Chapter 29

Open-Economy Macroeconomics: Basic Concepts

Test B

1. In 1999 Morocco exported $5.9 billion of goods and services and imported $8.4 billion. Morocco had a trade balance of about
   a. $14.3 billion.
   b. $2.5 billion.
   c. $0.
   d. –$2.5 billion.

ANSWER: d. –$2.5 billion.
TYPE: M KEY1: D SECTION: 1 OBJECTIVE: 1 RANDOM: Y

2. Which of the following would be consistent with a trade balance of $5 billion?
   a. exports and imports each equal $2.5 billion.
   b. exports equal $15 billion and imports equal $10 billion.
   c. imports equal $12 billion and imports equal $17 billion.
   d. None of the above is correct.

ANSWER: b. exports equal $15 billion and imports equal $10 billion.
TYPE: M KEY1: D SECTION: OBJECTIVE: RANDOM: Y

3. A Swiss firm opens a watch factory in the United States.
   a. This is Swiss foreign direct investment and by itself increases Swiss net foreign investment.
   b. This is Swiss foreign direct investment and by itself decreases Swiss net foreign investment.
   c. This is Swiss foreign portfolio investment and by itself increases Swiss net foreign investment.
   d. This is Swiss foreign portfolio investment and by itself decreases Swiss net foreign investment.

ANSWER: a. This is Swiss foreign direct investment and by itself increases Swiss net foreign investment.
TYPE: M KEY1: D SECTION: 1 OBJECTIVE: 2 RANDOM: Y

4. A U.S. firm opens a factory that produces camping equipment in Albania, by itself
   a. this increases U.S. net foreign investment and decreases Albanian net foreign investment.
   b. this decreases U.S. net foreign investment and increases Albanian net foreign investment.
   c. increases only U.S. net foreign investment.
   d. increases only Albanian net foreign investment.

ANSWER: a. this increases U.S. net foreign investment and decreases Albanian net foreign investment.
TYPE: M KEY1: D SECTION: 1 OBJECTIVE: 2 RANDOM: Y

5. Suppose that the real return from operating factories in Ghana decreases relative to the real rate of return in the United States. Other things the same,
   a. this increases U.S. net foreign investment and decreases Ghanan net foreign investment.
   b. this decreases U.S. net foreign investment and increases Ghanan net foreign investment.
   c. increases only U.S. net foreign investment.
   d. increases only Ghanan net foreign investment.

ANSWER: b. this decreases U.S. net foreign investment and increases Ghanan net foreign investment.
TYPE: M KEY1: D SECTION: 1 OBJECTIVE: 2 RANDOM: Y

6. A U.S. computer maker sells computers to a German firm. The U.S. company uses all of the revenues from this sale to purchase automobiles from German firms. These transactions
   a. increase both U.S. net exports and U.S. net foreign investment.
   b. decrease both U.S. net exports and U.S. net foreign investment.
   c. increase U.S. net exports but do not affect U.S. net foreign investment.
   d. None of the above is correct.

ANSWER: d. None of the above is correct.
TYPE: M KEY1: D SECTION: 1 OBJECTIVE: 3 RANDOM: Y

7. Brazil buys railroad engines from a U.S. firm and pays for them with bolivianos (Bolivian currency). By itself this transaction
   a. increases both U.S. net exports and U.S. net foreign investment.
   b. decreases both U.S. net exports and U.S. net foreign investment.
   c. increases U.S. net exports but does not affect U.S. net foreign investment.
   d. None of the above is correct.

ANSWER: a. increases both U.S. net exports and U.S. net foreign investment.
TYPE: M KEY1: D SECTION: 1 OBJECTIVE: 3 RANDOM: Y

8. In which of the following situations must national saving rise?
   a. domestic investment increases and net foreign investment decreases.
   b. domestic investment decreases and net foreign investment increases.
   c. both domestic investment and net foreign investment increase.
   d. net exports decrease and domestic investment is unchanged.

ANSWER: c. both domestic investment and net foreign investment increase.
TYPE: M KEY1: D SECTION: 1 OBJECTIVE: 4 RANDOM: Y

9. The difference between savings in an open and closed economy equals
   a. net exports.
   b. net foreign investment.
   c. Both of the above are correct.
   d. None of the above is correct.

ANSWER: c. Both of the above are correct.
TYPE: M KEY1: D SECTION: 1 OBJECTIVE: 4 RANDOM: Y

10. Consider the following two actions. 1. Kohl's, a U.S. department store chain, builds new stores in Sweden. 2. Rudy, a U.S. citizen, buys newly issued bonds from Campmore.com who uses the money to build additional warehouse space in the United States.
    a. Both 1. and 2. increase U.S. savings.
    b. Neither 1. nor 2. increase U.S savings.
    c. 1. increases U.S. savings, but 2. does not.
    d. 2. increases U.S. savings, but 1. does not.

ANSWER: a. Both 1. and 2. increase U.S. savings.
TYPE: M KEY1: D SECTION: 1 OBJECTIVE: 4 RANDOM: Y

11. During the twenty years or so before this text was written the United States had
    a. both positive net exports and net foreign investment.
    b. both negative net exports and net foreign investment.
    c. positive net exports and negative net foreign investment.
    d. negative net exports and positive net foreign investment.

ANSWER: b. both negative net exports and net foreign investment.
TYPE: M KEY1: D SECTION: 1 OBJECTIVE: 4 RANDOM: Y

NOTE: THE FOLLOWING QUESTION IS REPEATED FROM THE ON-LINE QUIZZES. YOUR STUDENTS MAY HAVE ALREADY SEEN THIS QUESTION AND ITS ANSWER.

12. Which of the following is a true statement?
    a. Net foreign investment always equals a nation's net exports.
    b. Net foreign investment equals a nation's exports plus national saving.
    c. National saving equals net foreign investment minus domestic investment.
    d. National saving equals domestic investment minus net foreign investment.

ANSWER: a. Net foreign investment always equals a nation's net exports.
TYPE: M KEY1: D SECTION: 1 OBJECTIVE: 4 RANDOM: Y

13. If a country has business opportunities that are relatively attractive compared to other countries, we would expect it to have
    a. both positive net exports and positive net foreign investment.
    b. both negative net exports and negative net foreign investment.
    c. positive net exports and negative net foreign investment.
    d. negative net exports and positive net foreign investment.

ANSWER: b. both negative net exports and negative net foreign investment.
TYPE: M KEY1: D SECTION: 1 OBJECTIVE: 4 RANDOM: Y

14. In late 1999 you could purchase about 325 Greek drachma (Greek currency) for a dollar. In late 2000 you could purchase about 400 drachma for a dollar. These exchange rates are given in
    a. real terms, and over this period the dollar appreciated.
    b. real terms, and over this period the dollar depreciated.
    c. nominal terms, and over this period the dollar appreciated.
    d. nominal terms, and over this period the dollar depreciated.

ANSWER: c. nominal terms, and over this period the dollar appreciated.
TYPE: M KEY1: D SECTION: 2 OBJECTIVE: 5 RANDOM: Y

15. In January 2000 the exchange rate was 5.6 new kwanza (Angolan currency) per dollar. In January 2001 it was 6 new kwanza per dollar.
    a. The dollar appreciated and so other things the same was worth more Angolan goods.
    b. The dollar appreciated and so other things the same was worth fewer Angolan goods.
    c. The dollar depreciated and so other things the same was worth more Angolan goods.
    d. The dollar depreciated and so other things the same was worth fewer Angolan goods.

ANSWER: a. The dollar appreciated and so other things the same was worth more Angolan goods.
TYPE: M KEY1: D SECTION: 2 OBJECTIVE: 5 RANDOM: Y

16. In the United States a three-pound can of coffee costs about $6. Suppose the exchange rate is about 50 Belgian francs per dollar and that a three-pound can of coffee in Belgium costs about 400 francs. What is the real exchange rate?
    a. 4/3 cans of Belgian coffee per can of U.S. coffee.
    b. 3/2 cans of Belgian coffee per can of U.S. coffee.
    c. 3/4 cans of Belgian coffee per can of U.S. coffee.
    d. 2/3 cans of Belgian coffee per can of U.S. coffee.

ANSWER: c. 3/4 cans of Belgian coffee per can of U.S. coffee.
TYPE: M KEY1: D SECTION: 2 OBJECTIVE: 5 RANDOM: Y

17. Suppose the nominal exchange rate is 100, the domestic price index is 50, and the foreign price index is 10. The real exchange rate is:
    a. 1,000.
    b. 500.
    c. 100.
    d. 50.

ANSWER: b. 500.
TYPE: M KEY1: D SECTION: 3 OBJECTIVE: 6 RANDOM: Y

18. Suppose that the exchange rate is 50 Bangladesh taka per dollar, that a bushel of rice costs 200 taka in Bangladesh and $3 in the United States. Then the real exchange rate is
    a. greater than one and arbitragers could profit by buying rice in the United States and selling it in Bangladesh.
    b. greater than one and arbitragers could profit by buying rice in Bangladesh and selling it in the United States.
    c. less than one and arbitragers could profit by buying rice in the United States and selling it in Bangladesh.
    d. less than one and arbitragers could profit by buying rice in Bangladesh and selling it in the United States.

ANSWER: c. less than one and arbitragers could profit by buying rice in the United States and selling it in Bangladesh.
TYPE: M KEY1: D SECTION: 3 OBJECTIVE: 6 RANDOM: Y

19. Which of the following does purchasing-power parity imply?
    a. the purchasing power of the dollar is the same in the United States as in foreign countries.
    b. the price of domestic goods relative to foreign goods cannot change.
    c. the nominal exchange rate is the ratio of U.S. prices to foreign prices.
    d. All of the above are correct.

ANSWER: a. the purchasing power of the dollar is the same in the United States as in foreign countries.
TYPE: M KEY1: C DIFFICULTY: 3 SECTION: 3 OBJECTIVE: 6 RANDOM: Y

20. The nominal exchange rate is about 2 Aruban florin per dollar. If a basket of goods in the United States costs $40, how many florins must a basket of goods in Aruba cost for purchasing-power parity to hold?
    a. 20 florin.
    b. 40 florin.
    c. 80 florin.
    d. 100 florin.

ANSWER: c. 80 florin.
TYPE: M KEY1: D SECTION: 3 OBJECTIVE: 6 RANDOM: Y

21. The exchange rate is about 200 Kazakhstan tenge per dollar. According to purchasing power parity this exchange rate would rise if the price level in
    a. either the United States or Kazakhstan rose.
    b. either the United States or Kazakhstan fell.
    c. the United States rose or the price level in Kazakhstan fell.
    d. the United States fell or the price level in Kazakhstan rose.

ANSWER: d. the United States fell or the price level in Kazakhstan rose.
TYPE: M KEY1: D SECTION: 3 OBJECTIVE: 6 RANDOM: Y

22. If inflation in other countries is higher than inflation in the United States over the next few months and exchange rates are given in terms of how much foreign currency a dollar buys and how many foreign goods U.S. goods buy, according to purchasing-power parity we should expect to see
    a. both the real and nominal exchange rate appreciate.
    b. both the real and nominal exchange rate depreciate.
    c. only the real exchange rate depreciate.
    d. only the nominal exchange rate appreciate.

ANSWER: d. only the nominal exchange rate appreciate.
TYPE: M KEY1: D SECTION: 3 OBJECTIVE: 6 RANDOM: Y

NOTE: THE FOLLOWING QUESTION IS REPEATED FROM THE ON-LINE QUIZZES. YOUR STUDENTS MAY HAVE ALREADY SEEN THIS QUESTION AND ITS ANSWER.

23. Suppose the dollar depreciates relative to the British pound. We know that:
    a. prices in the United States are falling.
    b. prices in the United States are rising.
    c. prices in Great Britain are rising.
    d. United States dollars will buy more British pounds.

ANSWER: b. prices in the United States are rising.
TYPE: M KEY1: D SECTION: 3 OBJECTIVE: 6 RANDOM: Y

24. If exchange rates are given in terms of how much foreign currency a dollar buys and how many foreign goods U.S. goods buy, then if the Fed increased the U.S. money supply other things the same, purchasing-power parity implies
    a. both the real and nominal exchange rate depreciate.
    b. only the real exchange rate depreciates.
    c. only the nominal exchange rate depreciates.
    d. None of the above is correct.

ANSWER: c. only the nominal exchange rate depreciates.
TYPE: M KEY1: D SECTION: 3 OBJECTIVE: 6 RANDOM: Y

25. Which of the following would be inconsistent with purchasing-power parity?
    a. Tom is traveling in Europe; he notices that he will have to give up the same amount of U.S. currency to obtain foreign currency to eat breakfast whether he eats in London or Paris.
    b. You observe that the exchange rate is 40 French francs per dollar. Over the next year inflation is higher in France than in the United States and the exchange rate is still 40 French francs per dollar.
    c. Both of the above are inconsistent with purchasing-power parity.
    d. Neither of the above is inconsistent with purchasing-power parity.

ANSWER: b. You observe that the exchange rate is 40 French francs per dollar. Over the next year inflation is higher in France than in the United States and the exchange rate is still 40 French francs per dollar.
TYPE: M KEY1: D SECTION: 3 OBJECTIVE: 6 RANDOM: Y

1 ANSWER: d. –$2.5 billion.
TYPE: M KEY1: D SECTION: 1 OBJECTIVE: 1 RANDOM: Y

2 ANSWER: b. exports equal $15 billion and imports equal $10 billion.
TYPE: M KEY1: D SECTION: OBJECTIVE: RANDOM: Y

3 ANSWER: a. This is Swiss foreign direct investment and by itself increases Swiss net foreign investment.
TYPE: M KEY1: D SECTION: 1 OBJECTIVE: 2 RANDOM: Y

4 ANSWER: a. this increases U.S. net foreign investment and decreases Albanian net foreign investment.
TYPE: M KEY1: D SECTION: 1 OBJECTIVE: 2 RANDOM: Y

5 ANSWER: b. this decreases U.S. net foreign investment and increases Ghanan net foreign investment.
TYPE: M KEY1: D SECTION: 1 OBJECTIVE: 2 RANDOM: Y

6 ANSWER: d. None of the above is correct.
TYPE: M KEY1: D SECTION: 1 OBJECTIVE: 3 RANDOM: Y

7 ANSWER: a. increases both U.S. net exports and U.S. net foreign investment.
TYPE: M KEY1: D SECTION: 1 OBJECTIVE: 3 RANDOM: Y

8 ANSWER: c. both domestic investment and net foreign investment increase.
TYPE: M KEY1: D SECTION: 1 OBJECTIVE: 4 RANDOM: Y

9 ANSWER: c. Both of the above are correct.
TYPE: M KEY1: D SECTION: 1 OBJECTIVE: 4 RANDOM: Y

10 ANSWER: a. Both 1. and 2. increase U.S. savings.
TYPE: M KEY1: D SECTION: 1 OBJECTIVE: 4 RANDOM: Y

11 ANSWER: b. both negative net exports and net foreign investment.
TYPE: M KEY1: D SECTION: 1 OBJECTIVE: 4 RANDOM: Y

12 ANSWER: a. Net foreign investment always equals a nation's net exports.
TYPE: M KEY1: D SECTION: 1 OBJECTIVE: 4 RANDOM: Y

13 ANSWER: b. both negative net exports and negative net foreign investment.
TYPE: M KEY1: D SECTION: 1 OBJECTIVE: 4 RANDOM: Y

14 ANSWER: c. nominal terms, and over this period the dollar appreciated.
TYPE: M KEY1: D SECTION: 2 OBJECTIVE: 5 RANDOM: Y

15 ANSWER: a. The dollar appreciated and so other things the same was worth more Angolan goods.
TYPE: M KEY1: D SECTION: 2 OBJECTIVE: 5 RANDOM: Y

16 ANSWER: c. 3/4 cans of Belgian coffee per can of U.S. coffee.
TYPE: M KEY1: D SECTION: 2 OBJECTIVE: 5 RANDOM: Y

17 ANSWER: b. 500.
TYPE: M KEY1: D SECTION: 3 OBJECTIVE: 6 RANDOM: Y

18 ANSWER: c. less than one and arbitragers could profit by buying rice in the United States and selling it in Bangladesh.
TYPE: M KEY1: D SECTION: 3 OBJECTIVE: 6 RANDOM: Y

19 ANSWER: a. the purchasing power of the dollar is the same in the United States as in foreign countries.
TYPE: M KEY1: C DIFFICULTY: 3 SECTION: 3 OBJECTIVE: 6 RANDOM: Y

20 ANSWER: c. 80 florin.
TYPE: M KEY1: D SECTION: 3 OBJECTIVE: 6 RANDOM: Y

21 ANSWER: d. the United States fell or the price level in Kazakhstan rose.
TYPE: M KEY1: D SECTION: 3 OBJECTIVE: 6 RANDOM: Y

22 ANSWER: d. only the nominal exchange rate appreciate.
TYPE: M KEY1: D SECTION: 3 OBJECTIVE: 6 RANDOM: Y

23 ANSWER: b. prices in the United States are rising.
TYPE: M KEY1: D SECTION: 3 OBJECTIVE: 6 RANDOM: Y

24 ANSWER: c. only the nominal exchange rate depreciates.
TYPE: M KEY1: D SECTION: 3 OBJECTIVE: 6 RANDOM: Y

25 ANSWER: b. You observe that the exchange rate is 40 French francs per dollar. Over the next year inflation is higher in France than in the United States and the exchange rate is still 40 French francs per dollar.
TYPE: M KEY1: D SECTION: 3 OBJECTIVE: 6 RANDOM: Y