

Chapter 33

Exchange Rates and the Balance of Payments

33.1 The Balance of Payments and International Capital Movements

- 1) The balance of payments is
- A) the value of goods and services bought and sold in the world market.
 - B) a summary record of a country's economic transactions with foreign residents and governments.
 - C) a summary record of a country's purchases and sales of goods and services in the world market.
 - D) the value of merchandise goods bought and sold in the world market.

Answer: B

Diff: 1

Topic: 33.1 The Balance of Payments and International Capital Movements

AACSB: Dynamics of the global economy

Question Status: Previous Edition

- 2) A system of accounts that measures the transactions of goods, services, income, and financial assets between domestic households, businesses, and governments and residents of the rest of the world during a specific time period is the
- A) capital account.
 - B) current account.
 - C) balance of payments.
 - D) balance of trade.

Answer: C

Diff: 1

Topic: 33.1 The Balance of Payments and International Capital Movements

AACSB: Dynamics of the global economy

Question Status: Previous Edition

- 3) Net unilateral transfers would appear in a nation's
- A) current account.
 - B) capital account.
 - C) official reserve transaction account.
 - D) financial account.

Answer: A

Diff: 1

Topic: 33.1 The Balance of Payments and International Capital Movements

AACSB: Dynamics of the global economy

Question Status: Previous Edition

- 4) The agency which functions as a "lender of last resort" for national governments is the
- A) International Trade Organization.
 - B) International Monetary Fund.
 - C) World Trade Organization.
 - D) World Trade Fund.

Answer: B

Diff: 1

Topic: 33.1 The Balance of Payments and International Capital Movements

AACSB: Dynamics of the global economy

Question Status: Previous Edition

- 5) A country's balance of payments shows a
- A) detailed record of the import and export of services for the country.
 - B) detailed record of the country's imports.
 - C) summary record of international financial assistance received by the country.
 - D) summary record of a country's economic transactions with foreign residents and governments over a year.

Answer: D

Diff: 1

Topic: 33.1 The Balance of Payments and International Capital Movements

AACSB: Dynamics of the global economy

Question Status: Previous Edition

- 6) The balance of trade is defined as
- A) the difference between the value of goods and services exported and the value of goods and services imported.
 - B) the difference between the value of goods exported and the value of goods imported.
 - C) the difference between the value of services exported and the value of services imported.
 - D) none of the above.

Answer: B

Diff: 1

Topic: 33.1 The Balance of Payments and International Capital Movements

AACSB: Dynamics of the global economy

Question Status: Previous Edition

- 7) Which of the following is NOT a deficit item on a country's balance of payments?
- A) gold sales to foreigners.
 - B) imports.
 - C) a personal gift to a foreign individual.
 - D) none of the above.

Answer: D

Diff: 2

Topic: 33.1 The Balance of Payments and International Capital Movements

AACSB: Dynamics of the global economy

Question Status: Previous Edition

- 8) Which of the following is an example of a surplus item on the balance of payments?
- A) Private gifts to foreign residents
 - B) Public gifts to foreign residents
 - C) Interest receipts from foreign residents
 - D) Purchases of gold from foreign residents

Answer: C

Diff: 1

Topic: 33.1 The Balance of Payments and International Capital Movements

AACSB: Dynamics of the global economy

Question Status: Previous Edition

9) Which of the following is a deficit item on the balance of payments?

- A) Exports of merchandise
- B) Foreign tourist dollars spent domestically
- C) Sales of gold to foreigners
- D) Purchases of foreign assets

Answer: D

Diff: 2

Topic: 33.1 The Balance of Payments and International Capital Movements

AACSB: Dynamics of the global economy

Question Status: Previous Edition

10) In the balance of payments, any transaction that leads to a receipt by a resident of a country is a

- A) minus item.
- B) debit item.
- C) surplus item.
- D) deficit item.

Answer: C

Diff: 1

Topic: 33.1 The Balance of Payments and International Capital Movements

AACSB: Dynamics of the global economy

Question Status: Previous Edition

11) An example of a transaction that will be a surplus item on the U.S. balance of payments is

- A) a U.S. resident purchasing French wine.
- B) a French subsidiary's plant in New Jersey purchasing parts from the main plant in Paris.
- C) a gift of wheat from the U.S. government to India.
- D) a tourist from Germany buying a ticket to fly from New York to Chicago on American Airlines.

Answer: D

Diff: 2

Topic: 33.1 The Balance of Payments and International Capital Movements

AACSB: Dynamics of the global economy

Question Status: Previous Edition

12) An example of a deficit item on the U.S. balance of payments is

- A) the sale of a spark plug made by a U.S. firm in Michigan to a Nissan plant in Tennessee.
- B) the purchase of Japanese yen by a U.S. firm.
- C) a deposit in a bank in Chicago by the government of Saudi Arabia.
- D) the payment of a dividend by a British firm to a U.S. family.

Answer: B

Diff: 2

Topic: 33.1 The Balance of Payments and International Capital Movements

AACSB: Dynamics of the global economy

Question Status: Previous Edition

13) Which of the following is a deficit item on the U.S. balance of payments accounts?

- A) A U.S. firm sells a product to a Mexican firm.
- B) An Italian tourist in Miami purchases a beach ball.
- C) A Spaniard buys 100 shares of Ford stock.
- D) A U.S. resident buys gold from the Japanese central bank.

Answer: D

Diff: 2

Topic: 33.1 The Balance of Payments and International Capital Movements

AACSB: Dynamics of the global economy

Question Status: Previous Edition

14) In the balance of payments, if there are no statistical errors or discrepancies, which of the following is true of the sum of the capital account balance, the current account balance, and the official reserve transactions account balance?

- A) This sum is either positive or negative, depending on whether the sum of all surplus and deficit items associated with cross-border transactions is positive or negative.
- B) This sum must always be zero, because the sum of all surplus and deficit items associated with cross-border transactions must equal zero.
- C) This sum is positive only if the U.S. government operates with a budget surplus.
- D) This sum is positive only if the U.S. government operates with a budget deficit.

Answer: B

Diff: 2

Topic: 33.1 The Balance of Payments and International Capital Movements

AACSB: Dynamics of the global economy

Question Status: Previous Edition

15) Suppose a country has a current account surplus and that there is no intervention by finance ministries or central banks. This current account surplus indicates that the country has

- A) a deficit in its capital account.
- B) a surplus in its capital account.
- C) the official reserve transactions balance is positive.
- D) the official reserve transactions balance is negative.

Answer: A

Diff: 1

Topic: 33.1 The Balance of Payments and International Capital Movements

AACSB: Dynamics of the global economy

Question Status: Previous Edition

16) The largest portion of any nation's current account is typically

- A) imports and exports.
- B) gold sales.
- C) the sale of U.S. assets.
- D) SDRs.

Answer: A

Diff: 2

Topic: 33.1 The Balance of Payments and International Capital Movements

AACSB: Dynamics of the global economy

Question Status: Previous Edition

Country X—2008 Transactions (billions of dollars)

Exports of goods	\$100
Net Unilateral Transfers	-10
Imports of Services	-50
Official Transactions	-10
Capital Inflows	150
Imports of Goods	-250
Exports of Services	125
Capital Outflows	-75

- 17) In the above table, the merchandise trade balance for Country X is _____ billion dollars.
 A) +100 B) -150 C) +150 D) -10

Answer: B

Diff: 2

Topic: 33.1 The Balance of Payments and International Capital Movements

AACSB: Dynamics of the global economy

Question Status: Previous Edition

- 18) In the above table, the trade balance on goods and services for Country X is _____ billion dollars.
 A) +100 B) -150 C) +150 D) -75

Answer: D

Diff: 2

Topic: 33.1 The Balance of Payments and International Capital Movements

AACSB: Dynamics of the global economy

Question Status: Previous Edition

- 19) In the above table, the fact that there is a minus sign before the number for unilateral transfers means that
 A) Country X has significant inflation.
 B) Country X imported more goods than it exported.
 C) Country X received more in foreign aid than it gave in foreign aid.
 D) Country X gave more to foreign residents than foreign residents gave to Country X.

Answer: D

Diff: 2

Topic: 33.1 The Balance of Payments and International Capital Movements

AACSB: Dynamics of the global economy

Question Status: Previous Edition

- 20) In the above table, the balance on the current account for Country X is _____ billion dollars.
 A) -85 B) -150 C) +75 D) -200

Answer: A

Diff: 2

Topic: 33.1 The Balance of Payments and International Capital Movements

AACSB: Dynamics of the global economy

Question Status: Previous Edition

- 21) In the above table, the balance on the capital account for Country X is _____ billion dollars.
 A) -85 B) -150 C) +75 D) -200

Answer: C

Diff: 2

Topic: 33.1 The Balance of Payments and International Capital Movements

AACSB: Dynamics of the global economy

Question Status: Previous Edition

- 22) All of the following would be considered a current account transaction EXCEPT the
 A) importing of services. B) exporting of goods.
 C) importing of capital. D) importing of goods.

Answer: C

Diff: 1

Topic: 33.1 The Balance of Payments and International Capital Movements

AACSB: Dynamics of the global economy

Question Status: Previous Edition

- 23) Which of the following would contribute to a positive trade balance for a country?
 A) having tourists visit the country
 B) importing textiles
 C) having foreign residents buy the government bonds of the country
 D) importing financial services

Answer: A

Diff: 1

Topic: 33.1 The Balance of Payments and International Capital Movements

AACSB: Dynamics of the global economy

Question Status: Previous Edition

- 24) Unilateral transfers represent
 A) the balance of services coming into a country.
 B) the balance of government bonds bought and sold by residents of a country.
 C) the balance of financial gifts—both private and public—entering and leaving a country.
 D) the balance of official transfers within an economy.

Answer: C

Diff: 1

Topic: 33.1 The Balance of Payments and International Capital Movements

AACSB: Dynamics of the global economy

Question Status: Previous Edition

- 25) An example of a unilateral transfer is
 A) a gift to a relative who lives abroad.
 B) a check received in payment for an import.
 C) gold payments to foreign companies.
 D) SDR payments to world creditors.

Answer: A

Diff: 2

Topic: 33.1 The Balance of Payments and International Capital Movements

AACSB: Dynamics of the global economy

Question Status: Previous Edition

- 26) If there is a negative sign in front of unilateral transfers for the United States, then
- A) the United States imported more services than it exported.
 - B) the value of U.S. gifts to foreigners exceeded foreign gifts to U.S. residents.
 - C) the United States imported more commercial financial assets than it exported.
 - D) the United States had a negative balance of trade.

Answer: B

Diff: 1

Topic: 33.1 The Balance of Payments and International Capital Movements

AACSB: Dynamics of the global economy

Question Status: Previous Edition

- 27) When there is a current account deficit, it is likely that
- A) exports exceed imports for the country.
 - B) the country is an exporter of capital.
 - C) the capital account has a surplus.
 - D) the country has a budget surplus.

Answer: C

Diff: 1

Topic: 33.1 The Balance of Payments and International Capital Movements

AACSB: Dynamics of the global economy

Question Status: Previous Edition

- 28) Current account transactions are payments and gifts that are related to the purchase or sale of
- A) financial instruments only.
 - B) both goods and services.
 - C) goods only.
 - D) services only.

Answer: B

Diff: 1

Topic: 33.1 The Balance of Payments and International Capital Movements

AACSB: Dynamics of the global economy

Question Status: Previous Edition

- 29) Unilateral transfers are
- A) transactions that take place within the geographic boundaries of a country.
 - B) gifts from residents of one country to foreign residents.
 - C) transactions that take place across geographic boundaries but in which both participants are citizens of the same country.
 - D) government transactions that involve reserves.

Answer: B

Diff: 1

Topic: 33.1 The Balance of Payments and International Capital Movements

AACSB: Dynamics of the global economy

Question Status: Previous Edition

- 30) If the current account is in deficit, we know that
- A) the merchandise trade balance is also in deficit.
 - B) the merchandise trade balance is in surplus.
 - C) the capital account is in surplus.
 - D) there is a statistical discrepancy in the surplus.

Answer: C

Diff: 2

Topic: 33.1 The Balance of Payments and International Capital Movements

AACSB: Dynamics of the global economy

Question Status: Previous Edition

31) When a Chinese company builds an auto plant in the United States, the immediate result of this Chinese investment in the United States is a _____ item in the U.S. _____ account.

- A) surplus; current
- B) surplus; capital
- C) deficit; current
- D) deficit; capital

Answer: B

Diff: 1

Topic: 33.1 The Balance of Payments and International Capital Movements

AACSB: Dynamics of the global economy

Question Status: Revised

32) Which of the following transactions leads to an inflow of funds on the U.S. capital account?

- A) A U.S. resident purchases a share of stock on the Hong Kong exchange.
- B) A U.S. resident sells wheat to an African nation.
- C) A resident of China purchases U.S. government bonds.
- D) A resident of Mexico visits the United States.

Answer: C

Diff: 1

Topic: 33.1 The Balance of Payments and International Capital Movements

AACSB: Dynamics of the global economy

Question Status: Revised

33) Official reserve assets include all of the following EXCEPT

- A) foreign currencies.
- B) gold.
- C) special drawing rights.
- D) gifts to foreign countries.

Answer: D

Diff: 1

Topic: 33.1 The Balance of Payments and International Capital Movements

AACSB: Dynamics of the global economy

Question Status: Previous Edition

34) Special drawing rights (SDRs) are

- A) a reserve asset created by the International Monetary Fund that countries can use to settle international payment obligations.
- B) a liability payment from a branch bank to a nation's central bank.
- C) a country's surpluses in their fiscal budgets.
- D) exchanges of gold between nations.

Answer: A

Diff: 1

Topic: 33.1 The Balance of Payments and International Capital Movements

AACSB: Dynamics of the global economy

Question Status: Previous Edition

35) The official reserve account includes all of the following EXCEPT

- A) gold.
- B) SDRs.
- C) foreign currencies.
- D) silver and other precious metals.

Answer: D

Diff: 1

Topic: 33.1 The Balance of Payments and International Capital Movements

AACSB: Dynamics of the global economy

Question Status: Previous Edition

36) Special Drawing Rights are

- A) a reserve asset created by the International Monetary Fund that can be used to settle international payments.
- B) loans granted by the International Monetary Fund to countries that experience balance of payments problems.
- C) the term given for official reserves taken as a whole.
- D) financial assets held by the U.S. Treasury Department.

Answer: A

Diff: 1

Topic: 33.1 The Balance of Payments and International Capital Movements

AACSB: Dynamics of the global economy

Question Status: Previous Edition

37) The major factor affecting a nation's balance of payments is

- A) an increase in its rate of unemployment.
- B) its rate of inflation relative to the rate of inflation of its trading partners.
- C) a change in the productivity of its labor.
- D) its stock market movements.

Answer: B

Diff: 2

Topic: 33.1 The Balance of Payments and International Capital Movements

AACSB: Dynamics of the global economy

Question Status: Previous Edition

38) An increase in a country's rate of inflation is apt to

- A) reduce its imports and improve its trade balance.
- B) lower its nominal rate of interest and encourage an inflow of capital.
- C) worsen its balance of trade and balance of payments.
- D) decrease demand for the country's currency.

Answer: C

Diff: 1

Topic: 33.1 The Balance of Payments and International Capital Movements

AACSB: Dynamics of the global economy

Question Status: Previous Edition

39) A reduction in a country's rate of inflation should

- A) increase its imports.
- B) increase its exports.
- C) lead to a negative trade balance.
- D) lead to an outflow of SDRs.

Answer: B

Diff: 1

Topic: 33.1 The Balance of Payments and International Capital Movements

AACSB: Dynamics of the global economy

Question Status: Previous Edition

- 40) The U.S. balance of payments status may improve when
- A) the inflation rate increases in the United States relative to other countries.
 - B) political instability in other countries increases.
 - C) the world demand for U.S. products falls.
 - D) the American government increases its spending on foreign aid.

Answer: B

Diff: 2

Topic: 33.1 The Balance of Payments and International Capital Movements

AACSB: Dynamics of the global economy

Question Status: Previous Edition

- 41) A nation's balance of payments can be affected by
- A) the country's inflation rate relative to other nations' inflation rates.
 - B) the country's population increases relative to other nations' populations.
 - C) per capita GDP relative to other nations' per capita GDP.
 - D) none of the above.

Answer: A

Diff: 2

Topic: 33.1 The Balance of Payments and International Capital Movements

AACSB: Dynamics of the global economy

Question Status: Previous Edition

- 42) The balance of trade is
- A) the difference between exports and imports of goods and services.
 - B) the difference between exports and imports of services.
 - C) the summary record of a country's economic transactions with foreigners in a year.
 - D) none of the above.

Answer: D

Diff: 1

Topic: 33.1 The Balance of Payments and International Capital Movements

AACSB: Dynamics of the global economy

Question Status: Previous Edition

- 43) When the balance of trade is in balance, we know with certainty that
- A) the value of all debit transactions equals the value of all credit transactions.
 - B) the value of exports of goods equals the value of imports of goods.
 - C) the value of capital exports equals the value of capital imports.
 - D) the value of exports of goods and services equals the value of imports of goods and services.

Answer: B

Diff: 1

Topic: 33.1 The Balance of Payments and International Capital Movements

AACSB: Dynamics of the global economy

Question Status: Previous Edition

44) When the value of exports exceeds the value of imports then

- A) changes in productivity will occur.
- B) international trade is in balance.
- C) the country is running a trade deficit.
- D) the country is running a trade surplus.

Answer: D

Diff: 1

Topic: 33.1 The Balance of Payments and International Capital Movements

AACSB: Dynamics of the global economy

Question Status: Previous Edition

45) For the United States, suppose the value of exported goods is greater than the value of imported goods. This implies that

- A) the domestic currency will depreciate.
- B) the dollar price of foreign currency will increase.
- C) the country is running a deficit in its balance of trade.
- D) the country is running a surplus in its balance of trade.

Answer: D

Diff: 1

Topic: 33.1 The Balance of Payments and International Capital Movements

AACSB: Dynamics of the global economy

Question Status: Previous Edition

46) A summary of a country's economic transactions with foreign residents and governments is called the

- A) current account balance.
- B) capital account balance.
- C) balance of trade.
- D) balance of payments.

Answer: D

Diff: 1

Topic: 33.1 The Balance of Payments and International Capital Movements

AACSB: Dynamics of the global economy

Question Status: Previous Edition

47) The balance of payments is

- A) a summary record of the financial transactions of a country's government with foreign governments.
- B) a summary record of a country's imports and exports of goods with foreign residents and governments.
- C) a summary record of a country's economic transactions with foreign residents and governments.
- D) a summary record of a country's purchases and sales of goods and services in the world market.

Answer: C

Diff: 1

Topic: 33.1 The Balance of Payments and International Capital Movements

AACSB: Dynamics of the global economy

Question Status: Previous Edition

48) A record of all transactions between households, firms, and the government of one country and the rest of the world is the

- A) balance of trade.
- B) balance of payments.
- C) International Monetary Fund.
- D) government budget.

Answer: B

Diff: 1

Topic: 33.1 The Balance of Payments and International Capital Movements

AACSB: Dynamics of the global economy

Question Status: Previous Edition

49) A U.S. family flies from Boston to Shanghai on a China Airlines plane. This transaction is

- A) considered an export of service in the U.S balance of payment accounts.
- B) a deficit item in the balance of payment accounts of China.
- C) Both of the above are correct.
- D) none of the above

Answer: D

Diff: 1

Topic: 33.1 The Balance of Payments and International Capital Movements

AACSB: Dynamics of the global economy

Question Status: Revised

50) Which of the following is included in both the balance of trade and the balance of payments?

- A) exports
- B) earnings on domestic assets owned by foreign residents
- C) international capital movements
- D) earnings by domestic residents on assets located abroad

Answer: A

Diff: 1

Topic: 33.1 The Balance of Payments and International Capital Movements

AACSB: Dynamics of the global economy

Question Status: Previous Edition

51) Any transaction that leads to a payment by a country's residents or government is a(n)

- A) debt.
- B) asset.
- C) deficit item.
- D) surplus item.

Answer: C

Diff: 1

Topic: 33.1 The Balance of Payments and International Capital Movements

AACSB: Dynamics of the global economy

Question Status: Previous Edition

52) In the balance of payments, a deficit item is any transaction

- A) that leads to a receipt by a resident of a country or its government.
- B) that leads to a payment by a resident of a country or its government.
- C) that is an export of a good or service.
- D) that makes residents of a country worse off.

Answer: B

Diff: 1

Topic: 33.1 The Balance of Payments and International Capital Movements

AACSB: Dynamics of the global economy

Question Status: Previous Edition

- 53) In the balance of payments, any transaction that leads to a receipt by a resident of a country or its government is a(n)
- A) asset. B) minus item. C) deficit item. D) surplus item.

Answer: D

Diff: 1

Topic: 33.1 The Balance of Payments and International Capital Movements

AACSB: Dynamics of the global economy

Question Status: Previous Edition

- 54) Judy has just bought a car that is made in Germany. As far as the U.S. balance of payments is concerned this purchase is a(n)
- A) accounting identity. B) special draw.
C) surplus item. D) deficit item.

Answer: D

Diff: 1

Topic: 33.1 The Balance of Payments and International Capital Movements

AACSB: Dynamics of the global economy

Question Status: Previous Edition

- 55) A citizen of Cuba who has lived in Atlanta during the past three years has just sent \$200 to relatives in Cuba for Christmas. This transaction is
- A) counted in the U.S. balance of payments as a current account item.
B) counted in the U.S. balance of payments as a surplus item.
C) counted in the U.S. balance of payments as an export item.
D) none of the above

Answer: A

Diff: 1

Topic: 33.1 The Balance of Payments and International Capital Movements

AACSB: Dynamics of the global economy

Question Status: Previous Edition

- 56) A surplus item is
- A) the import of goods or services that is not needed by residents of a country.
B) the import or export of products that are by-products of the manufacturing of export goods.
C) any transaction that leads to a receipt by a resident of a country or its government.
D) any transaction that leads to a payment by a resident of a country or its government.

Answer: C

Diff: 1

Topic: 33.1 The Balance of Payments and International Capital Movements

AACSB: Dynamics of the global economy

Question Status: Previous Edition

57) Someone in Germany has just ordered a U.S. car to be exported to Germany. In the U.S. balance of payments, this purchase is a(n)

- A) accounting identity.
- B) special draw.
- C) surplus item.
- D) deficit item.

Answer: C

Diff: 1

Topic: 33.1 The Balance of Payments and International Capital Movements

AACSB: Dynamics of the global economy

Question Status: Previous Edition

58) In the balance of payments, all of the following are deficit items EXCEPT

- A) imports of merchandise.
- B) funds placed in foreign depository institutions.
- C) sales of dollars to foreigners.
- D) tourism expenditures abroad.

Answer: C

Diff: 2

Topic: 33.1 The Balance of Payments and International Capital Movements

AACSB: Dynamics of the global economy

Question Status: Previous Edition

59) An example of a transaction that will be a surplus item on the U.S. balance of payments is

- A) the purchase of General Motors stock by a German resident.
- B) the purchase of a Mercedes-Benz by an American.
- C) a Nissan plant in Tennessee buying parts from the main plant in Japan.
- D) a gift of wheat from the United States government to Egypt.

Answer: A

Diff: 2

Topic: 33.1 The Balance of Payments and International Capital Movements

AACSB: Dynamics of the global economy

Question Status: Previous Edition

60) An example of a deficit item on the U.S. balance of payments is

- A) the sale of a carburetor made in Michigan to a Honda plant in Ohio.
- B) a deposit in a bank in New York by a British firm.
- C) a U.S. resident flies from New York to Rome on British Airways.
- D) the payment of a dividend from a Canadian firm to an American living in Maine.

Answer: C

Diff: 2

Topic: 33.1 The Balance of Payments and International Capital Movements

AACSB: Dynamics of the global economy

Question Status: Previous Edition

- 61) An accounting identity
- A) ensures that all balances will be in equilibrium.
 - B) is useless in analyzing balance of payments since one cannot tell from the identity whether an equilibrium exists or not.
 - C) ensures a balance but does not ensure an equilibrium.
 - D) applies only to plans of economic agents and not to their actual actions.

Answer: C

Diff: 2

Topic: 33.1 The Balance of Payments and International Capital Movements

AACSB: Dynamics of the global economy

Question Status: Previous Edition

- 62) An accounting identity is
- A) when the balance of payments is running a surplus or deficits.
 - B) when the balance of trade is in surplus or deficit.
 - C) an expression of values that are equivalent by definition.
 - D) special drawing rights.

Answer: C

Diff: 1

Topic: 33.1 The Balance of Payments and International Capital Movements

AACSB: Dynamics of the global economy

Question Status: Previous Edition

- 63) Ahmed is working and is spending more than he is earning by using his savings to make up the difference. Which of the following statements is true?
- A) Ahmed is in equilibrium since he pays all of his bills.
 - B) Ahmed is in disequilibrium.
 - C) By using savings Ahmed is using special drawing rights.
 - D) By using savings Ahmed has caused the balance of payments to go into a deficit situation.

Answer: B

Diff: 1

Topic: 33.1 The Balance of Payments and International Capital Movements

AACSB: Dynamics of the global economy

Question Status: Previous Edition

- 64) To know whether a particular situation for a family, business, or government involves an equilibrium or not, one must
- A) understand the circumstances fully.
 - B) determine whether the accounts are in balance.
 - C) determine whether the credits equal the debits.
 - D) determine whether a particular portion of the accounts are in balance or not.

Answer: A

Diff: 3

Topic: 33.1 The Balance of Payments and International Capital Movements

AACSB: Dynamics of the global economy

Question Status: Previous Edition

65) Which of the following is NOT a category in the U.S. balance of payments account?

- A) Current account
- B) Past-due account
- C) Capital account
- D) Official reserve transactions account

Answer: B

Diff: 1

Topic: 33.1 The Balance of Payments and International Capital Movements

AACSB: Dynamics of the global economy

Question Status: Previous Edition

66) In international trade, all payments and gifts that are related to the purchase or sale of both goods and services are referred to as the

- A) current account.
- B) capital account.
- C) labor account.
- D) official reserve transactions account.

Answer: A

Diff: 1

Topic: 33.1 The Balance of Payments and International Capital Movements

AACSB: Dynamics of the global economy

Question Status: Previous Edition

67) The current account is

- A) the reserve assets created by the International Monetary Fund for countries to use in settling international payment obligations.
- B) the price of one nation's currency in term of the currency of another country.
- C) a category of the balance of payments transactions that measures flows of real and financial assets.
- D) a category of the balance of payments transactions that measures the exchange of merchandise, the exchange of services, and unilateral transfers.

Answer: D

Diff: 1

Topic: 33.1 The Balance of Payments and International Capital Movements

AACSB: Dynamics of the global economy

Question Status: Previous Edition

68) Current account transactions are all payments that are related to the purchase or sale of

- A) goods only.
- B) services only.
- C) goods and services only.
- D) goods and services excluding government purchases.

Answer: C

Diff: 1

Topic: 33.1 The Balance of Payments and International Capital Movements

AACSB: Dynamics of the global economy

Question Status: Revised

- 69) The largest portion of any nation's balance of payments current account is the
- A) importing and exporting of merchandise goods.
 - B) importing and exporting of services.
 - C) importing and exporting of gold.
 - D) importing and exporting of capital goods.

Answer: A

Diff: 2

Topic: 33.1 The Balance of Payments and International Capital Movements

AACSB: Dynamics of the global economy

Question Status: Previous Edition

- 70) An example of an import of a service in the U.S. balance of payments would be when
- A) an U.S. resident purchases a Japanese stereo.
 - B) a Norwegian traveling in the United States rides a trolley car in San Francisco.
 - C) a U.S. resident buying insurance from a firm in Toronto.
 - D) a U.S. firm purchases 100 shares of a Dutch firm.

Answer: C

Diff: 2

Topic: 33.1 The Balance of Payments and International Capital Movements

AACSB: Dynamics of the global economy

Question Status: Revised

- 71) Which of the following statements is true about the role that service exports and imports have in the balance of payments?
- A) Service exports and imports are not included in the balance of payments because it is impossible to transport a service to another country.
 - B) Service exports and imports are included in the balance of payments in the labor account.
 - C) Service exports and imports are included in the balance of payments in the official reserve transactions account.
 - D) Service exports and imports are included in the balance of payments in the current account.

Answer: D

Diff: 1

Topic: 33.1 The Balance of Payments and International Capital Movements

AACSB: Dynamics of the global economy

Question Status: Revised

- 72) Unilateral transfers are
- A) transactions that take place across national boundaries but in which both transactions are citizens of the same country.
 - B) government transactions that use gold and other official reserves.
 - C) gifts from a resident of one country to a resident in a foreign country.
 - D) the payments of interest to residents of another country.

Answer: C

Diff: 1

Topic: 33.1 The Balance of Payments and International Capital Movements

AACSB: Dynamics of the global economy

Question Status: Previous Edition

- 73) Jane has just sent a gift that was made in the U.S. to her relatives in Italy. As far as the balance of payments is concerned this gift will
- A) have no influence on the balance of payments since it was made in the U.S.
 - B) be part of the capital account since the gift is a physical item.
 - C) be considered an export since it has left the U.S.
 - D) be part of the current account as a unilateral transfer.

Answer: D

Diff: 2

Topic: 33.1 The Balance of Payments and International Capital Movements

AACSB: Dynamics of the global economy

Question Status: Revised

- 74) When there is a negative entry for unilateral transfers in the balance of payments, it means that
- A) there must be an offsetting positive sign in the capital account.
 - B) U.S. residents gave more to foreign residents than foreign residents gave to U.S. residents.
 - C) U.S. residents purchased less services from foreign countries than foreign countries purchased from U.S. residents.
 - D) U.S. residents purchased more services from foreign countries than foreign countries purchased from U.S. residents.

Answer: B

Diff: 1

Topic: 33.1 The Balance of Payments and International Capital Movements

AACSB: Dynamics of the global economy

Question Status: Revised

- 75) Which of the following statements is true about the role of gifts given to U.S. citizens from foreign residents?
- A) Gifts are not included in the balance of payments because of the nature of the gift.
 - B) Gifts are only included in the balance of payments if the gift is given to a government official.
 - C) Gifts are included in the balance of payments.
 - D) Gifts given to U.S. citizens are not included in the balance of payments but gifts given to foreigners are included.

Answer: C

Diff: 1

Topic: 33.1 The Balance of Payments and International Capital Movements

AACSB: Dynamics of the global economy

Question Status: Previous Edition

- 76) The effect that a gift given to a U.S. citizen from a foreign resident will have on the balance of payments is to
- A) increase the current account balance.
 - B) have no effect on the balance of payments if the gift was made in the U.S.
 - C) have no effect on the balance of payments if the gift was made by a foreign country.
 - D) decrease the balance of payments.

Answer: A

Diff: 1

Topic: 33.1 The Balance of Payments and International Capital Movements

AACSB: Dynamics of the global economy

Question Status: Previous Edition

- 77) In the balance of payments, the buying and selling of real and financial assets is represented in
- A) current account.
 - B) capital account.
 - C) labor account.
 - D) official reserve transactions account.

Answer: B

Diff: 1

Topic: 33.1 The Balance of Payments and International Capital Movements

AACSB: Dynamics of the global economy

Question Status: Previous Edition

- 78) The capital account is
- A) the reserve assets created by the International Monetary Fund for countries to use in settling international payment obligations.
 - B) the price of one nation's currency in term of the currency of another country.
 - C) a category of the balance of payments transactions that measures flows of real and financial assets.
 - D) a category of the balance of payments transactions that measures the exchange of merchandise, the exchange of services, and unilateral transfers.

Answer: C

Diff: 1

Topic: 33.1 The Balance of Payments and International Capital Movements

AACSB: Dynamics of the global economy

Question Status: Previous Edition

- 79) Capital account transactions occur
- A) when an U.S. company purchases goods from a foreign company.
 - B) because of cross-border flows of financial assets.
 - C) when you move money from one U.S. bank to another U.S. bank.
 - D) when an U.S. citizen purchases stock in an U.S. corporation.

Answer: B

Diff: 1

Topic: 33.1 The Balance of Payments and International Capital Movements

AACSB: Dynamics of the global economy

Question Status: Previous Edition

- 80) A resident of the U.S. just purchased a share of stock on the London stock market. As far as the U.S. balance of payments this purchase will
- A) have no influence on the balance of payments since stock is not a good or service.
 - B) be entered as a unilateral transfer in the current account.
 - C) be entered in the capital account.
 - D) require special drawing rights.

Answer: C

Diff: 1

Topic: 33.1 The Balance of Payments and International Capital Movements

AACSB: Dynamics of the global economy

Question Status: Previous Edition

Balance of Payments

Exports of Goods	\$1000
Imports of Goods	-665
Exports of Services	410
Imports of Services	-590
Net Unilateral Transfers	-15
US Capital Going Abroad	-600
Capital Coming into US	400
Official Transactions	60

81) Refer to the above table. The balance of trade is

- A) \$1000. B) -\$665. C) +\$335. D) -\$155.

Answer: C

Diff: 2

Topic: 33.1 The Balance of Payments and International Capital Movements

AACSB: Dynamics of the global economy

Question Status: Previous Edition

82) Refer to the above table. The current account balance is

- A) \$140. B) \$155. C) \$170. D) -\$45.

Answer: A

Diff: 2

Topic: 33.1 The Balance of Payments and International Capital Movements

AACSB: Dynamics of the global economy

Question Status: Previous Edition

83) Refer to the above table. The capital account balance is

- A) 0. B) -\$260. C) -\$200. D) -\$155.

Answer: C

Diff: 2

Topic: 33.1 The Balance of Payments and International Capital Movements

AACSB: Dynamics of the global economy

Question Status: Previous Edition

International Transactions

1. U.S. resident buys a German camera	\$300
2. U.S. resident buys stock in a German company	20,000
3. U.S. resident purchases insurance from a German company	1,500
4. U.S. resident sends a present to someone in Germany	200
5. German buys a U.S. car	30,000
6. German family goes to Disney World	3,000

- 84) Based on the transactions in the above table, what is the change in the U.S. balance of trade?
 A) \$11,000 B) \$29,700 C) -\$30,000 D) -\$31,000

Answer: B

Diff: 3

Topic: 33.1 The Balance of Payments and International Capital Movements

AACSB: Dynamics of the global economy

Question Status: Revised

- 85) Based on the transactions in the above table, what is the change in the U.S. capital account?
 A) \$9,800 B) \$10,000 C) -\$20,000 D) -\$20,200

Answer: C

Diff: 3

Topic: 33.1 The Balance of Payments and International Capital Movements

AACSB: Dynamics of the global economy

Question Status: Revised

- 86) Based on the transactions in the above table, what is the change in the U.S. current account balance?
 A) \$31,000 B) \$31,200 C) -\$32,500 D) -\$32,700

Answer: A

Diff: 3

Topic: 33.1 The Balance of Payments and International Capital Movements

AACSB: Dynamics of the global economy

Question Status: Revised

- 87) Refer to the above table. Suppose the transactions in the table are added to a balance of payments account that is already in balance. What will have to take place to keep the balance of payments in balance?
 A) Nothing will have to be done as the accounts are in balance.
 B) Nothing will have to be done as the accounts are in equilibrium.
 C) The U.S. government will have to make official reserve transactions equal to \$11,000.
 D) Foreign governments will have to make official reserve transactions equal to -\$11,000.

Answer: D

Diff: 3

Topic: 33.1 The Balance of Payments and International Capital Movements

AACSB: Dynamics of the global economy

Question Status: Previous Edition

- 88) Suppose the current account of a country is initially in balance. A new transaction occurs so that the current account is now in surplus. Official reserve balance is maintained before and after the transaction occurs. From this, we know that
- A) the balance of trade is now in surplus.
 - B) the balance of goods and services is now in surplus.
 - C) the capital account is now in deficit.
 - D) the government must make official reserve transactions.

Answer: C

Diff: 2

Topic: 33.1 The Balance of Payments and International Capital Movements

AACSB: Dynamics of the global economy

Question Status: Revised

- 89) If there are no interventions by finance ministers or control banks in the international market, then
- A) the current account and the capital account must sum to zero.
 - B) the current account will be greater than the capital market.
 - C) the capital market will be greater than the current account.
 - D) the capital market will equal the current account.

Answer: A

Diff: 1

Topic: 33.1 The Balance of Payments and International Capital Movements

AACSB: Dynamics of the global economy

Question Status: Previous Edition

- 90) One way that countries can settle international payment obligations is
- A) to run a balance of payments surplus.
 - B) to run a balance of payments deficit.
 - C) to use special drawing rights.
 - D) to stop trading.

Answer: C

Diff: 1

Topic: 33.1 The Balance of Payments and International Capital Movements

AACSB: Dynamics of the global economy

Question Status: Previous Edition

- 91) Special Drawing Rights are
- A) financial assets held by the U.S. Treasury Department.
 - B) the new currency for the European Union and a part of official reserves.
 - C) reserve assets created by the International Monetary Fund.
 - D) credits provided by the World Bank that permits less developed countries to borrow international reserves.

Answer: C

Diff: 1

Topic: 33.1 The Balance of Payments and International Capital Movements

AACSB: Dynamics of the global economy

Question Status: Previous Edition

92) Special Drawing Rights are

- A) the reserve assets created by the International Monetary Fund for countries to use in settling international payment obligations.
- B) the price of one nation's currency in term of the currency of another country.
- C) a category of the balance of payments transactions that measures flows of real and financial assets.
- D) a category of the balance of payments transactions that measures the exchange of merchandise, the exchange of services, and unilateral transfers.

Answer: A

Diff: 1

Topic: 33.1 The Balance of Payments and International Capital Movements

AACSB: Dynamics of the global economy

Question Status: Previous Edition

93) An increase in the inflation rate of one country relative to another country will probably cause

- A) an increase in exports for the inflating country.
- B) a balance of trade deficit for the inflating country.
- C) a current account surplus for the inflating country.
- D) an increase in the amount of official reserves held by the inflating country's central bank.

Answer: B

Diff: 2

Topic: 33.1 The Balance of Payments and International Capital Movements

AACSB: Dynamics of the global economy

Question Status: Previous Edition

94) The United States' balance of payments is likely to improve when

- A) there is an increase in political instability in other countries.
- B) the inflation rate in the United States rises relative to other countries.
- C) the American government increases its spending on foreign aid.
- D) American people want to invest more in foreign countries.

Answer: A

Diff: 3

Topic: 33.1 The Balance of Payments and International Capital Movements

AACSB: Dynamics of the global economy

Question Status: Previous Edition

95) When there is political instability in another country, the United States can expect

- A) an increase in the capital account balance due to an increase in the current account.
- B) an increase in the capital account balance due to the movement of assets to the U.S.
- C) a decrease in the balance of payments due to a decrease in special drawing rights.
- D) a decrease in the balance of payments due to a decrease in the demand for goods and services.

Answer: B

Diff: 1

Topic: 33.1 The Balance of Payments and International Capital Movements

AACSB: Dynamics of the global economy

Question Status: Previous Edition

96) Which of the following would NOT be official reserves for Germany?

- A) U.S. dollars
- B) The official currency of Germany
- C) Gold
- D) SDRs

Answer: B

Diff: 2

Topic: 33.1 The Balance of Payments and International Capital Movements

AACSB: Dynamics of the global economy

Question Status: Previous Edition

97) The difference between the exports and imports of goods in a country is referred to as the

- A) balance of payments.
- B) balance of trade.
- C) balance of power.
- D) exchange rate.

Answer: B

Diff: 1

Topic: 33.1 The Balance of Payments and International Capital Movements

AACSB: Dynamics of the global economy

Question Status: Previous Edition

98) The difference between exports and imports of goods is the

- A) balance of trade.
- B) balance of payments.
- C) balance of accounts.
- D) balance of paying.

Answer: A

Diff: 1

Topic: 33.1 The Balance of Payments and International Capital Movements

AACSB: Dynamics of the global economy

Question Status: Previous Edition

99) If the United States exports \$250 billion worth of goods and imports \$420 billion worth of goods,

- A) the balance of payments will be -\$170 billion.
- B) the balance of trade will be -\$170 billion.
- C) the balance of trade will be \$670 billion.
- D) the official reserve transaction will be \$170 billion.

Answer: B

Diff: 1

Topic: 33.1 The Balance of Payments and International Capital Movements

AACSB: Dynamics of the global economy

Question Status: Previous Edition

100) The total of all economic transactions between a nation and the rest of the world is referred to as the

- A) balance of payments.
- B) balance of trade.
- C) balance of power.
- D) exchange rate.

Answer: A

Diff: 1

Topic: 33.1 The Balance of Payments and International Capital Movements

AACSB: Dynamics of the global economy

Question Status: Previous Edition

- 101) Which of the following items is NOT a deficit item in the balance of payments?
- A) imports of merchandise
 - B) sales of domestic assets to foreigners
 - C) purchases of gold from foreigners
 - D) military spending abroad

Answer: B

Diff: 2

Topic: 33.1 The Balance of Payments and International Capital Movements

AACSB: Dynamics of the global economy

Question Status: Previous Edition

- 102) The balance of payments consists of the
- A) current account, capital account, and gold flows.
 - B) current account, official reserve transactions account, and monetary account.
 - C) current account, capital account, and official reserve transactions account.
 - D) capital account, official reserve transactions account, and recent account.

Answer: C

Diff: 1

Topic: 33.1 The Balance of Payments and International Capital Movements

AACSB: Dynamics of the global economy

Question Status: Previous Edition

- 103) If the inflation rate in Japan is higher than the inflation rate in the United States,
- A) there will be an increase in U.S. imports from Japan.
 - B) there will be an increase in Japanese exports to the United States.
 - C) there will be no change in U.S. imports from Japan.
 - D) there will be a decrease in U.S. imports from Japan.

Answer: D

Diff: 2

Topic: 33.1 The Balance of Payments and International Capital Movements

AACSB: Dynamics of the global economy

Question Status: Previous Edition

- 104) Which of the following is NOT a deficit item on the international accounts balance sheet for a country?
- A) imports of merchandise
 - B) military spending abroad
 - C) purchases of foreign currency
 - D) exports of merchandise

Answer: D

Diff: 2

Topic: 33.1 The Balance of Payments and International Capital Movements

AACSB: Dynamics of the global economy

Question Status: Previous Edition

- 105) If residents of the United States give more gifts to relatives abroad than they receive, unilateral transfers will be
- A) positive.
 - B) unaffected.
 - C) negative.
 - D) zeroed out.

Answer: C

Diff: 1

Topic: 33.1 The Balance of Payments and International Capital Movements

AACSB: Dynamics of the global economy

Question Status: Previous Edition

- 106) Assets that the IMF created to be used by countries to settle international payment obligations are called
- A) capital intervention accounts.
- B) foreign currency reserves.
- C) gold reserves.
- D) special drawing rights.

Answer: D

Diff: 1

Topic: 33.1 The Balance of Payments and International Capital Movements

AACSB: Dynamics of the global economy

Question Status: Previous Edition

- 107) All of the following are surplus items in the balance of payments EXCEPT
- A) purchases of foreign assets.
 - B) exports of merchandise.
 - C) foreign tourist expenditures.
 - D) funds deposited in this country by foreign residents.

Answer: A

Diff: 2

Topic: 33.1 The Balance of Payments and International Capital Movements

AACSB: Dynamics of the global economy

Question Status: Previous Edition

- 108) All of the following are deficit items in the balance of payments EXCEPT
- | | |
|----------------------------------|-----------------------------------|
| A) purchases of foreign assets. | B) imports of merchandise. |
| C) foreign tourist expenditures. | D) purchases of foreign currency. |

Answer: C

Diff: 2

Topic: 33.1 The Balance of Payments and International Capital Movements

AACSB: Dynamics of the global economy

Question Status: Previous Edition

- 109) The sum of the current account, the capital account, and the official reserve transaction account is
- A) always positive.
 - B) always negative.
 - C) positive when exports are greater than imports.
 - D) zero.

Answer: D

Diff: 2

Topic: 33.1 The Balance of Payments and International Capital Movements

AACSB: Dynamics of the global economy

Question Status: Previous Edition

- 110) If you go to Europe to work and send funds home to your family living in the United States, this is known as a
- A) service import.
- B) merchandise import.
- C) service export.
- D) unilateral transfer.

Answer: D

Diff: 1

Topic: 33.1 The Balance of Payments and International Capital Movements

AACSB: Dynamics of the global economy

Question Status: Previous Edition

- 111) Currency reserves on account with the International Monetary Fund used to settle accounts between countries are known as
- A) federal reserves.
 - B) official reserve account transactions.
 - C) unilateral transfer.
 - D) special drawing rights.

Answer: D

Diff: 1

Topic: 33.1 The Balance of Payments and International Capital Movements

AACSB: Dynamics of the global economy

Question Status: Previous Edition

- 112) The financing of U.S. export transactions, *ceteris paribus*,
- A) reduces U.S. interest rates.
 - B) reduces the amount of foreign currency held by the Fed.
 - C) reduces U.S. GDP.
 - D) increases the amount of foreign currency held by U.S. banks.

Answer: D

Diff: 2

Topic: 33.1 The Balance of Payments and International Capital Movements

AACSB: Dynamics of the global economy

Question Status: Previous Edition

- 113) The financing of U.S. import transactions, *ceteris paribus*,
- A) reduces U.S. interest rates.
 - B) increases the amount of foreign currency held by the Fed.
 - C) increases U.S. GDP.
 - D) decreases the amount of foreign currency held by U.S. banks.

Answer: D

Diff: 2

Topic: 33.1 The Balance of Payments and International Capital Movements

AACSB: Dynamics of the global economy

Question Status: Previous Edition

- 114) In a nation's balance of payments, the current account includes
- A) the changes in the official reserve transaction account.
 - B) the purchases of foreign assets.
 - C) the balance of the trade account, the balance of the services account, and net unilateral transfers.
 - D) All of the above.

Answer: C

Diff: 1

Topic: 33.1 The Balance of Payments and International Capital Movements

AACSB: Dynamics of the global economy

Question Status: Previous Edition

- 115) A nation's official reserve transaction account
- A) is always a positive number.
 - B) is always a negative number.
 - C) is always equal to zero.
 - D) compensates for the differences in the current and capital accounts.

Answer: D

Diff: 1

Topic: 33.1 The Balance of Payments and International Capital Movements

AACSB: Dynamics of the global economy

Question Status: Previous Edition

- 116) Which of the following combinations is plausible for a nation's balance of payments? (All numbers in billions.)
- A) current account = 10, capital account = 40, official reserve transaction account = 50
 - B) current account = 40, capital account = 20, official reserve transaction account = -50
 - C) current account = 50, capital account = -30, official reserve transaction account = 20
 - D) current account = 30, capital account = -20, official reserve transaction account = -10

Answer: D

Diff: 2

Topic: 33.1 The Balance of Payments and International Capital Movements

AACSB: Dynamics of the global economy

Question Status: Previous Edition

- 117) Which of the following is a surplus item in the U.S. current account?
- A) The U.S. government reduces the tariff rates on some imported goods.
 - B) IBM pays dividends to British shareholders.
 - C) Finn vodka becomes more popular in the United States.
 - D) The U.S. government cuts back on military personnel stationed in S. Korea.

Answer: D

Diff: 2

Topic: 33.1 The Balance of Payments and International Capital Movements

AACSB: Dynamics of the global economy

Question Status: Revised

- 118) Which of the following is a deficit item in the U.S. current account?
- A) Toyota builds a new plant in California.
 - B) Many U.S. residents who previously had not traveled abroad decide to make Mexico a tourist destination.
 - C) A Saudi Arabian prince builds six new homes in California.
 - D) Sony buys a new film studio in Florida.

Answer: B

Diff: 2

Topic: 33.1 The Balance of Payments and International Capital Movements

AACSB: Dynamics of the global economy

Question Status: Revised

Hypothetical Data for Nation "A" in Billions of Local Currency

Exports of goods	50
Imports of goods	-100
Exports of services	80
Imports of services	-20
Net unilateral transfers	-25
Capital account	100
Official reserve transaction accounts	-85

- 119) Refer to the above table. Nation "A" has a balance of trade
 A) deficit of 50. B) surplus of 50. C) deficit of 10. D) surplus of 10.

Answer: A

Diff: 1

Topic: 33.1 The Balance of Payments and International Capital Movements

AACSB: Dynamics of the global economy

Question Status: Previous Edition

- 120) Refer to the above table. Nation "A" has a current account
 A) deficit of 15. B) surplus of 15. C) deficit of 60. D) surplus of 60.

Answer: A

Diff: 1

Topic: 33.1 The Balance of Payments and International Capital Movements

AACSB: Dynamics of the global economy

Question Status: Previous Edition

- 121) Refer to the above table. The overall balance of payments of Nation "A" is
 A) +85. B) - 85. C) 0. D) +25.

Answer: C

Diff: 1

Topic: 33.1 The Balance of Payments and International Capital Movements

AACSB: Dynamics of the global economy

Question Status: Previous Edition

- 122) Suppose that there is a current account deficit of \$255 billion and a capital account surplus of \$245 billion. It may be concluded that the
 A) overall balance of payments is +10.
 B) overall balance of payments is -10.
 C) official reserve transaction account balance is +10.
 D) official reserve transaction account balance is -10.

Answer: C

Diff: 1

Topic: 33.1 The Balance of Payments and International Capital Movements

AACSB: Dynamics of the global economy

Question Status: Previous Edition

- 123) If the United States has a trade deficit with China, then China must have
- A) a trade surplus with countries other than the United States.
 - B) a trade surplus with the United States.
 - C) a trade deficit with countries other than the United States.
 - D) a trade deficit with the United States.

Answer: B

Diff: 1

Topic: 33.1 The Balance of Payments and International Capital Movements

AACSB: Dynamics of the global economy

Question Status: Previous Edition

- 124) All of the following are surplus items on the balance of payments accounts EXCEPT
- A) U.S. residents purchases of gold from foreign residents.
 - B) foreign tourists spending funds in the United States.
 - C) exports of merchandise.
 - D) sales of U.S. dollars to foreign residents.

Answer: A

Diff: 2

Topic: 33.1 The Balance of Payments and International Capital Movements

AACSB: Dynamics of the global economy

Question Status: Previous Edition

- 125) All of the following are deficit items in the balance of payments accounts EXCEPT
- A) U.S. residents purchases of gold from foreign residents.
 - B) U.S. tourists spending funds in Europe.
 - C) exports of merchandise.
 - D) U.S. purchases of foreign companies' stocks and bonds.

Answer: C

Diff: 2

Topic: 33.1 The Balance of Payments and International Capital Movements

AACSB: Dynamics of the global economy

Question Status: Previous Edition

- 126) Suppose U.S. interest rates fall. This reduction in U.S. interest rates will cause which of the following to occur?
- A) an outflow of capital from the United States
 - B) no change in foreign investment in the United States
 - C) an increase in the value (appreciation) of the U.S. dollar
 - D) an inflow of capital to the United States

Answer: A

Diff: 1

Topic: 33.1 The Balance of Payments and International Capital Movements

AACSB: Dynamics of the global economy

Question Status: Previous Edition

127) How are deficit and surplus items determined in the balance of payments?

Answer: Any transaction that leads to a payment by a country's residents or government is a deficit item and any transaction that leads to a receipt by a country's residents or government is a surplus item.

Diff: 1

Topic: 33.1 The Balance of Payments and International Capital Movements

AACSB: Dynamics of the global economy

Question Status: Previous Edition

128) Distinguish between the balance of payments and the balance of trade.

Answer: The balance of payments is a summary record of a country's economic transactions with foreign residents and governments over a year. As such, it takes into consideration all types of transactions. The balance of trade refers only to the value to goods and services bought and sold in the world market. The balance of trade makes up a portion of the balance of payments.

Diff: 2

Topic: 33.1 The Balance of Payments and International Capital Movements

AACSB: Dynamics of the global economy

Question Status: Previous Edition

129) "When the balance of payments sums to zero is the only situation in which there is an equilibrium." Do you agree or disagree? Why?

Answer: Disagree. The balance of payments are always in balance because of double-entry bookkeeping. The methods used to pay for imports may or may not be an equilibrium. Some ways of financing international transactions can persist indefinitely while others cannot.

Diff: 2

Topic: 33.1 The Balance of Payments and International Capital Movements

AACSB: Dynamics of the global economy

Question Status: Previous Edition

130) Suppose there was a substantial increase in political instability in the rest of the world. What would be the effects on the U.S. current account? Explain.

Answer: Increased instability in the rest of the world would lead to capital flight out of the unstable areas. This will mean the capital account balance will be more in surplus and the current account balance more in deficit.

Diff: 3

Topic: 33.1 The Balance of Payments and International Capital Movements

AACSB: Dynamics of the global economy

Question Status: Previous Edition

131) Explain the three categories of balance of payments transactions.

Answer: Current account transactions relate to sales and purchases of goods and services. These include goods, services, and unilateral transfers. The capital account consists of transactions involving financial assets. If there are no official reserve transactions, the sum of the current account and the capital account is zero. Official reserve transactions involve payments or receipts of official reserves by the government. If the United States is running a deficit so that foreigners are turning dollars in for reserves, the official reserves of the government will decrease.

Diff: 3

Topic: 33.1 The Balance of Payments and International Capital Movements

AACSB: Dynamics of the global economy

Question Status: Revised

132) Suppose the U.S. inflation rate falls while the inflation rate among the members of the European Monetary Union (EMU) holds constant. Other things equal, what will happen in the balance of payments accounts?

Answer: The lower inflation rate in the U.S. relative to the EMU makes U.S. goods and services a little cheaper, increasing exports and decreasing imports. The current account balance will improve.

Diff: 2

Topic: 33.1 The Balance of Payments and International Capital Movements

AACSB: Dynamics of the global economy

Question Status: Previous Edition

33.2 Determining Foreign Exchange Rates

1) Exchanging dollars for euros to pay a computer manufacturer in Belgium would occur

- | | |
|------------------------------------|------------------------------------|
| A) in the foreign exchange market. | B) at the Federal Reserve. |
| C) at the European Central Bank. | D) in the letter of credit market. |

Answer: A

Diff: 1

Topic: 33.2 Determining Foreign Exchange Rates

AACSB: Dynamics of the global economy

Question Status: Previous Edition

2) The foreign exchange rate describes the

- A) balance of trade.
- B) balance of payments.
- C) law of comparative advantage.
- D) price of foreign currency in terms of domestic currency.

Answer: D

Diff: 1

Topic: 33.2 Determining Foreign Exchange Rates

AACSB: Dynamics of the global economy

Question Status: Previous Edition

3) Changes in which of the following will cause a change in exchange rates?

- A) real interest rates
- B) consumer preferences
- C) perceptions of economic and political stability
- D) All of the above

Answer: D

Diff: 1

Topic: 33.2 Determining Foreign Exchange Rates

AACSB: Dynamics of the global economy

Question Status: Previous Edition

4) If the exchange rate is such that \$1 equals 5 Indian rupees, then the price of a rupee is

- A) \$5.
- B) \$1.
- C) \$0.40.
- D) \$0.20.

Answer: D

Diff: 1

Topic: 33.2 Determining Foreign Exchange Rates

AACSB: Dynamics of the global economy

Question Status: Previous Edition

5) Suppose that the current exchange rate between the dollar and peso is \$1 equals 10 pesos. If a firm in Mexico wanted to purchase \$100,000 worth of U.S. televisions, how many pesos must they exchange?

- A) 10,000 pesos
- B) 100,000 pesos
- C) 1,000,000 pesos
- D) 11,000,000 pesos

Answer: C

Diff: 1

Topic: 33.2 Determining Foreign Exchange Rates

AACSB: Dynamics of the global economy

Question Status: Previous Edition

6) Suppose that the current exchange rate between the dollar and peso is \$1 equals 10 pesos. If the exchange rate changes to \$1 equals 8 pesos, which of the following is true?

- A) The dollar depreciates and U.S. exports become cheaper.
- B) The dollar appreciates and U.S. exports become cheaper.
- C) The peso depreciates and imports from Mexico become cheaper.
- D) The peso appreciates and imports from Mexico become cheaper.

Answer: C

Diff: 1

Topic: 33.2 Determining Foreign Exchange Rates

AACSB: Dynamics of the global economy

Question Status: Previous Edition

7) Assume that \$1 equals 100 yen (¥). A Japanese visitor to the United States wants to pay her \$400 hotel bill. How many yen should she exchange in order to have enough dollars to pay the bill?

- A) ¥4
- B) ¥40
- C) ¥4,000
- D) ¥40,000

Answer: D

Diff: 2

Topic: 33.2 Determining Foreign Exchange Rates

AACSB: Dynamics of the global economy

Question Status: Previous Edition

- 8) Checking exchange rates, you find \$1 equals 0.75 euros. Then the price of 1 euro is _____.
A) \$0.25 B) \$0.75 C) \$1.33 D) \$4.30

Answer: C

Diff: 2

Topic: 33.2 Determining Foreign Exchange Rates

AACSB: Dynamics of the global economy

Question Status: Previous Edition

- 9) Every transaction concerning the exportation of U.S. goods constitutes a
A) demand for dollars, with no effect on markets for foreign currencies.
B) supply of foreign currency, with no effect on the market for dollars.
C) supply of foreign currency and demand for dollars.
D) demand for foreign currency and a supply of dollars.

Answer: C

Diff: 2

Topic: 33.2 Determining Foreign Exchange Rates

AACSB: Dynamics of the global economy

Question Status: Previous Edition

- 10) Flexible exchange rates exist when
A) no one knows what the true value of a currency is.
B) governments and central banks spend foreign reserves to prop up an exchange rate at a certain level.
C) exchange rates are determined by forces of supply and demand.
D) speculators bet that a currency will soon be depreciated.

Answer: C

Diff: 1

Topic: 33.2 Determining Foreign Exchange Rates

AACSB: Dynamics of the global economy

Question Status: Previous Edition

- 11) Exchange rates that are allowed to fluctuate in the open market in response to changes in supply and demand are known as
A) fixed exchange rates. B) gold exchange rates.
C) flexible exchange rates. D) IMF exchange rates.

Answer: C

Diff: 1

Topic: 33.2 Determining Foreign Exchange Rates

AACSB: Dynamics of the global economy

Question Status: Previous Edition

- 12) Assume there is an increased demand in the United States for Australian wines. If all other factors are held constant, this will result in
- A) an increase in the U.S. dollar exchange rate for Australian dollars.
 - B) an appreciation of the U.S. dollar.
 - C) a movement along the demand curve for Australian wine.
 - D) a decrease in the par value of the Australian dollar.

Answer: A

Diff: 1

Topic: 33.2 Determining Foreign Exchange Rates

AACSB: Dynamics of the global economy

Question Status: Previous Edition

- 13) One source of the supply of dollars in the foreign exchange market is
- A) U.S. companies importing foreign goods.
 - B) foreign citizens buying U.S. goods.
 - C) SDRs being converted into dollars.
 - D) the U.S. Mint buying dollars from the Bank of England.

Answer: A

Diff: 1

Topic: 33.2 Determining Foreign Exchange Rates

AACSB: Dynamics of the global economy

Question Status: Previous Edition

- 14) Flexible exchange rates are determined by
- A) the government of the exporting country.
 - B) the government of the importing country.
 - C) the forces of supply and demand.
 - D) the IMF.

Answer: C

Diff: 1

Topic: 33.2 Determining Foreign Exchange Rates

AACSB: Dynamics of the global economy

Question Status: Previous Edition

- 15) Under a flexible exchange rate system, a decrease in the value of a domestic currency in terms of foreign currencies is referred to as
- A) an appreciation.
 - B) a depreciation.
 - C) a devaluation.
 - D) a revaluation.

Answer: B

Diff: 1

Topic: 33.2 Determining Foreign Exchange Rates

AACSB: Dynamics of the global economy

Question Status: Previous Edition

- 16) The demand for foreign currency in the United States is a
- A) direct demand.
 - B) derived demand based on the demand for U.S. products.
 - C) derived demand based on the demand for foreign products.
 - D) direct demand based on the demand for U.S. dollars.

Answer: C

Diff: 1

Topic: 33.2 Determining Foreign Exchange Rates

AACSB: Dynamics of the global economy

Question Status: Previous Edition

- 17) Suppose the exchange rate was \$0.30 for one Argentine peso. If the exchange rate falls to \$0.20 for one peso, we would expect to see
- A) more exports to Argentina since the price of the peso has risen.
 - B) fewer exports to Argentina since the price of the peso has risen.
 - C) more U.S. imports from Argentina since the price of the peso has fallen.
 - D) more U.S. exports since the price of the dollar has fallen.

Answer: C

Diff: 1

Topic: 33.2 Determining Foreign Exchange Rates

AACSB: Dynamics of the global economy

Question Status: Previous Edition

- 18) In a flexible exchange rate system, which of the following would NOT cause the U.S. dollar to depreciate relative to the British pound?
- A) A decrease in demand for British goods in the United States
 - B) An increase in demand for British goods in the United States
 - C) A decrease in British demand for U.S. exports
 - D) A shift to the left in the supply of British goods to the United States

Answer: A

Diff: 1

Topic: 33.2 Determining Foreign Exchange Rates

AACSB: Dynamics of the global economy

Question Status: Previous Edition

- 19) An increase in the value of a domestic currency in terms of other currencies is known as
- A) an appreciation.
 - B) a depreciation.
 - C) a flexible exchange rate.
 - D) a discount rate.

Answer: A

Diff: 1

Topic: 33.2 Determining Foreign Exchange Rates

AACSB: Dynamics of the global economy

Question Status: Previous Edition

- 20) The supply of U.S. dollars on foreign exchange markets is
- A) determined directly by open market operations at the Federal Reserve Bank.
 - B) derived from the demand for U.S. products by foreigners.
 - C) derived from the supply of U.S. goods.
 - D) derived from the demand by United States for imported goods and services.

Answer: D

Diff: 2

Topic: 33.2 Determining Foreign Exchange Rates

AACSB: Dynamics of the global economy

Question Status: Previous Edition

- 21) What happens if the Brazilian real appreciates relative to the U.S. dollar?
- A) Brazilians will buy fewer U.S. goods, which generates an increase in the quantity supplied of dollars.
 - B) The quantity demanded of reals increases as U.S. residents want to buy more Brazilian products.
 - C) The quantity of reals supplied increases because the lower price (in reals) for U.S. goods induces Brazilians to buy more U.S. products.
 - D) The U.S. Federal Reserve Bank increases the supply of dollars to the world economy.

Answer: C

Diff: 3

Topic: 33.2 Determining Foreign Exchange Rates

AACSB: Dynamics of the global economy

Question Status: Previous Edition

- 22) An increase in the demand for the Brazilian real induces
- A) an increase in the demand for Brazilian goods.
 - B) a decrease in the supply of dollars.
 - C) an increase in the real price of a dollar.
 - D) an increase in the dollar price of a real.

Answer: D

Diff: 2

Topic: 33.2 Determining Foreign Exchange Rates

AACSB: Dynamics of the global economy

Question Status: Previous Edition

- 23) Under a flexible exchange rate system, an increase in the value of the U.S. dollar in terms of other currencies is referred to as
- A) a depreciation of the U.S. dollar.
 - B) an appreciation of the U.S. dollar.
 - C) a monetizing of the U.S. dollar.
 - D) a devaluation of the U.S. dollar.

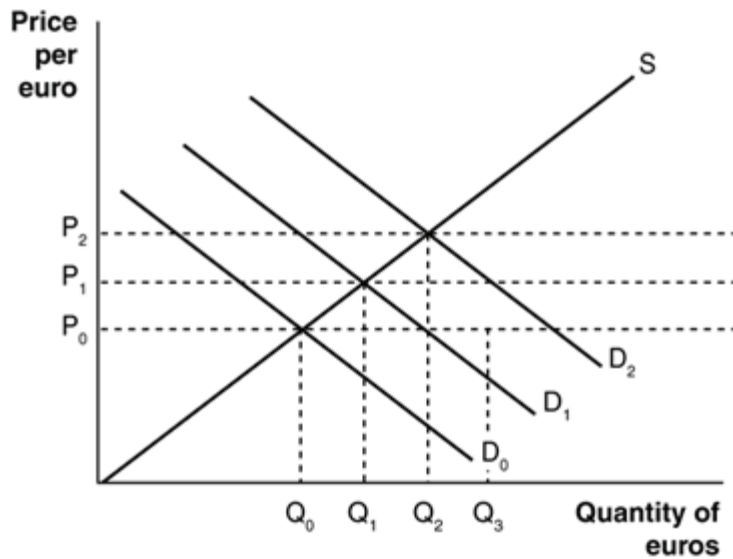
Answer: B

Diff: 1

Topic: 33.2 Determining Foreign Exchange Rates

AACSB: Dynamics of the global economy

Question Status: Previous Edition



- 24) In the above figure, which of the following is a possible explanation for the reduction in the equilibrium value of the European euro from P_2 to P_1 ?
- A) An increase in demand for French automobiles
 - B) The European central bank's decision to buy euros on the world market
 - C) A decrease in the price of California wines, assuming that French wines and California wines are substitutes
 - D) An increase in the price of California wines, assuming that French wines and California wine are substitutes

Answer: C

Diff: 1

Topic: 33.2 Determining Foreign Exchange Rates

AACSB: Dynamics of the global economy

Question Status: Previous Edition

- 25) In the above figure, suppose the value of the European euro is P_1 and U.S. demand for French wine declines. The effect on the franc can be shown by
- A) an increase in the value of the euro to P_2 .
 - B) the excess demand of euro equal to $Q_3 - Q_1$.
 - C) the decrease in the value of the euro to P_0 .
 - D) a shift in the demand for euros from D_1 to D_0 , but no change in the value of the euro.

Answer: C

Diff: 2

Topic: 33.2 Determining Foreign Exchange Rates

AACSB: Dynamics of the global economy

Question Status: Previous Edition

26) Which of the following would NOT increase German exports to the United States?

- A) An appreciation of the U.S. dollar
- B) A depreciation of the euro
- C) An appreciation of the euro
- D) An increase in German demand for U.S. exports

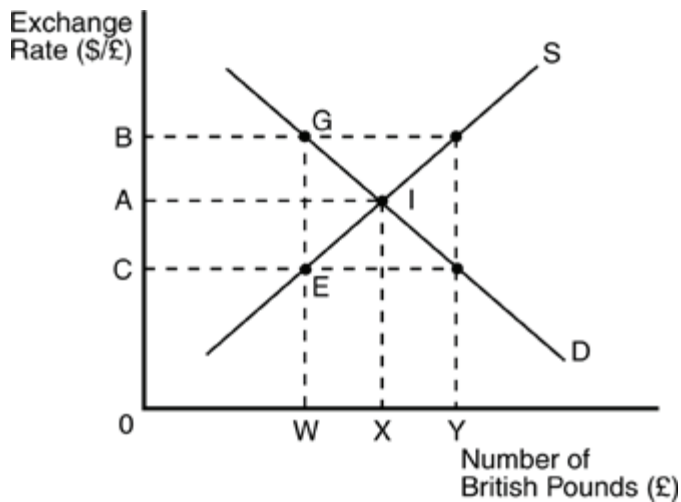
Answer: C

Diff: 1

Topic: 33.2 Determining Foreign Exchange Rates

AACSB: Dynamics of the global economy

Question Status: Previous Edition



27) In the above figure, the equilibrium exchange rate between U.S. dollars and British pounds is

- A) A.
- B) B.
- C) C.
- D) W.

Answer: A

Diff: 1

Topic: 33.2 Determining Foreign Exchange Rates

AACSB: Dynamics of the global economy

Question Status: Previous Edition

28) A depreciation of the U.S. dollar relative to the euro would tend to

- A) increase U.S. imports from Germany.
- B) increase U.S. exports to Germany.
- C) decrease U.S. exports to Germany.
- D) increase both U.S. imports from Germany and U.S. exports to Germany.

Answer: B

Diff: 1

Topic: 33.2 Determining Foreign Exchange Rates

AACSB: Dynamics of the global economy

Question Status: Previous Edition

- 29) The Japanese yen will appreciate against the dollar if
- A) U.S. residents demand more Japanese goods.
 - B) U.S. residents demand fewer Japanese goods.
 - C) Japanese residents demand more U.S. goods.
 - D) None of the above.

Answer: A

Diff: 2

Topic: 33.2 Determining Foreign Exchange Rates

AACSB: Dynamics of the global economy

Question Status: Previous Edition

- 30) As the dollar price of a euro falls,
- A) U.S. residents will purchase fewer French imports.
 - B) the quantity of euros supplied will increase.
 - C) French goods will be less expensive to U.S. residents.
 - D) French residents will increase their purchases of U.S. assets.

Answer: C

Diff: 1

Topic: 33.2 Determining Foreign Exchange Rates

AACSB: Dynamics of the global economy

Question Status: Previous Edition

- 31) As the dollar price of the euro increases,
- A) the demand for euros will increase.
 - B) the price of French goods will fall for U.S. residents.
 - C) French residents will purchase more U.S. goods.
 - D) U. S. residents will increase their travel to France.

Answer: C

Diff: 1

Topic: 33.2 Determining Foreign Exchange Rates

AACSB: Dynamics of the global economy

Question Status: Previous Edition

- 32) If there is an outward shift in U.S. demand for French goods, the result will be
- A) a decrease in the dollar price of a euro.
 - B) an inward shift in French demand for U.S. goods.
 - C) a decrease in euros traded.
 - D) an increase in the dollar price of a euro.

Answer: D

Diff: 1

Topic: 33.2 Determining Foreign Exchange Rates

AACSB: Dynamics of the global economy

Question Status: Previous Edition

- 33) Which of the following will lead to a depreciation of the U.S. dollar against the British pound?
- A) An increase in British demand for U.S. imports
 - B) An increase in U.S. interest rates
 - C) A decrease in British demand for U.S. assets
 - D) A decrease in U.S. demand for British goods

Answer: C

Diff: 1

Topic: 33.2 Determining Foreign Exchange Rates

AACSB: Dynamics of the global economy

Question Status: Previous Edition

- 34) If U.S. residents boycotts French goods, this will
- A) reduce the demand for euros in the foreign exchange market.
 - B) increase the demand for euros in the foreign exchange market.
 - C) cause the euro to appreciate.
 - D) have no effect on the euro.

Answer: A

Diff: 2

Topic: 33.2 Determining Foreign Exchange Rates

AACSB: Dynamics of the global economy

Question Status: Previous Edition

- 35) Which of the following will lead to an appreciation of the U.S. dollar against the British pound?
- A) An increase in British demand for U.S. imports
 - B) An increase in U.S. demand for British imports
 - C) An increase in British interest rates
 - D) A decrease in British demand for U.S. assets

Answer: A

Diff: 1

Topic: 33.2 Determining Foreign Exchange Rates

AACSB: Dynamics of the global economy

Question Status: Previous Edition

- 36) When the dollar price of a British pound is \$0.20, it is correct to state that an American traveling in England will receive _____ pounds per dollar.
- A) 2 B) 4 C) 5 D) 20

Answer: C

Diff: 1

Topic: 33.2 Determining Foreign Exchange Rates

AACSB: Dynamics of the global economy

Question Status: Previous Edition

- 37) When a dinner in Bulgaria costs 150 Bulgarian levass, it will cost a U.S. resident _____ dollars, if the exchange rate is 1.5 Bulgarian levass to the dollar.
- A) \$10 B) \$75 C) \$120 D) \$150

Answer: B

Diff: 2

Topic: 33.2 Determining Foreign Exchange Rates

AACSB: Dynamics of the global economy

Question Status: Previous Edition

38) Under a flexible exchange rate system, an increase in the value of a domestic currency in terms of other currencies is referred to as

- A) an appreciation.
- B) a depreciation.
- C) a devaluation.
- D) a revaluation.

Answer: A

Diff: 1

Topic: 33.2 Determining Foreign Exchange Rates

AACSB: Dynamics of the global economy

Question Status: Previous Edition

39) If the foreign exchange rate for 1 Hungarian forint is 0.5 cent, then

- A) a dinner priced at 400 forints will cost \$20.
- B) a wine that sells for 600 forints will cost \$3,000.
- C) a Big Mac hamburger priced at 50 forints will cost \$1.
- D) a hotel room renting for 40,000 forints will cost \$200.

Answer: D

Diff: 1

Topic: 33.2 Determining Foreign Exchange Rates

AACSB: Dynamics of the global economy

Question Status: Previous Edition

40) Demand for the Brazilian real is

- A) determined by how well the real maintains its value.
- B) a function of the Brazilian banking system.
- C) derived from the supply of U.S. dollars.
- D) derived from the demand for Brazilian goods.

Answer: D

Diff: 2

Topic: 33.2 Determining Foreign Exchange Rates

AACSB: Dynamics of the global economy

Question Status: Previous Edition

41) An increase in the U.S. interest rate will most likely

- A) reduce the attractiveness of investment in the United States.
- B) lead to a decrease in the value of the U.S. dollar.
- C) lead to an inflow of funds to the United States and an appreciation of the dollar.
- D) provide a stimulus to U.S. export industries.

Answer: C

Diff: 2

Topic: 33.2 Determining Foreign Exchange Rates

AACSB: Dynamics of the global economy

Question Status: Previous Edition

42) Under a flexible exchange rate system, one factor that does NOT directly affect rates of exchange is

- A) changes in the inflation rate in each country.
- B) changes in productivity in each country.
- C) changes in gold holdings in each country.
- D) changes in economic stability in each country.

Answer: C

Diff: 1

Topic: 33.2 Determining Foreign Exchange Rates

AACSB: Dynamics of the global economy

Question Status: Previous Edition

43) All of the following are market determinants of exchange rates EXCEPT

- A) changes in productivity in one country relative to another.
- B) changes in real interest rates in one country relative to another.
- C) changes in product preferences between countries.
- D) changes in the relative prices of goods and services within a country.

Answer: D

Diff: 1

Topic: 33.2 Determining Foreign Exchange Rates

AACSB: Dynamics of the global economy

Question Status: Revised

44) If the United States looks more economically and politically stable relative to the rest of the world, this will

- A) decrease the demand for dollars.
- B) increase the demand for dollars.
- C) have no effect on the demand for dollars.
- D) stop all trading between the currencies of the United States and other countries.

Answer: B

Diff: 1

Topic: 33.2 Determining Foreign Exchange Rates

AACSB: Dynamics of the global economy

Question Status: Previous Edition

45) Other things being constant, if the U.S. real rate of interest exceeds that of its trading partners, we expect

- A) political instability in the United States.
- B) a worsening of the U.S. balance of payments.
- C) an appreciation of U.S. currency.
- D) that a "dirty float" will emerge.

Answer: C

Diff: 1

Topic: 33.2 Determining Foreign Exchange Rates

AACSB: Dynamics of the global economy

Question Status: Previous Edition

- 46) The demand for dollars will increase when
- A) real interest rates in the United States fall.
 - B) U.S. labor productivity increases relative to the world.
 - C) the world is perceived as more stable than it used to be.
 - D) U.S. residents develop a taste for more imported products.

Answer: B

Diff: 2

Topic: 33.2 Determining Foreign Exchange Rates

AACSB: Dynamics of the global economy

Question Status: Previous Edition

- 47) The market in which households, firms and governments buy and sell national currencies is known as
- A) the foreign exchange market.
 - B) standard drawing rights.
 - C) the exchange rate.
 - D) flexible exchange rates.

Answer: A

Diff: 1

Topic: 33.2 Determining Foreign Exchange Rates

AACSB: Dynamics of the global economy

Question Status: Previous Edition

- 48) The foreign exchange market is
- A) a market in which exchange rates are allowed to fluctuate in the open market in response to changes in supply and demand.
 - B) the increase in the exchange value of one nation's currency in terms of an other nation.
 - C) a market in which households, firms, and governments buy and sell national currencies.
 - D) the decrease in the exchange value of one nation's currency in terms of another nation.

Answer: C

Diff: 1

Topic: 33.2 Determining Foreign Exchange Rates

AACSB: Dynamics of the global economy

Question Status: Previous Edition

- 49) Caitlin has just decided to order a computer that is made in Japan. She needs to convert U.S. dollars for Japanese yen. This conversion takes place in the
- A) International Monetary Fund.
 - B) target zone.
 - C) foreign exchange markets.
 - D) SDRs.

Answer: C

Diff: 2

Topic: 33.2 Determining Foreign Exchange Rates

AACSB: Dynamics of the global economy

Question Status: Previous Edition

50) Exchange rates that are allowed to fluctuate in response to changes in supply and demand is known as

- A) the foreign exchange markets.
- B) standard drawing rights.
- C) fixed exchange rates.
- D) flexible exchange rates.

Answer: D

Diff: 1

Topic: 33.2 Determining Foreign Exchange Rates

AACSB: Dynamics of the global economy

Question Status: Previous Edition

51) The price of one currency in terms of another currency is called

- A) foreign reserves.
- B) the foreign exchange rate.
- C) the foreign trade deficit.
- D) the balance of payments.

Answer: B

Diff: 1

Topic: 33.2 Determining Foreign Exchange Rates

AACSB: Dynamics of the global economy

Question Status: Previous Edition

52) The price of one currency in terms of another is the

- A) price of gold.
- B) price of a SDR.
- C) foreign exchange rate.
- D) price of foreign stock.

Answer: C

Diff: 1

Topic: 33.2 Determining Foreign Exchange Rates

AACSB: Dynamics of the global economy

Question Status: Previous Edition

53) If the foreign exchange rate is 70 cents for one Swiss franc, then

- A) a car that costs 40,000 francs will cost \$7,143.00.
- B) a wine that costs 200 francs will cost \$14.00.
- C) a clock that costs 500 francs will cost \$350.00.
- D) a house that costs 100,000 francs will cost \$700,000.00.

Answer: C

Diff: 2

Topic: 33.2 Determining Foreign Exchange Rates

AACSB: Dynamics of the global economy

Question Status: Previous Edition

54) If the foreign exchange rate is one dollar for 10 South African rand, then how many dollars are needed to purchase an item that costs 400 rand?

- A) 10
- B) 40
- C) 400
- D) 4,000

Answer: B

Diff: 1

Topic: 33.2 Determining Foreign Exchange Rates

AACSB: Dynamics of the global economy

Question Status: Previous Edition

- 55) The demand for Canadian cheese by a U.S. store is also a
- A) demand for Canadian dollars.
 - B) demand for SDRs.
 - C) supply of U.S. dollars.
 - D) supply of Canadian dollars.

Answer: A

Diff: 2

Topic: 33.2 Determining Foreign Exchange Rates

AACSB: Dynamics of the global economy

Question Status: Previous Edition

- 56) Every transaction concerning the importation of goods into the United States constitutes a
- A) supply of foreign currency with no effect on the market for the dollar.
 - B) demand for dollars with no effect on markets for foreign currencies.
 - C) supply of foreign currencies and a demand for dollars.
 - D) demand for foreign currencies and a supply of dollars.

Answer: D

Diff: 2

Topic: 33.2 Determining Foreign Exchange Rates

AACSB: Dynamics of the global economy

Question Status: Previous Edition

- 57) Every transaction concerning the exportation of goods from the United States constitutes a
- A) supply of foreign currency with no effect on the market for the dollar.
 - B) demand for dollars with no effect on markets for foreign currencies.
 - C) supply of foreign currencies and a demand for dollars.
 - D) demand for foreign currencies and a supply of dollars.

Answer: C

Diff: 2

Topic: 33.2 Determining Foreign Exchange Rates

AACSB: Dynamics of the global economy

Question Status: Previous Edition

- 58) If the price of the Brazilian real is 60 cents and a U.S. resident purchases a Brazilian-manufactured item for 60,000 real, there will be
- A) a quantity demanded of 60,000 real and a quantity supplied of \$60,000.
 - B) a quantity demanded of 60,000 real and a quantity supplied of \$36,000.
 - C) a quantity demanded of 60,000 real, but we cannot determine the effect in the market for dollars.
 - D) a quantity supplied of 60,000 real and a quantity demanded of 60,000 yen.

Answer: B

Diff: 3

Topic: 33.2 Determining Foreign Exchange Rates

AACSB: Dynamics of the global economy

Question Status: Previous Edition

- 59) The term "flexible exchange rates" refers to
- A) a situation in which exchange rates are allowed to fluctuate in the open market in response to changes in supply and demand.
 - B) the increase in the exchange value of one nation's currency in terms of another nation.
 - C) a nation in which households, firms, and governments buy and sell national currencies.
 - D) the decrease in the exchange value of one nation's currency in terms of another nation.

Answer: A

Diff: 1

Topic: 33.2 Determining Foreign Exchange Rates

AACSB: Dynamics of the global economy

Question Status: Previous Edition

- 60) Under flexible exchange rates, the exchange rate is set by
- A) the International Monetary Fund.
 - B) the U.S. Federal Reserve's Board of Governors.
 - C) the intersection of demand and supply curves in the currency markets.
 - D) negotiations among central banks of the major industrial powers.

Answer: C

Diff: 2

Topic: 33.2 Determining Foreign Exchange Rates

AACSB: Dynamics of the global economy

Question Status: Previous Edition

- 61) Flexible exchange rates occur when
- A) speculators bet that a currency will soon depreciate.
 - B) governments and central banks spend foreign exchange to prop an exchange rate at a certain level.
 - C) no one knows the true value of a currency.
 - D) exchange rates are determined by forces of supply and demand.

Answer: D

Diff: 1

Topic: 33.2 Determining Foreign Exchange Rates

AACSB: Dynamics of the global economy

Question Status: Previous Edition

- 62) Suppose the U.S. dollar price of the Japanese yen decreases. Given this information, which of the following is correct?
- A) the dollar has appreciated.
 - B) the dollar has depreciated.
 - C) the yen has appreciated.
 - D) the yen price of the dollar decreased.

Answer: A

Diff: 1

Topic: 33.2 Determining Foreign Exchange Rates

AACSB: Dynamics of the global economy

Question Status: Previous Edition

- 63) An appreciation of a nation's currency is
- A) a situation in which exchange rates are allowed to fluctuate in the open market in response to changes in supply and demand.
 - B) the increase in the exchange value of one nation's currency in terms of an other nation.
 - C) a nation in which households, firms, and governments buy and sell national currencies.
 - D) the decrease in the exchange value of one nation's currency in terms of another nation.

Answer: B

Diff: 1

Topic: 33.2 Determining Foreign Exchange Rates

AACSB: Dynamics of the global economy

Question Status: Previous Edition

- 64) A depreciation of a nation's currency is
- A) a situation in which exchange rates are allowed to fluctuate in the open market in response to changes in supply and demand.
 - B) the increase in the exchange value of one nation's currency in terms of an other nation.
 - C) a nation in which households, firms, and governments buy and sell national currencies.
 - D) the decrease in the exchange value of one nation's currency in terms of another nation.

Answer: D

Diff: 1

Topic: 33.2 Determining Foreign Exchange Rates

AACSB: Dynamics of the global economy

Question Status: Previous Edition

- 65) A U.S. automobile dealer has ordered a fleet of Japanese cars worth 10 million yen. The terms of payment is C.O.D. (cash on delivery). At the time the order was placed, the exchange rate was 100 yen per U.S. dollar. When the fleet arrived the exchange rate had become 200 yen per U.S. dollar.
- A) This change in the foreign exchange rate will hurt the U.S. importer.
 - B) This change in the foreign exchange rate will hurt the Japanese exporter.
 - C) This change in the foreign exchange rate will benefit the U.S. importer.
 - D) This change in the foreign exchange rate will benefit the Japanese exporter.

Answer: C

Diff: 1

Topic: 33.2 Determining Foreign Exchange Rates

AACSB: Dynamics of the global economy

Question Status: Previous Edition

- 66) The supply of dollars in foreign exchange markets is
- A) determined by the Federal Reserve's Board of Governors.
 - B) determined by the demand for U.S. goods.
 - C) determined by the U.S. demand for foreign goods.
 - D) a function of the international banking system.

Answer: C

Diff: 2

Topic: 33.2 Determining Foreign Exchange Rates

AACSB: Dynamics of the global economy

Question Status: Previous Edition

- 67) If the dollar used to buy 360 yen and now buys 100 yen, there has been
- A) a decrease in the demand for yen.
 - B) depreciation of the yen.
 - C) depreciation of the dollar.
 - D) appreciation of the dollar.

Answer: C

Diff: 2

Topic: 33.2 Determining Foreign Exchange Rates

AACSB: Dynamics of the global economy

Question Status: Previous Edition

- 68) If the dollar used to buy 100 yen and now buys 360 yen, there has been
- A) appreciation of the dollar.
 - B) depreciation of the dollar.
 - C) appreciation of the yen.
 - D) an increase in special drawing rights.

Answer: A

Diff: 1

Topic: 33.2 Determining Foreign Exchange Rates

AACSB: Dynamics of the global economy

Question Status: Previous Edition

- 69) If people in the United States buy more of a foreign good when its price falls, then
- A) the demand curve for U.S. dollars will slope up.
 - B) the supply curve for U.S. dollars will slope up.
 - C) the exchange rate will increase when there is inflation.
 - D) fixed exchange rates will make foreign exchange markets more efficient.

Answer: B

Diff: 3

Topic: 33.2 Determining Foreign Exchange Rates

AACSB: Dynamics of the global economy

Question Status: Previous Edition

- 70) An appreciation of the U.S. dollar relative to the Japanese yen causes
- A) A lower dollar-price of Japanese goods which induces the U.S. to increase their purchasing of Japanese goods.
 - B) the quantity demanded of U.S. dollars to increase because the Japanese want to buy more U.S. goods.
 - C) the Japanese to buy more U.S. goods, causing the dollars to appreciate further.
 - D) the U.S. to buy less Japanese goods, causing the U.S. to depreciate.

Answer: A

Diff: 3

Topic: 33.2 Determining Foreign Exchange Rates

AACSB: Dynamics of the global economy

Question Status: Previous Edition

- 71) An increase in the U.S. demand for Japanese yen causes
- A) an increase in the dollar price of a yen.
 - B) an increase in the yen price of a dollar.
 - C) an increase in the demand for U.S. goods.
 - D) a decrease in the supply of yens.

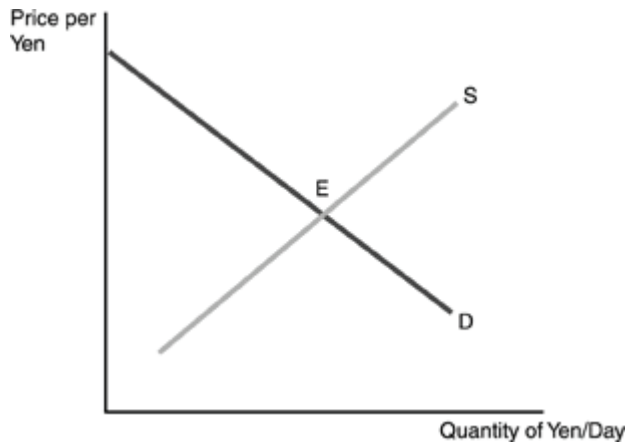
Answer: A

Diff: 2

Topic: 33.2 Determining Foreign Exchange Rates

AACSB: Dynamics of the global economy

Question Status: Previous Edition



- 72) Refer to the above figure. Suppose E is the original equilibrium. An increase in the U.S. demand for Japanese-made goods will lead to
- A) a depreciation of the yen and an increase in the quantity of yen sold per week.
 - B) a depreciation of the yen and a decrease in the quantity of yen sold per week.
 - C) an appreciation of the yen and an increase in the quantity of yen sold per week.
 - D) an appreciation of the yen and a decrease in the quantity of yen sold per week.

Answer: A

Diff: 3

Topic: 33.2 Determining Foreign Exchange Rates

AACSB: Dynamics of the global economy

Question Status: Revised

- 73) Refer to the above figure. Suppose E is the original equilibrium. Japanese residents have increased their demand for U.S. goods. This will lead to
- A) a depreciation of the yen and an increase in the quantity of yens sold per week.
 - B) a depreciation of the yen and a decrease in the quantity of yens sold per week.
 - C) an appreciation of the yen and an increase in the quantity of yens sold per week.
 - D) an appreciation of the yen and a decrease in the quantity of yens sold per week.

Answer: C

Diff: 1

Topic: 33.2 Determining Foreign Exchange Rates

AACSB: Dynamics of the global economy

Question Status: Previous Edition

- 74) Refer to the above figure. Suppose E is the original equilibrium. An increase in the demand for dollars will be reflected in this figure by
- A) an increase in the demand for yen as both imports and exports increase.
 - B) a decrease in the demand for yen as the U.S. balance of payments improves.
 - C) an increase in the supply of yen as Japan tries to buy more U.S. goods.
 - D) a decrease in the supply of yen as Japan is able to pay less for U.S. goods.

Answer: C

Diff: 2

Topic: 33.2 Determining Foreign Exchange Rates

AACSB: Dynamics of the global economy

Question Status: Previous Edition

- 75) Which of the following will cause an increase in the demand for the Venezuelan currency, the Venezuelan bolivar?
- A) real interest rates in Venezuela fall
 - B) U.S. residents change preferences in favor of goods produced in the United States
 - C) real interest rates in the United States increase
 - D) none of the above

Answer: D

Diff: 2

Topic: 33.2 Determining Foreign Exchange Rates

AACSB: Dynamics of the global economy

Question Status: Previous Edition

- 76) If the U.S. interest rate, adjusted for people's expectation of inflation, increases sharply relative to the rest of the world, then
- A) there will be a decrease in the demand for dollars in foreign exchange markets.
 - B) there will be no change in the demand for dollars in foreign exchange markets but there will be an increase in demand for foreign currency.
 - C) the dollar will appreciate.
 - D) the dollar will depreciate.

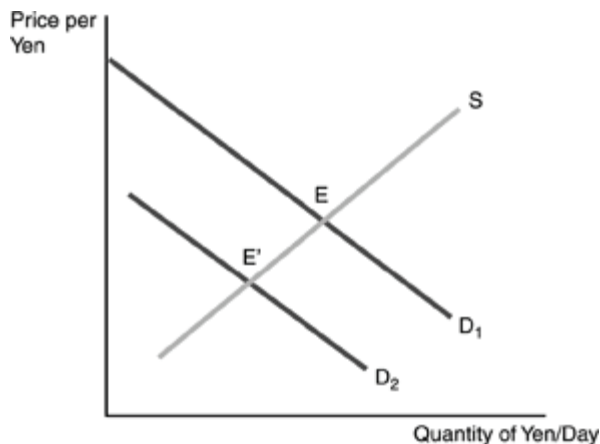
Answer: C

Diff: 1

Topic: 33.2 Determining Foreign Exchange Rates

AACSB: Dynamics of the global economy

Question Status: Revised



77) In the diagram above, which of the following could cause a movement from point E to point E'?

- A) Japanese residents' incomes rise, so they increase their purchases of U.S. goods.
- B) the dollar depreciates, including Japanese residents to buy more U.S. goods.
- C) U.S. residents' incomes rise, so they increase their purchases of Japanese goods.
- D) the dollar depreciates, inducing U.S. residents to buy more Japanese goods.

Answer: C

Diff: 3

Topic: 33.2 Determining Foreign Exchange Rates

AACSB: Dynamics of the global economy

Question Status: Previous Edition

78) Refer to the above figure. Suppose the equilibrium moves from E to E'. An event that could have caused this movement is

- A) an increase in the real interest rate in the United States.
- B) an increase in U.S. productivity.
- C) an increase in the perceived stability of the U.S. economy.
- D) an increase in demand for Japanese-produced goods by U.S. residents.

Answer: D

Diff: 3

Topic: 33.2 Determining Foreign Exchange Rates

AACSB: Dynamics of the global economy

Question Status: Previous Edition

79) A market in which national currencies are traded by households, firms and governments, is referred to as a(n)

- A) foreign exchange market.
- B) fed funds market.
- C) international reserves market.
- D) gold certificate market.

Answer: A

Diff: 1

Topic: 33.2 Determining Foreign Exchange Rates

AACSB: Dynamics of the global economy

Question Status: Previous Edition

- 80) The price of one nation's currency in terms of the currency of another nation is called the
- A) IMF rate.
 - B) fed funds ratio.
 - C) exchange rate.
 - D) discount rate.

Answer: C

Diff: 1

Topic: 33.2 Determining Foreign Exchange Rates

AACSB: Dynamics of the global economy

Question Status: Previous Edition

- 81) If the exchange rate measured in euros per dollar increases, then
- A) the dollar depreciates relative to the euro.
 - B) the euro appreciates relative to the dollar.
 - C) the euro depreciates relative to the dollar.
 - D) neither currency appreciates or depreciates.

Answer: C

Diff: 2

Topic: 33.2 Determining Foreign Exchange Rates

AACSB: Dynamics of the global economy

Question Status: Previous Edition

- 82) A market in which businesses, households, and governments buy and sell national currencies is
- A) the foreign exchange market.
 - B) the currency exchange market.
 - C) the money exchange market.
 - D) the dollar exchange market.

Answer: A

Diff: 1

Topic: 33.2 Determining Foreign Exchange Rates

AACSB: Dynamics of the global economy

Question Status: Previous Edition

- 83) Assume the following exchange rates for today: \$1=140 yen and 1 Danish krone = \$0.10. We can conclude
- A) 1 yen = 280 kr.
 - B) 1 yen = 14 kr.
 - C) 1 kr. = 28 yen
 - D) 1 kr. = 14 yen

Answer: D

Diff: 1

Topic: 33.2 Determining Foreign Exchange Rates

AACSB: Dynamics of the global economy

Question Status: Previous Edition

- 84) One source of the supply of dollars in the world is
- A) the purchase of U.S. exports by foreign residents.
 - B) the sale of U.S. domestic assets to foreigner residents.
 - C) U.S. imports of foreign merchandise.
 - D) U.S. sales of gold to foreigner residents.

Answer: C

Diff: 1

Topic: 33.2 Determining Foreign Exchange Rates

AACSB: Dynamics of the global economy

Question Status: Previous Edition

85) The exchange rate for a foreign currency that is determined by supply and demand is

- A) a fixed exchange rate.
- B) a controlled exchange rate.
- C) a constrained exchange rate.
- D) a flexible exchange rate.

Answer: D

Diff: 1

Topic: 33.2 Determining Foreign Exchange Rates

AACSB: Dynamics of the global economy

Question Status: Previous Edition

86) An increase in the market clearing exchange value of the home nation's currency in terms of the currency of another nation is a home currency

- A) appreciation.
- B) depreciation.
- C) devaluation.
- D) revaluation.

Answer: A

Diff: 1

Topic: 33.2 Determining Foreign Exchange Rates

AACSB: Dynamics of the global economy

Question Status: Previous Edition

87) A decrease in the market clearing exchange value of the home nation's currency in terms of the currency of another nation is a home currency

- A) appreciation.
- B) revaluation.
- C) depreciation.
- D) devaluation.

Answer: C

Diff: 1

Topic: 33.2 Determining Foreign Exchange Rates

AACSB: Dynamics of the global economy

Question Status: Previous Edition

88) If the Mexican peso appreciates against the U.S. dollar

- A) Mexican exports will become cheaper in the United States.
- B) Mexican exports will become more expensive in the United States.
- C) U.S. exports will become more expensive in Mexico.
- D) there will be no change in the price of Mexican imports in the United States.

Answer: B

Diff: 2

Topic: 33.2 Determining Foreign Exchange Rates

AACSB: Dynamics of the global economy

Question Status: Revised

89) If the Japanese yen depreciates against the U.S. dollar

- A) the price of Japanese imports to the United States decreases.
- B) the price of United States exports to Japan decreases.
- C) the price of Japanese imports from the United States will decrease.
- D) there is no change in the price of Japanese exports to the United States.

Answer: A

Diff: 2

Topic: 33.2 Determining Foreign Exchange Rates

AACSB: Dynamics of the global economy

Question Status: Previous Edition

- 90) The demand curve for Japanese yen will shift to the right when
- A) there is a decrease in demand for Japanese-made goods in the United States.
 - B) there is no change in the demand for Japanese-made goods in the United States.
 - C) there is a decrease in the demand for U.S.-made goods in Japan.
 - D) there is an increase in the demand for Japanese-made goods in the United States.

Answer: D

Diff: 2

Topic: 33.2 Determining Foreign Exchange Rates

AACSB: Dynamics of the global economy

Question Status: Previous Edition

- 91) When a Mexican resident buys a ukulele from a U.S. producer, there is a(n)
- A) increase in the supply of dollars in the foreign exchange market.
 - B) decrease in the supply of dollars in the foreign exchange market.
 - C) increase in the demand for dollars in the foreign exchange market.
 - D) decrease in the demand for dollars in the foreign exchange market.

Answer: C

Diff: 2

Topic: 33.2 Determining Foreign Exchange Rates

AACSB: Dynamics of the global economy

Question Status: Previous Edition

- 92) When a Japanese resident buys a good or service from a U.S. producer, there is a(n)
- A) increase in the supply of yen in the foreign exchange market.
 - B) decrease in the supply of yen in the foreign exchange market.
 - C) increase in the demand for yen in the foreign exchange market.
 - D) decrease in the demand for yen in the foreign exchange market.

Answer: A

Diff: 2

Topic: 33.2 Determining Foreign Exchange Rates

AACSB: Dynamics of the global economy

Question Status: Previous Edition

- 93) When numerous Japanese companies buy \$100,000,000 worth of goods or services from U.S. producers, *ceteris paribus*, there will be
- A) appreciation in the value of the yen against the dollar.
 - B) depreciation in the value of the yen against the dollar.
 - C) depreciation of the dollar against the yen.
 - D) no change in values of the currencies.

Answer: B

Diff: 3

Topic: 33.2 Determining Foreign Exchange Rates

AACSB: Dynamics of the global economy

Question Status: Previous Edition

- 94) If interest rates in Sweden go up relative to the rest of the world, the
- A) demand for Swedish currency will fall.
 - B) demand for Swedish currency will rise.
 - C) supply of Swedish currency will fall.
 - D) supply of Swedish currency will rise.

Answer: B

Diff: 2

Topic: 33.2 Determining Foreign Exchange Rates

AACSB: Dynamics of the global economy

Question Status: Previous Edition

- 95) Which of the following will cause a change in the exchange rate?

- A) changes in real interest rates
- B) changes in consumer preferences
- C) changes in the perception of economic stability
- D) all of the above

Answer: D

Diff: 2

Topic: 33.2 Determining Foreign Exchange Rates

AACSB: Dynamics of the global economy

Question Status: Previous Edition

- 96) If there is a world-wide fad for U.S. automobiles, the
- A) demand for dollars will fall.
 - B) demand for dollars will rise.
 - C) supply of dollars will fall.
 - D) supply of dollars will rise.

Answer: B

Diff: 2

Topic: 33.2 Determining Foreign Exchange Rates

AACSB: Dynamics of the global economy

Question Status: Previous Edition

- 97) If there is unrest in the Middle East that threatens the economic stability of Saudi Arabia, the
- A) demand for Saudi Arabian currency will fall.
 - B) demand for Saudi Arabian currency will rise.
 - C) supply of Saudi Arabian currency will fall.
 - D) supply of Saudi Arabian currency will rise.

Answer: A

Diff: 2

Topic: 33.2 Determining Foreign Exchange Rates

AACSB: Dynamics of the global economy

Question Status: Previous Edition

- 98) If there is unrest in the Middle East, and Saudi Arabian investors purchase German securities, the
- A) demand for Saudi Arabian currency will fall.
 - B) demand for Saudi Arabian currency will rise.
 - C) supply of Saudi Arabian currency will fall.
 - D) supply of Saudi Arabian currency will rise.

Answer: D

Diff: 2

Topic: 33.2 Determining Foreign Exchange Rates

AACSB: Dynamics of the global economy

Question Status: Previous Edition

- 99) In March 2004, \$1 was worth 220 Hungarian forints and in July 2004, \$1 was worth 230 Hungarian forints. We can therefore conclude that
- A) the Hungarian forint depreciated.
 - B) the Hungarian forint appreciated.
 - C) the U.S. dollar has depreciated.
 - D) the value of the U.S. dollar has fluctuated.

Answer: A

Diff: 2

Topic: 33.2 Determining Foreign Exchange Rates

AACSB: Dynamics of the global economy

Question Status: Previous Edition

- 100) In the market for euros, the demand for euros (€) is
- A) downward sloping, because at lower dollar prices for the euro, U.S. residents will buy more European goods and services.
 - B) upward sloping, because at higher dollar prices for the euro, U.S. residents will buy more European goods and services.
 - C) upward sloping, because at higher dollar prices for the euro, Europeans will buy more U.S. goods and services.
 - D) horizontal, because dollar prices of euros and euro prices of dollars are directly related.

Answer: A

Diff: 2

Topic: 33.2 Determining Foreign Exchange Rates

AACSB: Dynamics of the global economy

Question Status: Previous Edition

- 101) In the market for euros, the supply of euros (€) is
- A) downward sloping, because lower dollar prices of euros mean that U.S. goods are cheaper to Europeans.
 - B) downward sloping, because higher dollar prices of euros mean that U.S. goods are cheaper to Europeans.
 - C) upward sloping, because higher dollar prices of euros means that U.S. goods are cheaper to Europeans.
 - D) upward sloping, because lower dollar prices of euros means that U.S. goods are cheaper to Europeans.

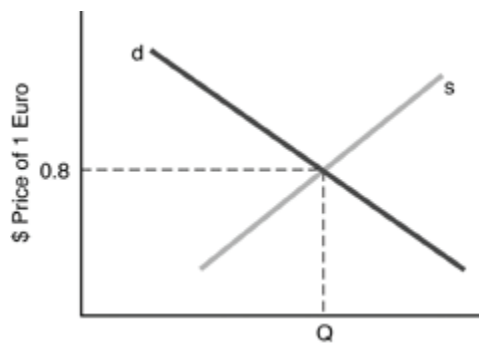
Answer: C

Diff: 2

Topic: 33.2 Determining Foreign Exchange Rates

AACSB: Dynamics of the global economy

Question Status: Previous Edition



102) Use the above figure. At equilibrium, the exchange rate is

- A) 1 euro = \$1.25.
- B) \$0.80 = 1.25 euro.
- C) \$1 = 1.25 euro.
- D) \$1 = 8 euros.

Answer: C

Diff: 2

Topic: 33.2 Determining Foreign Exchange Rates

AACSB: Dynamics of the global economy

Question Status: Previous Edition

103) Use the above figure. A rightward shift of the demand curve, *ceteris paribus*, would result in

- A) dollar depreciation.
- B) dollar appreciation.
- C) euro depreciation.
- D) reducing the equilibrium quantity of euros.

Answer: A

Diff: 3

Topic: 33.2 Determining Foreign Exchange Rates

AACSB: Dynamics of the global economy

Question Status: Previous Edition

104) Use the above figure. A leftward shift of the supply curve, *ceteris paribus*, would result in

- A) euro depreciation.
- B) dollar appreciation.
- C) dollar depreciation.
- D) increasing the equilibrium quantity of euros.

Answer: C

Diff: 3

Topic: 33.2 Determining Foreign Exchange Rates

AACSB: Dynamics of the global economy

Question Status: Revised

- 105) Use the above figure. A leftward shift in the demand curve, *ceteris paribus*, would result in
- A) a dollar appreciation.
 - B) a dollar depreciation.
 - C) a euro appreciation.
 - D) increasing the equilibrium quantity of the euro.

Answer: A

Diff: 3

Topic: 33.2 Determining Foreign Exchange Rates

AACSB: Dynamics of the global economy

Question Status: Previous Edition

- 106) Using the above figure. A rightward shift of the supply curve, *ceteris paribus*, would result in
- A) dollar appreciation.
 - B) euro appreciation.
 - C) dollar depreciation.
 - D) decreasing the equilibrium quantity of euros.

Answer: A

Diff: 3

Topic: 33.2 Determining Foreign Exchange Rates

AACSB: Dynamics of the global economy

Question Status: Previous Edition

- 107) Suppose economic stability in the United States increases. This will tend to cause which of the following to occur?
- A) the demand for U.S. dollars will rise in the foreign exchange market.
 - B) the supply of U.S. dollars will rise in the foreign exchange market.
 - C) the demand for euros will rise in the foreign exchange market.
 - D) nothing will change in the foreign exchange market.

Answer: A

Diff: 2

Topic: 33.2 Determining Foreign Exchange Rates

AACSB: Dynamics of the global economy

Question Status: Previous Edition

- 108) If interest rates in the European Union decrease,
- A) the demand for U.S. dollars will fall in the foreign exchange market.
 - B) the supply of U.S. dollars will fall in the foreign exchange market.
 - C) the demand for euros will fall in the foreign exchange market.
 - D) nothing will change in the foreign exchange market.

Answer: C

Diff: 2

Topic: 33.2 Determining Foreign Exchange Rates

AACSB: Dynamics of the global economy

Question Status: Previous Edition

109) In foreign exchange markets, who demands dollars and who supplies dollars?

Answer: Foreign residents buying U.S. goods, services, or assets demand dollars and U.S. residents buying foreign goods, services, or assets supply dollars. In foreign exchange markets, the supply of dollars is a demand for foreign currency and the supply of a foreign currency is a demand for dollars.

Diff: 1

Topic: 33.2 Determining Foreign Exchange Rates

AACSB: Dynamics of the global economy

Question Status: Previous Edition

110) Why does the demand curve for Japanese yen slope down?

Answer: The demand for Japanese yen is derived from the demand for Japanese goods and services. The lower the price of the yen, the more Japanese goods and services that U.S. residents will desire to import. So, the quantity of Japanese yen demanded will increase as the price of the yen falls.

Diff: 1

Topic: 33.2 Determining Foreign Exchange Rates

AACSB: Dynamics of the global economy

Question Status: Previous Edition

111) Suppose the foreign exchange market is in equilibrium. Then, the U.S. government increases borrowing, causing American interest rates to increase. What will happen to the price of the Japanese yen? Why?

Answer: The higher U.S. interest rates induce foreign residents, including Japanese residents, to increase their demand for U.S. securities, which causes the demand for dollars to increase. This is equivalent to an increase in the supply of yen. Holding the demand for yen constant, an increase in supply implies the dollar price of the yen falls and the quantity demanded increases. The Japanese yen is now relatively cheaper, and U.S. residents buy more of them.

Diff: 3

Topic: 33.2 Determining Foreign Exchange Rates

AACSB: Dynamics of the global economy

Question Status: Previous Edition

112) What does it mean when the dollar appreciates? What does it mean when the dollar depreciates?

Answer: If the dollar appreciates with respect to another currency, a dollar buys more units of the other currency than before. The opposite is true for a depreciation—a dollar buys less of the other currency than before.

Diff: 1

Topic: 33.2 Determining Foreign Exchange Rates

AACSB: Dynamics of the global economy

Question Status: Previous Edition

113) Why does the supply curve of Japanese yen slope up?

Answer: Japanese residents supply yen when they want to buy U.S. goods and services. The higher the price of the yen, the lower the Japanese price for the dollar. So, as the yen price of the dollar falls, Japanese residents demand more dollars and supply more yen.

Diff: 2

Topic: 33.2 Determining Foreign Exchange Rates

AACSB: Dynamics of the global economy

Question Status: Previous Edition

33.3 The Gold Standard and the International Monetary Fund

1) Under the gold standard, because all currencies had values fixed in units of gold,

- A) exchange rates were essentially fixed.
- B) exchange rates were essentially floating.
- C) exchange rates were set to a crawling peg.
- D) none of the above

Answer: A

Diff: 2

Topic: 33.3 The Gold Standard and the International Monetary Fund

AACSB: Dynamics of the global economy

Question Status: Previous Edition

2) With a pure gold standard,

- A) a nation may not pursue an independent monetary policy.
- B) an inflow of gold will reduce the money supply of a country.
- C) there will be a tendency for a too rapid increase in the volume of world trade.
- D) a balance of payments deficit will lead to an increase in the domestic price level.

Answer: A

Diff: 1

Topic: 33.3 The Gold Standard and the International Monetary Fund

AACSB: Dynamics of the global economy

Question Status: Previous Edition

3) The gold standard is

- A) a type of floating exchange rate system.
- B) a type of managed flexible exchange rate system.
- C) a type of fixed exchange rate system.
- D) a purely floating exchange rate system.

Answer: C

Diff: 2

Topic: 33.3 The Gold Standard and the International Monetary Fund

AACSB: Dynamics of the global economy

Question Status: Previous Edition

- 4) An important problem with the gold standard was that
- A) it was too complicated and restricted business activity.
 - B) a country did not have control of its domestic monetary policy.
 - C) exchange rates tended to fluctuate a great deal, making it difficult for businesses to make long-run plans.
 - D) one country could easily manipulate the system to its advantage and the disadvantage of other countries.

Answer: B

Diff: 2

Topic: 33.3 The Gold Standard and the International Monetary Fund

AACSB: Dynamics of the global economy

Question Status: Previous Edition

- 5) The United States was taken off the gold standard by
- A) President Lyndon Johnson.
 - B) President Richard Nixon.
 - C) the Federal Reserve Chairman.
 - D) President Jimmy Carter.

Answer: B

Diff: 1

Topic: 33.3 The Gold Standard and the International Monetary Fund

AACSB: Dynamics of the global economy

Question Status: Previous Edition

- 6) With the Bretton Woods system of international exchange rates,
- A) the value of a country's currency was determined strictly by the laws of supply and demand.
 - B) the value of a country's currency was determined by its stock of gold.
 - C) there were fixed exchange rates, and most countries were obligated to intervene to maintain the values of their currencies within 1 percent of par value.
 - D) a nation's balance of payments was eliminated.

Answer: C

Diff: 1

Topic: 33.3 The Gold Standard and the International Monetary Fund

AACSB: Dynamics of the global economy

Question Status: Previous Edition

- 7) The International Monetary Fund was created
- A) in 1945 by the Bretton Woods Agreement.
 - B) to collect money from member countries that were running balance of payments deficits.
 - C) in 1971 when President Richard Nixon signed the Bretton Woods Agreement.
 - D) in the aftermath of World War II to help nations move off of the gold standard.

Answer: A

Diff: 1

Topic: 33.3 The Gold Standard and the International Monetary Fund

AACSB: Dynamics of the global economy

Question Status: Previous Edition

- 8) The gold standard is a type of
- A) fixed exchange rate system.
 - B) flexible exchange rate system.
 - C) floating exchange rate system.
 - D) managed exchange rate system.

Answer: A

Diff: 2

Topic: 33.3 The Gold Standard and the International Monetary Fund

AACSB: Dynamics of the global economy

Question Status: Previous Edition

- 9) Under the gold standard, when a nation had a deficit in its balance of payments,
- A) interest rates would rise which would reduce foreign investment.
 - B) interest rates would fall which would increase foreign investment.
 - C) gold would flow to foreign residents and the domestic money supply would decrease.
 - D) gold would flow into the country leading to an increase in the domestic money supply.

Answer: C

Diff: 1

Topic: 33.3 The Gold Standard and the International Monetary Fund

AACSB: Dynamics of the global economy

Question Status: Previous Edition

- 10) Under a pure gold standard,
- A) the dollar is tied to gold and all other currencies are fixed relative to the dollar.
 - B) all foreign exchanges involve gold for goods and services.
 - C) all currencies are defined in terms of gold and these rates are fixed.
 - D) all trade involves government agencies.

Answer: C

Diff: 1

Topic: 33.3 The Gold Standard and the International Monetary Fund

AACSB: Dynamics of the global economy

Question Status: Previous Edition

- 11) A problem with the operation of the gold standard in the world economy was that
- A) it involved too much government intervention in the economy.
 - B) the world economy was subject to too much inflation.
 - C) a country did not have control of its domestic monetary policy.
 - D) it caused the Great Depression.

Answer: C

Diff: 2

Topic: 33.3 The Gold Standard and the International Monetary Fund

AACSB: Dynamics of the global economy

Question Status: Previous Edition

- 12) The international financial market moved towards equilibrium under the gold standard due to
- A) shifts in exchange rates caused by changes in supply and demand for foreign exchange.
 - B) changes in interest rates.
 - C) negotiations among central banks.
 - D) flows of gold among countries.

Answer: D

Diff: 2

Topic: 33.3 The Gold Standard and the International Monetary Fund

AACSB: Dynamics of the global economy

Question Status: Previous Edition

- 13) Based on the U.S. historical experience with the gold standard, we can conclude that
- A) the gold standard guarantees price stability but not economic stability.
 - B) the standard guarantees economic stability but not price stability.
 - C) the gold standard guarantees both economic and price stability.
 - D) the gold standard guarantees neither economic nor price stability.

Answer: D

Diff: 2

Topic: 33.3 The Gold Standard and the International Monetary Fund

AACSB: Dynamics of the global economy

Question Status: Previous Edition

- 14) The International Monetary System was established
- A) by the United Nations.
 - B) by the Bretton Woods Agreement.
 - C) by the United States, in cooperation with Great Britain.
 - D) during the Great Depression by the League of Nations.

Answer: B

Diff: 2

Topic: 33.3 The Gold Standard and the International Monetary Fund

AACSB: Dynamics of the global economy

Question Status: Previous Edition

- 15) Under the Bretton Woods system, a country could alter its exchange rate
- A) by changing its value relative to gold.
 - B) whenever it determined that there was a fundamental disequilibrium.
 - C) only when the IMF permitted due to a fundamental disequilibrium.
 - D) under no circumstances.

Answer: C

Diff: 2

Topic: 33.3 The Gold Standard and the International Monetary Fund

AACSB: Dynamics of the global economy

Question Status: Previous Edition

- 16) The legally established value of a country's monetary unit in terms of another under the Bretton Woods system was called the
- A) exchange rate. B) dirty float. C) special draw. D) par value.

Answer: D

Diff: 1

Topic: 33.3 The Gold Standard and the International Monetary Fund

AACSB: Dynamics of the global economy

Question Status: Previous Edition

- 17) Under the Bretton Woods agreement, the officially determined value of a country's currency is referred to as its
- A) GDP. B) par value.
C) exchange rate. D) value-to-weight ratio.

Answer: B

Diff: 2

Topic: 33.3 The Gold Standard and the International Monetary Fund

AACSB: Dynamics of the global economy

Question Status: Previous Edition

- 18) At the Bretton Woods conference, all currencies were given
- A) a fixed value. B) a variable value.
C) a par value. D) a floating value.

Answer: C

Diff: 1

Topic: 33.3 The Gold Standard and the International Monetary Fund

AACSB: Dynamics of the global economy

Question Status: Previous Edition

- 19) A key objective of the gold standard was to
- A) create a flexible exchange rate system between countries.
B) create a fixed exchange rate system between countries.
C) allow nations to maintain their gold reserves.
D) allow nations to tax its citizens in gold.

Answer: B

Diff: 1

Topic: 33.3 The Gold Standard and the International Monetary Fund

AACSB: Dynamics of the global economy

Question Status: Previous Edition

- 20) When all currencies are tied directly to gold, then
- A) currency exchange rates throughout the world are flexible.
B) currency exchange rates throughout the world are fixed.
C) the world's stock of gold cannot change.
D) the price of each nation's currency in terms of gold is flexible.

Answer: B

Diff: 1

Topic: 33.3 The Gold Standard and the International Monetary Fund

AACSB: Dynamics of the global economy

Question Status: Revised

- 21) The U.S. government suspended the convertibility of the dollar into gold in
 A) the 1930s. B) the 1950s.
 C) the 1970s. D) 1991, when the first Gulf War broke out.

Answer: C

Diff: 1

Topic: 33.3 The Gold Standard and the International Monetary Fund

AACSB: Dynamics of the global economy

Question Status: Previous Edition

- 22) The United States dollar has NOT been officially convertible to gold by international traders since
 A) 1930. B) 1944. C) 1971. D) 1995.

Answer: C

Diff: 1

Topic: 33.3 The Gold Standard and the International Monetary Fund

AACSB: Dynamics of the global economy

Question Status: Previous Edition

- 23) Which agreement was signed in 1944 with the purpose of creating a new international payment system?
 A) Philadelphia Accord B) Bretton Woods
 C) Camp David D) Lake Geneva

Answer: B

Diff: 1

Topic: 33.3 The Gold Standard and the International Monetary Fund

AACSB: Dynamics of the global economy

Question Status: Previous Edition

- 24) Under the Bretton Woods Agreement, the goal of the IMF was to
 A) finance international transactions in gold.
 B) lend to countries experiencing balance of payment deficits.
 C) help less developed countries advertise their goods in the developed countries.
 D) provide oversight to the functioning of central banks in the member countries.

Answer: B

Diff: 1

Topic: 33.3 The Gold Standard and the International Monetary Fund

AACSB: Dynamics of the global economy

Question Status: Previous Edition

- 25) One problem associated with the gold standard was that
 A) nations gave up control of their money supply.
 B) there was an incentive for individuals to hold gold at all interest rates.
 C) there was no fluctuation in exchange rates.
 D) nations could not determine their current account balances.

Answer: A

Diff: 1

Topic: 33.3 The Gold Standard and the International Monetary Fund

AACSB: Dynamics of the global economy

Question Status: Previous Edition

26) Explain how the gold standard operated.

Answer: Under the gold standard, each country defined their currency in terms of gold. If U.S. residents imported more than they exported, other countries turned in dollars for gold, causing the money supply to fall in the United States. Interest rates would then increase, causing an influx of foreign capital and an improved balance of payments.

Diff: 1

Topic: 33.3 The Gold Standard and the International Monetary Fund

AACSB: Dynamics of the global economy

Question Status: Previous Edition

27) What brought about the end of the Bretton Woods Agreement?

Answer: Under the Bretton Woods Agreement, the dollar was tied to gold and the exchange rates of all other currencies were fixed relative to the dollar. Countries had to maintain their exchange rate within one percent of the officially determined value. They would use dollars or other official reserves to maintain the exchange rate. The fixed exchange rate could be changed if there was a fundamental disequilibrium. Beginning in the late 1960s, the dollar was under pressure and the old IMF system ended when the dollar was devalued in 1971, followed by a floating exchange rate system in 1973.

Diff: 2

Topic: 33.3 The Gold Standard and the International Monetary Fund

AACSB: Dynamics of the global economy

Question Status: Previous Edition

33.4 Fixed versus Floating Exchange Rates

1) Suppose a central bank tries to keep exchange rates fixed. When there is an increase in the demand for foreign goods, the central bank will most likely

- A) buy foreign currency in exchange for the domestic currency.
- B) do nothing.
- C) sell the domestic currency in exchange for foreign reserves.
- D) use foreign reserves to buy the domestic currency.

Answer: D

Diff: 2

Topic: 33.4 Fixed versus Floating Exchange Rates

AACSB: Dynamics of the global economy

Question Status: New

2) Suppose a currency's value in the foreign exchange market is determined solely by market supply and demand without any intervention by the government authority, the currency has

- A) a fixed exchange rate.
- B) a gold standard.
- C) a price control in its exchange rate.
- D) a floating exchange rate.

Answer: D

Diff: 1

Topic: 33.4 Fixed versus Floating Exchange Rates

AACSB: Dynamics of the global economy

Question Status: New

- 3) To prevent the dollar from depreciating, the U.S. central bank that tries to fix the currency value of the dollar can
- A) buy U.S. dollars in the foreign exchange market.
 - B) sell U.S. dollars in the foreign exchange market.
 - C) abandon the U.S. dollar and use another country's currency as its legal currency.
 - D) buy foreign currencies in the foreign exchange market.

Answer: A

Diff: 2

Topic: 33.4 Fixed versus Floating Exchange Rates

AACSB: Dynamics of the global economy

Question Status: New

- 4) In a fixed exchange rate system,
- A) market forces and the country's stock of gold determine its exchange rate.
 - B) a central bank affects the value of a currency by changing its foreign exchange reserves.
 - C) market forces play a role in determining the fixed value of a currency.
 - D) the International Monetary Fund determines exchange rates.

Answer: B

Diff: 1

Topic: 33.4 Fixed versus Floating Exchange Rates

AACSB: Dynamics of the global economy

Question Status: New

- 5) The use of foreign exchange reserves to keep exchange rates constant over time is called
- A) a fixed exchange rate system.
 - B) the Bretton Woods system.
 - C) a fiscal fix.
 - D) a floating exchange rate system.

Answer: A

Diff: 1

Topic: 33.4 Fixed versus Floating Exchange Rates

AACSB: Dynamics of the global economy

Question Status: New

- 6) Today, the most common exchange rate arrangement in the world is
- A) the fixed exchange rate system.
 - B) the gold standard system.
 - C) the managed floating system.
 - D) the freely floating exchange rate system.

Answer: A

Diff: 2

Topic: 33.4 Fixed versus Floating Exchange Rates

AACSB: Dynamics of the global economy

Question Status: Revised

- 7) According to the text, over 40 percent of member nations of the International Monetary Fund have
- A) a fixed exchange rate.
 - B) no separate legal currency.
 - C) an independently floating exchange rate.
 - D) a managed floating exchange rate.

Answer: A

Diff: 2

Topic: 33.4 Fixed versus Floating Exchange Rates

AACSB: Dynamics of the global economy

Question Status: New

- 8) A nation's foreign exchange reserves consist mainly of
- A) excess reserves held by its banks.
 - B) government securities of that nation.
 - C) the legal currency of that nation.
 - D) currencies of other nations.

Answer: D

Diff: 1

Topic: 33.4 Fixed versus Floating Exchange Rates

AACSB: Dynamics of the global economy

Question Status: New

- 9) Suppose the Canadian central bank wants to keep the exchange rate of the Canadian dollar with the U.S. dollar constant over time. An increase in the demand for Canadian goods by American residents will lead the Canadian central bank to
- A) sell American goods in exchange for Canadian dollars.
 - B) buy more Canadian goods with Canadian dollars.
 - C) increase the demand for Canadian dollars in the foreign exchange market.
 - D) increase the supply of Canadian dollars in the foreign exchange market.

Answer: D

Diff: 2

Topic: 33.4 Fixed versus Floating Exchange Rates

AACSB: Dynamics of the global economy

Question Status: New

- 10) Suppose the currency price of the U.S. dollar in terms of the Japanese yen starts to fall. To prevent that from occurring, the U.S. central bank should
- A) use U.S. dollars to buy Japanese goods.
 - B) use yen reserves to buy U.S. dollars in the foreign exchange market.
 - C) sell U.S. dollars in the foreign exchange market in exchange for yen.
 - D) buy both U.S. dollars and yen in the foreign exchange market.

Answer: B

Diff: 2

Topic: 33.4 Fixed versus Floating Exchange Rates

AACSB: Dynamics of the global economy

Question Status: New

- 11) Suppose the Chinese central bank wants to keep the exchange rate of its currency value constant over time. An increase in the demand for Chinese goods by American residents will lead the Chinese central bank to
- A) coordinate with the U.S. central bank in order to increase the supply of the U.S. dollar in the foreign exchange market.
 - B) increase the demand for the Chinese currency in the foreign exchange market.
 - C) use its dollar reserves to buy the Chinese currency in the foreign exchange market.
 - D) sell the Chinese currency in exchange for U.S. dollars in the foreign exchange market.

Answer: D

Diff: 2

Topic: 33.4 Fixed versus Floating Exchange Rates

AACSB: Dynamics of the global economy

Question Status: New

- 12) If a country wants to keep the value of its currency fixed, then its central bank should
- A) sell domestic goods when there is an increase in the supply of its domestic currency.
 - B) buy domestic goods when there is an increase in the supply of its domestic currency.
 - C) sell its domestic currency when there is an increase in the supply of that currency.
 - D) buy its domestic currency when there is an increase in the supply of that currency.

Answer: D

Diff: 2

Topic: 33.4 Fixed versus Floating Exchange Rates

AACSB: Dynamics of the global economy

Question Status: New

- 13) If a central bank wants to keep the value of its home currency fixed in the foreign exchange market, then an increase in the demand for its home currency will lead the central bank to
- A) do nothing.
 - B) sell its home currency.
 - C) buy its home currency.
 - D) sell foreign currencies.

Answer: B

Diff: 2

Topic: 33.4 Fixed versus Floating Exchange Rates

AACSB: Dynamics of the global economy

Question Status: New

- 14) Assume the U.S. government wants to hold the value of the dollar at \$1.00 U.S. equals 100 Japanese yen, but it finds that the value of yen is appreciating against the U.S. dollar. What would be an appropriate policy to reverse this trend?
- A) Buy more Japanese goods.
 - B) Buy U.S. dollars.
 - C) Sell U.S. dollars.
 - D) Encourage U.S. investments abroad.

Answer: B

Diff: 2

Topic: 33.4 Fixed versus Floating Exchange Rates

AACSB: Dynamics of the global economy

Question Status: Previous Edition

- 15) Assume the U.S. government wants to hold the value of the dollar at \$1.00 U.S. equals 10 Chinese yuan, but it finds that the value of yuan is depreciating against the U.S. dollar. What would be an appropriate policy to reverse this trend?
- A) Increase government spending within the U.S.
 - B) Buy U.S. dollars.
 - C) Sell U.S. dollars.
 - D) Increase the money supply in the U.S.

Answer: C

Diff: 2

Topic: 33.4 Fixed versus Floating Exchange Rates

AACSB: Dynamics of the global economy

Question Status: New

- 16) If a country wants to keep its exchange rate fixed, it must
- A) allow its currency value to vary with market supply and demand in foreign exchange markets.
 - B) be a member of the IMF.
 - C) vary the amount of its national currency supplied at any given exchange rate in foreign exchange markets when necessary.
 - D) eliminate its foreign exchange reserves.

Answer: C

Diff: 1

Topic: 33.4 Fixed versus Floating Exchange Rates

AACSB: Dynamics of the global economy

Question Status: Revised

- 17) Foreign exchange risk is
- A) a financial strategy that reduces the change of suffering losses arising from foreign exchange risk.
 - B) an exchange rate arrangement in which a country pegs the value of its currency to the exchange value.
 - C) the possibility that changes in the value of a nation's currency will result in variations in the market value of assets.
 - D) active management of a floating exchange rate on the part of a country's government.

Answer: C

Diff: 1

Topic: 33.4 Fixed versus Floating Exchange Rates

AACSB: Dynamics of the global economy

Question Status: Previous Edition

- 18) The foreign exchange system that has the highest foreign exchange risk is
- A) the dirty floating exchange rate.
 - B) the fixed exchange rate.
 - C) the floating exchange rate.
 - D) the Bretton Woods system.

Answer: C

Diff: 2

Topic: 33.4 Fixed versus Floating Exchange Rates

AACSB: Dynamics of the global economy

Question Status: New

19) A hedge is

- A) a financial strategy that reduces the change of suffering losses arising from foreign exchange risk.
- B) an exchange rate arrangement in which a country pegs the value of its currency to the exchange value.
- C) the possibility that changes in the value of a nation's currency will result in variations in the market value of assets.
- D) active management of a floating exchange rate on the part of a country's government.

Answer: A

Diff: 1

Topic: 33.4 Fixed versus Floating Exchange Rates

AACSB: Dynamics of the global economy

Question Status: Previous Edition

20) One problem that investors in foreign countries face is the possibility of a decline in the value of that foreign country's currency. Which of the following would be an effective way to offset this problem?

- A) Be ready to pull out at the first sign of trouble.
- B) Convert as many of your dollars into their dollars as possible.
- C) Hedge through currency swaps.
- D) Finance your investment outside of that country.

Answer: C

Diff: 2

Topic: 33.4 Fixed versus Floating Exchange Rates

AACSB: Dynamics of the global economy

Question Status: Previous Edition

21) Which of the following best describes exchange rates that are determined by the demand and supply foreign exchange in the absence of official intervention?

- A) floating exchange rates.
- B) the gold standard.
- C) target zones.
- D) the Bretton Woods system.

Answer: A

Diff: 1

Topic: 33.4 Fixed versus Floating Exchange Rates

AACSB: Dynamics of the global economy

Question Status: Revised

22) Which of the following is an advantage of fixing exchange rates?

- A) limiting foreign exchange risk
- B) making residents more mobile across countries
- C) eliminating trade deficits
- D) making the prices of foreign goods more flexible in the domestic market

Answer: A

Diff: 2

Topic: 33.4 Fixed versus Floating Exchange Rates

AACSB: Dynamics of the global economy

Question Status: New

23) A currency swap can

- A) make foreign goods more expensive in the domestic market.
- B) make the foreign exchange rate more volatile over time.
- C) reduce foreign exchange risk.
- D) make domestic goods more expensive in foreign countries.

Answer: C

Diff: 2

Topic: 33.4 Fixed versus Floating Exchange Rates

AACSB: Dynamics of the global economy

Question Status: New

24) If an exporter wants to limit the effect of possible changes in the exchange rate on the value of her exports, then she can adopt a strategy known as

- A) floating.
- B) speculating.
- C) hedging.
- D) appreciating.

Answer: C

Diff: 1

Topic: 33.4 Fixed versus Floating Exchange Rates

AACSB: Dynamics of the global economy

Question Status: New

25) When the supply and demand of currencies in the foreign exchange market determines their relative values, this is known as

- A) flexible exchange rates.
- B) depreciation.
- C) fixed exchange rates.
- D) appreciation.

Answer: A

Diff: 1

Topic: 33.4 Fixed versus Floating Exchange Rates

AACSB: Dynamics of the global economy

Question Status: Previous Edition

26) The possibility that changes in the value of a nation's currency will result in variations in the market value of a business's assets is referred to as

- A) hedge risk.
- B) foreign exchange risk.
- C) conversion risk.
- D) transaction risk.

Answer: B

Diff: 2

Topic: 33.4 Fixed versus Floating Exchange Rates

AACSB: Dynamics of the global economy

Question Status: Previous Edition

27) A financial strategy that reduces the chance of suffering losses arising from foreign exchange risk is referred to as

- A) hedging.
- B) foreign exchange leverage.
- C) conversion depletion.
- D) transaction mitigation.

Answer: A

Diff: 2

Topic: 33.4 Fixed versus Floating Exchange Rates

AACSB: Dynamics of the global economy

Question Status: Previous Edition

- 28) If a country moves from fixed to flexible exchange rates, its macroeconomic policy
- A) is no longer restricted.
 - B) is restricted, as it can only use fiscal policy to achieve its economic goals.
 - C) is restricted, as it can only use monetary policy to achieve its economic goals.
 - D) must follow policy directives from the IMF.

Answer: A

Diff: 3

Topic: 33.4 Fixed versus Floating Exchange Rates

AACSB: Dynamics of the global economy

Question Status: Previous Edition