29) Countries with a high level of bureaucratic inefficiency tend to have low rates of real GDP growth because

- A) of complications that keep capital goods from flowing to their most efficient use.
- B) of poor accounting practices when determining real GDP.
- C) of poor management skill development in companies.
- D) they facilitate capital goods development.

Answer: A

Diff: 2

Topic: 18.2 Capital Goods and Economic Growth

AACSB: Dynamics of the global economy

Question Status: Previous Edition

30) The tolerance of bribe-taking by government officials

- A) reduces economic uncertainty because all investors are aware of the practice.
- B) reduces economic efficiency because rules governing property rights are not regularly enforced.
- C) reduces government expenditures because public employees can be paid less.
- D) reduces the need for government to impose taxes on poor people.

Answer: B

Diff: 1

Topic: 18.2 Capital Goods and Economic Growth

AACSB: Dynamics of the global economy

Question Status: Previous Edition

31) As productive capital goods are established in developing nations,

- A) developed nations will become less prosperous.
- B) they will be less likely to engage in international trade.
- C) these countries will experience higher rates of economic growth.
- D) portfolio investment will be replaced by loans from international aid agencies.

Answer: C

Diff: 2

Topic: 18.2 Capital Goods and Economic Growth

AACSB: Dynamics of the global economy

Question Status: Previous Edition

32) All of the following are examples of institutions that promote real economic growth EXCEPT

- A) an efficient judicial system used to enforce contracts.
- B) patent laws that protect innovation.
- C) complex rules associated with business licensing used to promote careful business growth.
- D) strong law enforcement used to protect business interests.

Answer: C

Diff: 3

Topic: 18.2 Capital Goods and Economic Growth

AACSB: Analytic skills

Question Status: Previous Edition

- 33) Explain the meaning of the term *dead capital*, and discuss why its existence retards economic growth.

Answer: Dead capital means a capital resource without a clearly defined owner. Although dead capital is often used in production the lack of clearly defined title of ownership typically leads to inefficient use of the resource. The inefficient use of dead capital reduces the rate of return on investments and thus the incentive to increase investment in capital goods are reduced. Lower levels of capital investment diminish the rate of economic growth.

Diff: 2

Topic: 18.2 Capital Goods and Economic Growth

AACSB: Analytic skills

Question Status: Previous Edition

- 34) Define what dead capital is and why economists are concerned with its existence.

Answer: Dead capital is when capital resources lack a clear title of ownership. Dead capital is a concern because it can lead to a reduction in investment and economic growth in developing nations. Dead capital will lead to a reduction in investment if the investors can not count on having clear ownership of their capital. Dead capital will lead to a reduction in economic growth because resources cannot be put to their most efficient use.

Diff: 1

Topic: 18.2 Capital Goods and Economic Growth

AACSB: Analytic skills

Question Status: Previous Edition

- 35) How have government inefficiencies contributed to the creation of dead capital in the world's developing nations?

Answer: Governments in developing nations place obstacles in the way of entrepreneurs interested in owning capital goods and directing them to profitable opportunities. Poorly administered government regulations reduce investment in new capital goods. Because of the poor administration investors are unwilling to risk having their investment turn into dead capital.

Diff: 1

Topic: 18.2 Capital Goods and Economic Growth

AACSB: Analytic skills

Question Status: Previous Edition

18.3 Private International Financial Flows as a Source of Global Growth

- 1) Foreign direct investment is defined as
- A) the acquisition of more than 10 percent of the shares of ownership in a company in another nation.
 - B) funds allocated into a foreign stock market that represent an ownership share of firms less than 5 percent.
 - C) purchasing both capital equipment and government bonds abroad.
 - D) purchasing government bonds.

Answer: A

Diff: 2

Topic: 18.3 Private International Financial Flows as a Source of Global Growth

AACSB: Dynamics of the global economy

Question Status: Previous Edition

- 2) The acquisition of more than 10 percent of the shares of ownership in a company in another nation is called
- A) portfolio investment.
 - B) gross private international investment.
 - C) foreign direct investment.
 - D) majority investment.

Answer: C

Diff: 2

Topic: 18.3 Private International Financial Flows as a Source of Global Growth

AACSB: Dynamics of the global economy

Question Status: Previous Edition

- 3) An example of foreign direct investment is the
- A) domestic acquisition of less than 10 percent of a foreign company.
 - B) foreign purchase of more than 10 percent of stock in a domestic company.
 - C) purchase of livestock from abroad.
 - D) sale of insurance in a foreign nation.

Answer: B

Diff: 2

Topic: 18.3 Private International Financial Flows as a Source of Global Growth

AACSB: Dynamics of the global economy

Question Status: Previous Edition

- 4) Most international investment finance today comes from
- A) portfolio and foreign direct investment.
 - B) the sale of antiques.
 - C) government financing.
 - D) tax collections.

Answer: A

Diff: 2

Topic: 18.3 Private International Financial Flows as a Source of Global Growth

AACSB: Dynamics of the global economy

Question Status: Previous Edition

- 5) Portfolio investment means buying
- A) less than 10 percent ownership in a foreign company.
 - B) more than 50 percent ownership in a foreign company.
 - C) a life insurance policy when traveling abroad.
 - D) livestock.

Answer: A

Diff: 1

Topic: 18.3 Private International Financial Flows as a Source of Global Growth

AACSB: Dynamics of the global economy

Question Status: Previous Edition

- 6) The three sources of private direct investment in developing nations are
- A) bank loans, government loans, and Eurobond issues.
 - B) bank loans, portfolio investments, and foreign direct investments.
 - C) portfolio loans, IMF loans, and government loans.
 - D) foreign direct investment, government loans, and Eurobond issues.

Answer: B

Diff: 1

Topic: 18.3 Private International Financial Flows as a Source of Global Growth

AACSB: Dynamics of the global economy

Question Status: Previous Edition

- 7) Which of the following is NOT one of the three primary sources of private investment funds flowing into developing nations?

A) Bank loans
B) Foreign direct investment
C) World Bank and IMF loans
D) Portfolio investment

Answer: C

Diff: 1

Topic: 18.3 Private International Financial Flows as a Source of Global Growth

AACSB: Dynamics of the global economy

Question Status: Previous Edition

- 8) The primary motivation for private foreign investment in developing nations is

A) to improve the standard of living for workers.
B) to do research in countries with fewer social regulations.
C) to eradicate poverty.
D) the potential for high rates of return.

Answer: D

Diff: 1

Topic: 18.3 Private International Financial Flows as a Source of Global Growth

AACSB: Dynamics of the global economy

Question Status: Previous Edition

- 9) The World Bank has extended a loan to Country X to build a new toll road and counts on the repayment of the loan from the collected tolls. After the funds have been transferred to the country, the government decides to spend the money to build a new presidential palace. This is an example of

A) hostile selection.
B) adverse selection.
C) moral hazard.
D) government risk.

Answer: C

Diff: 2

Topic: 18.3 Private International Financial Flows as a Source of Global Growth

AACSB: Dynamics of the global economy

Question Status: Previous Edition

- 10) An international financial crisis is most often caused by

A) a nation's central bank lowering domestic interest rates.
B) a government refusing to pay its dues to the United Nations.
C) foreign investments and loans being withdrawn from a nation.
D) a drop in the value of the U.S. dollar.

Answer: C

Diff: 1

Topic: 18.3 Private International Financial Flows as a Source of Global Growth

AACSB: Dynamics of the global economy

Question Status: Previous Edition

- 11) Which of the following is NOT a method for promoting global economic growth?
- A) Reliance on private markets to direct capital goods toward their best use.
 - B) Count on the world's governments to develop policies that promote economic growth in developing nations.
 - C) Encourage population growth so that developing nations' labor supply increases.
 - D) Market based approach.

Answer: C

Diff: 1

Topic: 18.3 Private International Financial Flows as a Source of Global Growth

AACSB: Dynamics of the global economy

Question Status: Previous Edition

- 12) All of the following are sources of funding for capital goods in developing countries EXCEPT
- A) loans from banks.
 - B) foreign direct investment.
 - C) taxation.
 - D) portfolio investment.

Answer: C

Diff: 1

Topic: 18.3 Private International Financial Flows as a Source of Global Growth

AACSB: Dynamics of the global economy

Question Status: Previous Edition

- 13) Portfolio investment is defined as
- A) the purchase of less than 40 percent of the shares of ownership in a company in another country.
 - B) the acquisition of more than 40 percent of the shares of ownership in a company in another country.
 - C) the diversification of purchasing shares in many companies in one country so that risk is kept to a minimum.
 - D) none of the above

Answer: D

Diff: 1

Topic: 18.3 Private International Financial Flows as a Source of Global Growth

AACSB: Dynamics of the global economy

Question Status: Previous Edition

- 14) Foreign direct investment is
- A) the purchase of less than 10 percent of the shares of ownership in a company in another country.
 - B) the acquisition of more than 10 percent of the shares of ownership in a company in another country.
 - C) the diversification of purchasing shares in many companies in one country so that risk is kept to a minimum.
 - D) the diversification of purchasing shares in many companies in different countries so that risk is kept to a minimum.

Answer: B

Diff: 1

Topic: 18.3 Private International Financial Flows as a Source of Global Growth

AACSB: Dynamics of the global economy

Question Status: Previous Edition

15) The acquisition of more than 10 percent of the shares of ownership in a company in another country is known as

- A) net exports.
- B) net national investment.
- C) portfolio investment
- D) none of the above

Answer: D

Diff: 1

Topic: 18.3 Private International Financial Flows as a Source of Global Growth

AACSB: Dynamics of the global economy

Question Status: Previous Edition

16) The purchase of less than 10 percent of the shares of ownership in a company in another country is known as

- A) a hostile takeover.
- B) an ineffective method for encouraging economic growth.
- C) foreign direct investment.
- D) portfolio investment.

Answer: D

Diff: 1

Topic: 18.3 Private International Financial Flows as a Source of Global Growth

AACSB: Dynamics of the global economy

Question Status: Previous Edition

17) Why are international investors who have invested in developing nations favoring foreign direct investment and portfolio investment over loans?

- A) The process of making loans is usually more difficult for investors to do than foreign direct and portfolio investment.
- B) The interest rate charged on the loans is usually lower than what can be earned in the U.S.
- C) It is illegal for banks to make loans to foreign firms.
- D) Investors have an aversion to owning dead capital and want to make sure that the resources they own do not become dead capital.

Answer: D

Diff: 1

Topic: 18.3 Private International Financial Flows as a Source of Global Growth

AACSB: Dynamics of the global economy

Question Status: Previous Edition

18) When investment occurs in developing nations

- A) investors hope to gain significant returns on their investment and residents gain higher rates of economic growth.
- B) higher rates of economic growth are usually not achieved.
- C) significant levels of pollution usually occur.
- D) government politicians usually benefit from the illegal payments made to secure the investment.

Answer: A

Diff: 1

Topic: 18.3 Private International Financial Flows as a Source of Global Growth

AACSB: Dynamics of the global economy

Question Status: Previous Edition

- 19) Adverse selection is a barrier to financing global growth because
- A) firms sometimes have trouble determining whether they need funds or not.
 - B) if investors have trouble identifying high-risk firms they may be unwilling to lend funds to creditworthy firms.
 - C) there is the possibility that the funds are used for riskier behavior than the lender agreed to.
 - D) of the differences between financing using loans, portfolio investment and foreign direct investment.

Answer: B

Diff: 1

Topic: 18.3 Private International Financial Flows as a Source of Global Growth

AACSB: Dynamics of the global economy

Question Status: Previous Edition

- 20) Moral hazard is a barrier to financing global growth because
- A) firms sometimes have trouble determining whether they need funds or not.
 - B) if investors have trouble identifying high-risk firms they may be unwilling to give money to creditworthy firms.
 - C) there is the possibility that the funds are used for riskier behavior than the lender agreed to.
 - D) of the differences between financing using loans, portfolio investment and foreign direct investment.

Answer: C

Diff: 1

Topic: 18.3 Private International Financial Flows as a Source of Global Growth

AACSB: Dynamics of the global economy

Question Status: Previous Edition

- 21) An international financial crisis is
- A) when at least one developing country defaults on its loans.
 - B) when a major bank defaults.
 - C) when a world leader is deposed from office.
 - D) the rapid withdrawal of foreign investments and loans from a nation.

Answer: D

Diff: 1

Topic: 18.3 Private International Financial Flows as a Source of Global Growth

AACSB: Dynamics of the global economy

Question Status: Previous Edition

- 22) A rapid withdrawal of foreign investments and loans from a nation is
- A) dead capital.
 - B) an international financial crisis.
 - C) foreign direct capital.
 - D) portfolio investment.

Answer: B

Diff: 1

Topic: 18.3 Private International Financial Flows as a Source of Global Growth

AACSB: Dynamics of the global economy

Question Status: Previous Edition

23) When an international financial crisis occurs

- A) financial lenders protect their investments by pouring money into the ailing country.
- B) investors sell off bonds and restrict loans as a mechanism to help the country recover.
- C) financial flows can slow to a trickle, influencing economic growth.
- D) there are no serious financial effects that last more than a few months.

Answer: C

Diff: 1

Topic: 18.3 Private International Financial Flows as a Source of Global Growth

AACSB: Dynamics of the global economy

Question Status: Previous Edition

24) International investors are more likely to invest in countries

- A) where it is relatively easier to establish property rights to capital goods.
- B) where there is a significant amount of dead capital.
- C) which have a high amount of government inefficiency.
- D) where there are barriers to the ownership of capital goods.

Answer: A

Diff: 1

Topic: 18.3 Private International Financial Flows as a Source of Global Growth

AACSB: Dynamics of the global economy

Question Status: Previous Edition

25) Foreign direct investment refers to

- A) the acquisition of more than 10 percent of the shares of ownership in a company in another nation.
- B) the acquisition of less than 10 percent of the shares of ownership in a company in another nation.
- C) the granting of a loan to a company located in a foreign country.
- D) a direct monetary grant to a foreign company or government.

Answer: A

Diff: 1

Topic: 18.3 Private International Financial Flows as a Source of Global Growth

AACSB: Dynamics of the global economy

Question Status: Previous Edition

26) Foreign direct investment implies that the investor obtains more than a _____ share in a foreign company's ownership.

- A) 30 percent
- B) 40 percent
- C) 50 percent
- D) none of the above

Answer: D

Diff: 1

Topic: 18.3 Private International Financial Flows as a Source of Global Growth

AACSB: Dynamics of the global economy

Question Status: Previous Edition

27) The purchase of less than 10 percent of the shares of ownership in a foreign company is referred to as a

- A) portfolio investment.
- B) foreign direct investment.
- C) foreign indirect investment.
- D) negligible investment.

Answer: A

Diff: 1

Topic: 18.3 Private International Financial Flows as a Source of Global Growth

AACSB: Dynamics of the global economy

Question Status: Previous Edition

28) Portfolio investment means the

- A) purchase of less than 20 percent of the shares of ownership in a company in another country.
- B) purchase of less than 50 percent of the shares of ownership in a company in another country.
- C) purchase of less than 80 percent of the shares of ownership in a company in another country.
- D) purchase of less than 10 percent of the shares of ownership in a company in another country.

Answer: D

Diff: 2

Topic: 18.3 Private International Financial Flows as a Source of Global Growth

AACSB: Dynamics of the global economy

Question Status: Previous Edition

29) The acquisition of more than 10 percent of the outstanding shares in a company in another country is

- A) foreign direct investment.
- B) foreign direct acquisition.
- C) portfolio investment.
- D) portfolio acquisition.

Answer: A

Diff: 1

Topic: 18.3 Private International Financial Flows as a Source of Global Growth

AACSB: Dynamics of the global economy

Question Status: Previous Edition

30) For foreign direct investment to occur, the purchase has to be more than

- A) 2 percent but less than 5 percent of shares in a business located abroad.
- B) 5 percent but less than 10 percent of shares in a business located abroad.
- C) 8 percent but less than 10 percent of shares in a business located abroad.
- D) 10 percent of shares in a business located abroad.

Answer: D

Diff: 2

Topic: 18.3 Private International Financial Flows as a Source of Global Growth

AACSB: Dynamics of the global economy

Question Status: Previous Edition

- A) portfolio investment.
B) moral hazard.
C) foreign direct investment.
D) adverse selection.

Diff: 2

AACSB: Dynamics of the global economy

- A) portfolio investment.
B) moral hazard.
C) foreign direct investment.
D) adverse selection.

Diff: 2

AACSB: Dynamics of the global economy

- A) ownership in assets are acquired in countries other than one's home country.
B) U.S. residents invest funds in companies that export goods.
C) U.S. residents invest funds in companies that import goods.
D) short-term investments are converted to long-term ones.

Diff: 1

AACSB: Dynamics of the global economy

- A) inequitable financing.
B) moral hazard.
C) adverse selection.
D) asymmetric information.

Diff: 2

AACSB: Dynamics of the global economy

- A) that those seeking funds for the riskiest projects are those most actively seeking the funds.
B) that the recipients of the funds may use the funds for other than the approved projects.
C) that government officials may demand higher than the usual amount of bribes.
D) those in the highest levels of government are the most dishonest.

Diff: 2

AACSB: Dynamics of the global economy

- 36) An example of the moral hazard problem in international investment would be that
- A) those seeking funds for the riskiest projects are amongst those most actively seeking the funds.
 - B) the recipients of the funds may use the funds for riskier projects than the approved project.
 - C) government officials may demand higher than the usual amount of bribes.
 - D) those seeking the funds are dishonest.

Answer: B

Diff: 2

Topic: 18.3 Private International Financial Flows as a Source of Global Growth

AACSB: Dynamics of the global economy

Question Status: Previous Edition

- 37) The purchase of more than ten percent of the shares of a foreign company is known as a(n)
- A) foreign direct investment.
 - B) International Monetary Fund (IMF) investment.
 - C) portfolio investment.
 - D) World Bank investment.

Answer: A

Diff: 1

Topic: 18.3 Private International Financial Flows as a Source of Global Growth

AACSB: Dynamics of the global economy

Question Status: Previous Edition

- 38) Investors are often willing to take the risks associated with investing in capital goods in developing nations because developing nations
- A) always insure the investments.
 - B) insure a small return on investment.
 - C) get the International Monetary Fund (IMF) to back investments through a series of loan guarantees.
 - D) have a large portion of the world's unutilized or underutilized resources and hence profit potential.

Answer: D

Diff: 2

Topic: 18.3 Private International Financial Flows as a Source of Global Growth

AACSB: Dynamics of the global economy

Question Status: Previous Edition

- 39) When lenders are unable to get good information about the worthiness of a project the lender has the problem of
- | | |
|-----------------------|---------------------|
| A) adverse selection. | B) adverse hazard. |
| C) moral hazard. | D) moral selection. |

Answer: A

Diff: 1

Topic: 18.3 Private International Financial Flows as a Source of Global Growth

AACSB: Dynamics of the global economy

Question Status: Previous Edition

- Question Status: Previous Edition

- Question Status: Previous Edition

- Question Status: Previous Edition

- Question Status: Previous Edition

- Question Status: Previous Edition

- 45) Two types of asymmetric information that create problems for international investment are
 A) adverse hazard and moral selection. B) adverse hazard and moral hazard.
 C) adverse selection and moral hazard. D) adverse selection and moral selection.

Answer: C

Diff: 1

Topic: 18.3 Private International Financial Flows as a Source of Global Growth

AACSB: Dynamics of the global economy

Question Status: Previous Edition

- 46) The rapid withdrawal of foreign investment funds from a nation creates
 A) an international financial crisis. B) an international funding crisis.
 C) an international fiscal crisis. D) an international fiduciary crisis.

Answer: A

Diff: 2

Topic: 18.3 Private International Financial Flows as a Source of Global Growth

AACSB: Dynamics of the global economy

Question Status: Previous Edition

- 47) Adverse selection and moral hazard problems arise when there is
 A) complete information B) asymmetric information.
 C) too much information. D) symmetric information.

Answer: B

Diff: 2

Topic: 18.3 Private International Financial Flows as a Source of Global Growth

AACSB: Dynamics of the global economy

Question Status: Previous Edition

- 48) To the extent that there are concerns about moral hazard and adverse selection in a country,
 A) economic growth will be hindered.
 B) there will be more portfolio investment.
 C) there will be more foreign direct investment.
 D) it will be easier to arrange financing for new development projects.

Answer: A

Diff: 2

Topic: 18.3 Private International Financial Flows as a Source of Global Growth

AACSB: Dynamics of the global economy

Question Status: Previous Edition

- 49) An international financial crisis can be precipitated when
 A) the rate of money supply growth is not the same in all nations.
 B) many international investors look at the behavior of a few large investors to determine when funds should be withdrawn from a particular country.
 C) newly-acquired political freedom in a country leads some interest groups to form a coalition limiting competition.
 D) there is an increase in portfolio investment.

Answer: B

Diff: 1

Topic: 18.3 Private International Financial Flows as a Source of Global Growth

AACSB: Dynamics of the global economy

Question Status: Previous Edition

- 50) A country experiencing an international financial crisis will likely
- A) see an increase in portfolio investment.
 - B) see an increase in foreign direct investment.
 - C) encounter difficulty in sustaining its economic growth rate.
 - D) be able to maintain growth and prosperity in its domestic economy, but its export sector will suffer.

Answer: C

Diff: 2

Topic: 18.3 Private International Financial Flows as a Source of Global Growth

AACSB: Dynamics of the global economy

Question Status: Previous Edition

- 51) All of the following are barriers to international investment EXCEPT
- A) symmetric information.
 - B) adverse selection.
 - C) incomplete information.
 - D) moral hazard.

Answer: A

Diff: 2

Topic: 18.3 Private International Financial Flows as a Source of Global Growth

AACSB: Dynamics of the global economy

Question Status: Previous Edition

- 52) The following are obstacles to international investment EXCEPT
- A) population growth.
 - B) asymmetric information.
 - C) adverse selection.
 - D) moral hazard.

Answer: A

Diff: 1

Topic: 18.3 Private International Financial Flows as a Source of Global Growth

AACSB: Analytic skills

Question Status: Previous Edition

- 53) Discuss the rationales for foreign financing of investment in developing actions and explain how developing countries benefit from international capital investment.

Answer: The primary motivation for foreign investment in developing nations is the potential for high rates of return on large amounts of untapped resources. Developing countries benefit from international capital investment because they do not have the internal funds to be able to support projects that will lead to economic growth.

Diff: 1

Topic: 18.3 Private International Financial Flows as a Source of Global Growth

AACSB: Dynamics of the global economy

Question Status: Previous Edition

- 54) What are the sources of private investments in foreign nations?

Answer: The three sources of private investment funds are bank loans, portfolio investments and foreign direct investment. Portfolio investment is a purchase of less than 10 percent of the shares in a corporation in another country. Foreign direct investment is a purchase of more than 10 percent of ownership share in a foreign corporation.

Diff: 1

Topic: 18.3 Private International Financial Flows as a Source of Global Growth

AACSB: Dynamics of the global economy

Question Status: Previous Edition

18.4 International Institutions and Policies for Global Growth

- 1) Which of the following is true about the World Bank?
- A) It is a multinational agency that specializes in development loans.
 - B) It is a U.S. agency that specializes in development loans.
 - C) It is a U.N. sponsored agency that specializes in development loans.
 - D) It is made up of all central banks in the world.

Answer: A

Diff: 2

Topic: 18.4 International Institutions and Policies for Global Growth

AACSB: Dynamics of the global economy

Question Status: Revised

- 2) The multinational agency that specializes in making loans to developing nations in an effort to promote long-term development and growth is the
- A) International Monetary Fund.
 - B) World Trade Organization.
 - C) United Nations Development Program.
 - D) World Bank.

Answer: D

Diff: 2

Topic: 18.4 International Institutions and Policies for Global Growth

AACSB: Dynamics of the global economy

Question Status: Previous Edition

- 3) Approximately what percentage of the World Bank's loans go to developing nations in the East Asia/Pacific and South Asia regions combined?
- A) 10%
 - B) 40%
 - C) 70%
 - D) 100%

Answer: B

Diff: 2

Topic: 18.4 International Institutions and Policies for Global Growth

AACSB: Dynamics of the global economy

Question Status: Revised

- 4) The World Bank makes loans primarily to
- A) nations without free markets, such as North Korea.
 - B) developing nations.
 - C) the United States.
 - D) highly developed nations.

Answer: B

Diff: 2

Topic: 18.4 International Institutions and Policies for Global Growth

AACSB: Dynamics of the global economy

Question Status: New

- 5) The multinational organization that aims to promote world economic growth by fostering financial stability is the
- A) International Monetary Fund.
 - B) World Trade Organization.
 - C) United Nations.
 - D) World Bank.

Answer: A

Diff: 2

Topic: 18.4 International Institutions and Policies for Global Growth

AACSB: Dynamics of the global economy

Question Status: Previous Edition

- 6) A nation's account with the IMF is called its
- A) deposit surplus.
 - B) current account.
 - C) quota subscription.
 - D) capital account.

Answer: C

Diff: 2

Topic: 18.4 International Institutions and Policies for Global Growth

AACSB: Dynamics of the global economy

Question Status: Previous Edition

- 7) The World Bank was formed in
- A) 1930.
 - B) 1960.
 - C) 1945.
 - D) 1918.

Answer: C

Diff: 1

Topic: 18.4 International Institutions and Policies for Global Growth

AACSB: Dynamics of the global economy

Question Status: Previous Edition

- 8) The World Bank is
- A) made up of the central banks of the leading industrial nations of the world.
 - B) made up of five separate institutions.
 - C) the Bank of the United Nations.
 - D) the European Union.

Answer: B

Diff: 1

Topic: 18.4 International Institutions and Policies for Global Growth

AACSB: Dynamics of the global economy

Question Status: Previous Edition

- 9) The International Monetary Fund (IMF) is an international organization designed to
- A) promote world economic growth by means of greater financial stability.
 - B) promote world economic growth via loans to developed nations.
 - C) circulate a single currency worldwide.
 - D) act as the world's central bank.

Answer: A

Diff: 2

Topic: 18.4 International Institutions and Policies for Global Growth

AACSB: Dynamics of the global economy

Question Status: Previous Edition

- 10) The international unit of accounting used by the International Monetary Fund (IMF) is called
- A) the Eurodollar.
 - B) the IMF dollar.
 - C) the quota subscription.
 - D) special drawing rights.

Answer: D

Diff: 1

Topic: 18.4 International Institutions and Policies for Global Growth

AACSB: Dynamics of the global economy

Question Status: Previous Edition

- 11) The largest quota subscriber of the International Monetary Fund (IMF) is
- A) Japan.
 - B) Germany.
 - C) the United States.
 - D) China.

Answer: C

Diff: 1

Topic: 18.4 International Institutions and Policies for Global Growth

AACSB: Dynamics of the global economy

Question Status: Previous Edition

- 12) The International Monetary Fund (IMF) was created to achieve each of the following goals EXCEPT
- A) to supervise exchange-rate practices of member countries.
 - B) to help finance economic development in poor countries.
 - C) to encourage convertibility of member countries' currencies.
 - D) to lend funds to countries having difficulties meeting their international payment obligations.

Answer: B

Diff: 1

Topic: 18.4 International Institutions and Policies for Global Growth

AACSB: Dynamics of the global economy

Question Status: Previous Edition

- 13) Which of the following statements about the International Monetary Fund (IMF) is TRUE?
- A) The IMF was created to finance long-term economic development projects in poor countries.
 - B) The IMF was created to reduce tariff barriers between nations.
 - C) The IMF functions as a central bank that conducts monetary policy for the world economy.
 - D) The IMF obtains funds from quota subscriptions charged to member countries.

Answer: D

Diff: 1

Topic: 18.4 International Institutions and Policies for Global Growth

AACSB: Dynamics of the global economy

Question Status: Previous Edition

- 14) Each nation's International Monetary Fund (IMF) quota subscription is based on
- A) its national income.
 - B) its share in world trade.
 - C) its public debt.
 - D) its trade surplus.

Answer: A

Diff: 1

Topic: 18.4 International Institutions and Policies for Global Growth

AACSB: Dynamics of the global economy

Question Status: Previous Edition

- 15) Which of the following is NOT a criticism that has been leveled at the World Bank?
- A) Too many loans go to nations capable of privately financing their projects.
 - B) Since 1990, the World Bank has loaned mostly to African countries, to the detriment of nations in other parts of the world.
 - C) Some countries receiving World Bank loans are net lenders of funds to other nations and so should not be receiving World Bank funds.
 - D) Despite receiving loans from the World Bank, economic growth in many client nations has been disappointing.

Answer: B

Diff: 2

Topic: 18.4 International Institutions and Policies for Global Growth

AACSB: Dynamics of the global economy

Question Status: Previous Edition

- 16) The World Bank specializes in making loans to promote
- A) short-term assistance when a nation experiences a financial crisis.
 - B) so-called stand-by arrangements and credits.
 - C) financial stability.
 - D) long-term development and growth.

Answer: D

Diff: 2

Topic: 18.4 International Institutions and Policies for Global Growth

AACSB: Dynamics of the global economy

Question Status: Previous Edition

- 17) The World Bank
- A) is a central bank like the Federal Reserve System.
 - B) is the bank that causes international financial crisis when the reserves are too high.
 - C) is a multinational agency that specializes in making loans to promote long-term development and growth in developing countries.
 - D) is a multinational organization that aims to promote world economic growth through more financial stability.

Answer: C

Diff: 1

Topic: 18.4 International Institutions and Policies for Global Growth

AACSB: Dynamics of the global economy

Question Status: Previous Edition

- 18) Which of the following world regions has received the largest percentage of lending from the World Bank since 1990?

- | | |
|----------------------------|----------------|
| A) Latin America/Caribbean | B) South Asia |
| C) Africa | D) Middle east |

Answer: C

Diff: 1

Topic: 18.4 International Institutions and Policies for Global Growth

AACSB: Dynamics of the global economy

Question Status: Revised

19) The International Monetary Fund

- A) is a central bank like the Federal Reserve System.
- B) is the bank that causes international financial crisis when the reserves are too high.
- C) is a multinational agency that specializes in making loans to promote long-term development and growth in developing countries.
- D) is a multinational organization that aims to promote world economic growth through more financial stability.

Answer: D

Diff: 1

Topic: 18.4 International Institutions and Policies for Global Growth

AACSB: Dynamics of the global economy

Question Status: Previous Edition

20) The largest International Monetary Fund quota subscription, denominated in Special Drawing Rights, is held by

- A) the United States.
- B) Japan.
- C) China.
- D) Russia.

Answer: A

Diff: 1

Topic: 18.4 International Institutions and Policies for Global Growth

AACSB: Dynamics of the global economy

Question Status: Previous Edition

21) A multinational agency that specializes solely in making loans to promote long-term development and growth in developing countries is the

- A) Federal Reserve System.
- B) World Bank.
- C) International Monetary Fund.
- D) International World Fund.

Answer: B

Diff: 1

Topic: 18.4 International Institutions and Policies for Global Growth

AACSB: Dynamics of the global economy

Question Status: Previous Edition

22) A multinational organization that aims to promote world economic growth through more financial stability is the

- A) Federal Reserve System.
- B) World Bank.
- C) International Monetary Fund.
- D) International World Fund.

Answer: C

Diff: 1

Topic: 18.4 International Institutions and Policies for Global Growth

AACSB: Dynamics of the global economy

Question Status: Previous Edition

- 23) The World Bank will primarily make
- A) short-term loans for investment projects that are relatively safe.
 - B) short-term loans for investment projects which might not receive private financial support.
 - C) long-term loans for investment projects that are relatively risky.
 - D) long-term in nature for investment projects which might not receive private financial support.

Answer: D

Diff: 1

Topic: 18.4 International Institutions and Policies for Global Growth

AACSB: Dynamics of the global economy

Question Status: Previous Edition

- 24) The international organization with the sole goal of promoting global antipoverty efforts is the
- A) World Bank.
 - B) International Monetary Fund.
 - C) Board of Governors of the Federal Reserve System.
 - D) GAE.

Answer: A

Diff: 1

Topic: 18.4 International Institutions and Policies for Global Growth

AACSB: Dynamics of the global economy

Question Status: Previous Edition

- 25) Which of the following are NOT part of the World Bank?
- A) International Development Association
 - B) Federal Reserve Bank of New York
 - C) International Center for Settlement of Investment Disputes
 - D) Multinational Investment Guarantee Agency

Answer: B

Diff: 1

Topic: 18.4 International Institutions and Policies for Global Growth

AACSB: Dynamics of the global economy

Question Status: Previous Edition

- 26) The primary source of funds for the World Bank is
- A) quota subscriptions.
 - B) private financial markets.
 - C) the world's wealthiest countries.
 - D) the New York Stock Exchange.

Answer: C

Diff: 1

Topic: 18.4 International Institutions and Policies for Global Growth

AACSB: Dynamics of the global economy

Question Status: Previous Edition

- 27) A quota subscription is
- A) the maximum amount of funds that can be drawn at the World Bank without a formal proposal.
 - B) the maximum amount that a private investor can invest in foreign firms.
 - C) a nation's account at the International Monetary Fund.
 - D) when an investor sets limits on the proportion of their portfolio that will contain foreign investments.

Answer: C

Diff: 1

Topic: 18.4 International Institutions and Policies for Global Growth

AACSB: Dynamics of the global economy

Question Status: Previous Edition

- 28) A nation's account with the International Monetary Fund denominated in special drawing rights is
- A) the quota subscription.
 - B) the account at the World Bank.
 - C) portfolio investment.
 - D) the account at the Fed.

Answer: A

Diff: 1

Topic: 18.4 International Institutions and Policies for Global Growth

AACSB: Dynamics of the global economy

Question Status: Previous Edition

- 29) The funds that nation's have on account at the International Monetary Fund is measured in
- A) U.S. dollars.
 - B) the currency of the nation that has deposited the funds.
 - C) a quota subscription.
 - D) an international unit of accounting called special drawing rights.

Answer: D

Diff: 1

Topic: 18.4 International Institutions and Policies for Global Growth

AACSB: Dynamics of the global economy

Question Status: Previous Edition

- 30) To be a member of the Internal Monetary Fund a nation must deposit funds based on
- A) its national income.
 - B) the amount of funds it wants to deposit.
 - C) the need to loan money to developing nations.
 - D) rules set up by the World Bank.

Answer: A

Diff: 1

Topic: 18.4 International Institutions and Policies for Global Growth

AACSB: Dynamics of the global economy

Question Status: Previous Edition

31) Which of the following statements is true?

- A) All nations that belong to the International Monetary Fund have equal voting power.
- B) The voting power of a nation in the International Monetary Fund is determined by its quota subscription.
- C) The voting power of a nation in the International Monetary Fund is called special drawing rights.
- D) The voting procedure in the International Fund is determined by the World Bank.

Answer: B

Diff: 1

Topic: 18.4 International Institutions and Policies for Global Growth

AACSB: Dynamics of the global economy

Question Status: Previous Edition

32) The amount of funds that a nation can withdraw from the International Monetary Fund depends upon

- A) its quota subscription.
- B) whether it is a developing nation or a developed nation.
- C) whether it is seeking a long-term or short-term loan.
- D) the rules set up by the World Bank.

Answer: A

Diff: 1

Topic: 18.4 International Institutions and Policies for Global Growth

AACSB: Dynamics of the global economy

Question Status: Previous Edition

33) The primary function of the International Monetary Fund is

- A) to provide loans only to private firms in developing countries.
- B) to make direct, irrevocable transfers of funds from wealthy nations to poor nations.
- C) to lend solely on the basis of a nation's relative poverty.
- D) to make loans aimed at promoting global stability and hence growth.

Answer: D

Diff: 1

Topic: 18.4 International Institutions and Policies for Global Growth

AACSB: Dynamics of the global economy

Question Status: Previous Edition

34) All the following would be a possible loan that the International Monetary Fund might make EXCEPT

- A) a loan to a private firm.
- B) long-term loans to a nation's government which support growth promoting projects.
- C) short-term loans to a nation's government.
- D) long-term loans to countries which are having problems in repaying existing debts.

Answer: A

Diff: 1

Topic: 18.4 International Institutions and Policies for Global Growth

AACSB: Dynamics of the global economy

Question Status: Previous Edition

- 35) Which of the following statements is true about the success of the World Bank?
- A) The World Bank has been very successful in promoting economic growth because loans have been primarily made to countries that have trouble attracting private funds.
 - B) The World Bank has not been successful because many loans have been made to countries that can attract private funds.
 - C) The World Bank has been successful because it has focused on its primary function of making loans to governments.
 - D) The World Bank has not been successful because it has focused on making loans to governments where there has been a loss of confidence in a nation's financial system.

Answer: B

Diff: 1

Topic: 18.4 International Institutions and Policies for Global Growth

AACSB: Dynamics of the global economy

Question Status: Previous Edition

- 36) If the World Bank makes loans to nations that can attract private funds,
- A) the increase in growth in that nation will spill over to other nations that are developing.
 - B) these loans will interfere in the private market for capital goods and can lead to inefficient investment.
 - C) the World Bank's loans will crowd out the private funds made to developing nations to encourage economic growth.
 - D) the presence of the World Bank's loans will lead to even more private funds being attracted to that country.

Answer: B

Diff: 1

Topic: 18.4 International Institutions and Policies for Global Growth

AACSB: Dynamics of the global economy

Question Status: Previous Edition

- 37) It is believed that in order to promote growth, a top priority of the World Bank and the International Monetary Fund is to
- A) promote the increase of dead capital.
 - B) make more loans.
 - C) focus on basic market foundations of guaranteeing property and contract rights.
 - D) join forces and merge into one unit.

Answer: C

Diff: 1

Topic: 18.4 International Institutions and Policies for Global Growth

AACSB: Dynamics of the global economy

Question Status: Previous Edition

- 38) Because of the problems of adverse selection and moral hazard, it has been suggested that the World Bank and International Monetary Fund
- A) make loans to the riskiest nations so that private investors will not be tempted to take a risk.
 - B) loan only to countries that have free elections.
 - C) not make loans to risky nations because there is a high demand for funds from safer nations.
 - D) impose tougher preconditions on borrowers.

Answer: D

Diff: 1

Topic: 18.4 International Institutions and Policies for Global Growth

AACSB: Dynamics of the global economy

Question Status: Previous Edition

- 39) The World Bank
- A) determines the price level in each of its member nations.
 - B) determines the labor force participation rate in each of its member nations.
 - C) mediates contracts regarding minimum prices for various globally-traded commodities.
 - D) extends long-term loans for capital investment projects to developing nations.

Answer: D

Diff: 2

Topic: 18.4 International Institutions and Policies for Global Growth

AACSB: Dynamics of the global economy

Question Status: Previous Edition

- 40) Where does the World Bank get its funds?
- A) from selling internal reports to the public
 - B) from tariffs collected on goods traded internationally
 - C) from governments of the wealthiest nations and from private financial markets
 - D) from seizing dead capital in developing nations and selling it at auction

Answer: C

Diff: 1

Topic: 18.4 International Institutions and Policies for Global Growth

AACSB: Dynamics of the global economy

Question Status: Previous Edition

- 41) The World Bank is
- A) composed of five separate institutions.
 - B) the central bank of the U.S. government.
 - C) the official name of the International Monetary Fund.
 - D) the central bank of the United Nations.

Answer: A

Diff: 1

Topic: 18.4 International Institutions and Policies for Global Growth

AACSB: Dynamics of the global economy

Question Status: Previous Edition

- 42) Special drawing rights are
- A) the reserves held by members of the European Union to back their accounts with the European Central Bank.
 - B) credit accounts held by individual stockholders with portfolio investments in other countries.
 - C) international units of account held by the International Monetary Fund for member countries.
 - D) the estimated level of oil reserves remaining in OPEC countries.

Answer: C

Diff: 2

Topic: 18.4 International Institutions and Policies for Global Growth

AACSB: Dynamics of the global economy

Question Status: Previous Edition

- 43) How did the original focus of the IMF differ from that of the World Bank?
- A) The IMF provided short-term loans and the World Bank provided long-term loans.
 - B) The IMF assisted wealthy nations and the World Bank assisted developing nations.
 - C) The IMF gave grants to developing countries and the World Bank made loans.
 - D) The IMF dealt in North and South America only, and the World Bank dealt with the rest of the world.

Answer: A

Diff: 2

Topic: 18.4 International Institutions and Policies for Global Growth

AACSB: Dynamics of the global economy

Question Status: Previous Edition

- 44) The official mission of the World Bank is to
- A) fight global inflation.
 - B) advise member nations on the appropriate levels of taxation.
 - C) establish exchange rates between the currencies of member nations.
 - D) provide funding for needed development projects that would have difficulty attracting private investment.

Answer: D

Diff: 1

Topic: 18.4 International Institutions and Policies for Global Growth

AACSB: Dynamics of the global economy

Question Status: Previous Edition

- 45) Those who advocate a role for the World Bank in establishing systems of well-defined property and contract rights in developing nations would argue that
- A) such changes would eliminate the need for long-term capital funding.
 - B) such changes would eliminate the need for short-term loans.
 - C) such changes would make these economies more productive.
 - D) asymmetric information is currently not a problem in these countries.

Answer: C

Diff: 2

Topic: 18.4 International Institutions and Policies for Global Growth

AACSB: Dynamics of the global economy

Question Status: Previous Edition

- 46) The World Bank was formed in
A) 1919. B) 1945. C) 1960. D) 1980.

Answer: B

Diff: 2

Topic: 18.4 International Institutions and Policies for Global Growth

AACSB: Dynamics of the global economy

Question Status: Previous Edition

- 47) The World Bank specializes in making loans to
A) industrialized nations. B) communist nations.
C) developing nations. D) African nations.

Answer: C

Diff: 2

Topic: 18.4 International Institutions and Policies for Global Growth

AACSB: Dynamics of the global economy

Question Status: Previous Edition

- 48) Most of the loanable funds available to the World Bank to lend to developing nations come from
A) the sale of oil.
B) developing nations.
C) the world's wealthiest nations.
D) the sale of international bonds that are issued by the World Bank.

Answer: C

Diff: 2

Topic: 18.4 International Institutions and Policies for Global Growth

AACSB: Dynamics of the global economy

Question Status: Previous Edition

- 49) One of the major criticisms of the World Bank is that it lends funds
A) to impoverished nations.
B) to countries which could easily borrow funds from other sources.
C) to industrialized nations.
D) to terrorist groups not affiliated with any country.

Answer: B

Diff: 2

Topic: 18.4 International Institutions and Policies for Global Growth

AACSB: Dynamics of the global economy

Question Status: Previous Edition

- 50) The World Bank primarily engages in
- A) short-term lending aimed at helping developing nations repay debt accumulated in past years.
 - B) short-term lending aimed at helping developing nations repay loans from the International Monetary Fund.
 - C) long-term lending aimed at helping developing nations' governments and central banks keep exchange rates from varying.
 - D) long-term lending aimed at helping developing nations' governments and businesses make investments that will contribute to economic growth.

Answer: D

Diff: 1

Topic: 18.4 International Institutions and Policies for Global Growth

AACSB: Dynamics of the global economy

Question Status: Previous Edition

- 51) The goal of the World Bank is to
- A) supervise exchange rate stability.
 - B) supervise the activities of the central banks of member nations.
 - C) sell the government securities of member nations on the open market.
 - D) help finance economic development.

Answer: D

Diff: 1

Topic: 18.4 International Institutions and Policies for Global Growth

AACSB: Dynamics of the global economy

Question Status: Previous Edition

- 52) The _____ specializes in making long-term loans for capital investment projects that do not have private financial support.
- | | |
|--------------------------------|--------------------------|
| A) International Monetary Fund | B) European Central Bank |
| C) World Bank | D) Federal Reserve Bank |

Answer: C

Diff: 1

Topic: 18.4 International Institutions and Policies for Global Growth

AACSB: Dynamics of the global economy

Question Status: Previous Edition

- 53) A multinational agency that specializes in making loans to a larger number of developing nations to promote long-term development and growth is
- | | |
|-------------------------------------|-----------------------------|
| A) the International Bank. | B) the World Bank. |
| C) the International Monetary Fund. | D) the World Monetary Fund. |

Answer: B

Diff: 1

Topic: 18.4 International Institutions and Policies for Global Growth

AACSB: Dynamics of the global economy

Question Status: Previous Edition

- 54) If the government of a developing country is having difficulty selling bonds to build an irrigation system, it could go to the
- A) World Bank.
 - B) Federal Reserve Bank.
 - C) United Nations International Bank.
 - D) International Monetary Organization.

Answer: A

Diff: 2

Topic: 18.4 International Institutions and Policies for Global Growth

AACSB: Dynamics of the global economy

Question Status: Previous Edition

- 55) An international organization formed with the aim of promoting world economic growth through financial stability is called
- A) the World Bank.
 - B) the International Development Association.
 - C) the International Finance Corporation.
 - D) the International Monetary Fund (IMF).

Answer: D

Diff: 2

Topic: 18.4 International Institutions and Policies for Global Growth

AACSB: Dynamics of the global economy

Question Status: Previous Edition

- 56) Which of the following countries has the largest quota subscription at the IMF?
- A) Japan
 - B) Russia
 - C) United States
 - D) India

Answer: C

Diff: 2

Topic: 18.4 International Institutions and Policies for Global Growth

AACSB: Dynamics of the global economy

Question Status: Previous Edition

- 57) The International Monetary Fund was created to achieve each of the following goals EXCEPT
- A) lend funds to countries with international payment problems.
 - B) lend funds to large government infrastructure projects.
 - C) monitor and offer advice on the exchange rate policies of member nations.
 - D) encourage free convertibility of the currencies of member nations.

Answer: B

Diff: 1

Topic: 18.4 International Institutions and Policies for Global Growth

AACSB: Dynamics of the global economy

Question Status: Previous Edition

- 58) When a nation's currency suddenly loses value, the _____ may step in to buy the afflicted currency.
- A) World Bank
 - B) International Monetary Fund
 - C) Federal Reserve Bank
 - D) United Nations

Answer: B

Diff: 2

Topic: 18.4 International Institutions and Policies for Global Growth

AACSB: Dynamics of the global economy

Question Status: Previous Edition

59) A nation's account with the International Monetary Fund is measured in an international unit known as

- A) international reserves.
- B) special drawing rights.
- C) monetary rights.
- D) monetary deposits.

Answer: B

Diff: 2

Topic: 18.4 International Institutions and Policies for Global Growth

AACSB: Dynamics of the global economy

Question Status: Previous Edition

60) A nation's account with the International Monetary Fund is known as

- A) a quota subscription.
- B) monetary deposits.
- C) monetary rights.
- D) international reserves.

Answer: A

Diff: 1

Topic: 18.4 International Institutions and Policies for Global Growth

AACSB: Dynamics of the global economy

Question Status: Previous Edition

61) A multinational organization that aims to promote world economic growth through more financial stability is

- A) the World Monetary Fund.
- B) the International Bank.
- C) the International Monetary Fund.
- D) the International Monetary Bank.

Answer: C

Diff: 1

Topic: 18.4 International Institutions and Policies for Global Growth

AACSB: Dynamics of the global economy

Question Status: Previous Edition

62) The international unit of accounting used by the IMF is the

- A) euro.
- B) special financial right.
- C) special drawing right.
- D) dollar.

Answer: C

Diff: 1

Topic: 18.4 International Institutions and Policies for Global Growth

AACSB: Dynamics of the global economy

Question Status: Previous Edition

63) Both the International Monetary Fund and the World Bank were established

- A) at the end of World War I.
- B) at the end of World War II.
- C) in the 1960s.
- D) in the 1970s.

Answer: B

Diff: 1

Topic: 18.4 International Institutions and Policies for Global Growth

AACSB: Dynamics of the global economy

Question Status: Previous Edition

- 64) Voting power in the IMF is determined by
- A) the population size of member states.
 - B) the quota subscription size.
 - C) the length of membership.
 - D) the size of the member nation's trade surplus.

Answer: B

Diff: 1

Topic: 18.4 International Institutions and Policies for Global Growth

AACSB: Dynamics of the global economy

Question Status: Previous Edition

- 65) Both the World Bank and the IMF typically
- A) make loans for less than 5 years only.
 - B) impose stringent preconditions that the borrowers must meet.
 - C) charge lower than average loan rates to ensure repayment.
 - D) charge higher than average loan rates.

Answer: B

Diff: 2

Topic: 18.4 International Institutions and Policies for Global Growth

AACSB: Dynamics of the global economy

Question Status: Previous Edition

- 66) The "currency" of the IMF is the
- A) International Currency Unit.
 - B) Special Drawing Right.
 - C) IMF Dollar.
 - D) U.S. dollar.

Answer: B

Diff: 2

Topic: 18.4 International Institutions and Policies for Global Growth

AACSB: Dynamics of the global economy

Question Status: Previous Edition

- 67) Each country's IMF quota subscription is determined by
- A) the relative size of its national income.
 - B) the size of its population.
 - C) the size of world trade.
 - D) how much a country wants to contribute.

Answer: A

Diff: 2

Topic: 18.4 International Institutions and Policies for Global Growth

AACSB: Dynamics of the global economy

Question Status: Previous Edition

- 68) After the financial crisis in the 1990s many economists criticized the IMF and the World Bank. Some suggestions for reform are to

- A) create a board of directors made up of finance ministers for the IMF.
- B) eliminate both the institutions.
- C) increase private-sector lending by governments providing tax breaks to lenders.
- D) all of the above

Answer: D

Diff: 1

Topic: 18.4 International Institutions and Policies for Global Growth

AACSB: Dynamics of the global economy

Question Status: Previous Edition

- 69) When a nation joins the IMF, it deposits funds into an account. These funds have a value based on a weighted average of

- A) the euro, the British pound sterling, the Japanese yen, and the U.S. dollar.
- B) the euro, the British pound sterling, the Chinese yuan, and the U.S. dollar.
- C) the Russian ruble, the British pound sterling, the Japanese yen, and the U.S. dollar.
- D) the Russian ruble, the British pound sterling, the Chinese yuan, and the U.S. dollar.

Answer: A

Diff: 3

Topic: 18.4 International Institutions and Policies for Global Growth

AACSB: Dynamics of the global economy

Question Status: Previous Edition

- 70) Which organization functions as a lender of last resort for national governments?

- A) The World Bank
- B) The U.S. Treasury
- C) The Federal Reserve Bank
- D) The International Monetary Fund

Answer: D

Diff: 2

Topic: 18.4 International Institutions and Policies for Global Growth

AACSB: Dynamics of the global economy

Question Status: Previous Edition

- 71) Which of the following is NOT a function of the International Monetary Fund?

- A) serve as lender of last resort for national governments
- B) administer an international foreign exchange system
- C) establish the SDR system nations utilize to settle international payment obligations
- D) establish and administer each nation's fiscal and monetary policies

Answer: D

Diff: 2

Topic: 18.4 International Institutions and Policies for Global Growth

AACSB: Dynamics of the global economy

Question Status: Previous Edition

72) What is the mission of the World Bank?

Answer: The World Bank, which was established after World War II, is charged with the mission of providing long-term loans for specific capital investment projects. In the past thirty years the bank is increasingly involved in financing projects that aim to reduce poverty.

Diff: 1

Topic: 18.4 International Institutions and Policies for Global Growth

AACSB: Dynamics of the global economy

Question Status: Previous Edition

73) What is the mission of the International Monetary Fund (IMF)?

Answer: The IMF was established after World War II to help maintain international financial stability. When nations join the IMF, they all must deposit funds called quota subscriptions, measured in an accounting unit called special drawing rights. Quotas are based on each nation's national income. The IMF can lend these funds in an effort to solve financial problems arising from fluctuations in trade, investor loss of confidence in a nation's financial system, or spillover effects from financial problems originating elsewhere.

Diff: 1

Topic: 18.4 International Institutions and Policies for Global Growth

AACSB: Dynamics of the global economy

Question Status: Previous Edition

74) Name the two international institutions that have been formed to attain higher rates of global economic growth and briefly discuss what each of the agencies does.

Answer: There are two agencies, the World Bank and the International Monetary Fund. The World Bank specializes in making long-term loans for capital investment projects in developing countries that otherwise might not receive private financial support. The International Monetary Fund promotes global economic growth by fostering financial stability in developing countries.

Diff: 2

Topic: 18.4 International Institutions and Policies for Global Growth

AACSB: Dynamics of the global economy

Question Status: Previous Edition

75) Discuss why the World Bank has been criticized for making loans to nations that can attract private funds.

Answer: Loans given to nations that can attract private funds interfere with the private market for capital goods. This can encourage inefficient investment in projects that should not be undertaken.

Diff: 2

Topic: 18.4 International Institutions and Policies for Global Growth

AACSB: Dynamics of the global economy

Question Status: Previous Edition

76) What are some of the criticisms that have been levied on the World Bank and the International Monetary Fund concerning adverse selection and moral hazard?

Answer: The World Bank and International Monetary Fund usually place very loose conditions on loans and this increases adverse selection problems. Some economists argue that the private lenders and investors assume that the World Bank and International Monetary Fund will back up nations and will therefore lower their standards and make loans to less creditworthy nations. This contributes to international financial crises.

Diff: 2

Topic: 18.4 International Institutions and Policies for Global Growth

AACSB: Dynamics of the global economy

Question Status: Previous Edition