

For each of the following questions, select the choice that BEST corresponds with the answer. You will receive 10 points for each correct answer; 5 points will be deducted for each incorrect answer. Points will be neither awarded or taken away if you do not attempt to answer a question.

1. If the general level of prices in the United States increases relative to prices in Japan,
 - A. the value of the dollar will likely depreciate relative to the yen.
 - B. the value of the dollar will likely appreciate relative to the yen.
 - C. the value of the dollar will likely remain constant relative to the yen.
 - D. not enough information is given.

2. The organization responsible for mediating trade disputes is the
 - A. International Monetary Fund.
 - B. World Trade Organization.
 - C. World Bank.
 - D. The G-7 Countries.

3. The concept of the invisible hand was introduced by
 - A. John Maynard Keynes.
 - B. Adam Smith.
 - C. Thomas Jefferson.
 - D. J.S. Mill.
 - E. Thomas Malthus.

4. A price war is indicated when gasoline companies
 - A. raise their prices on holiday weekends.
 - B. offer gifts to entice customers.
 - C. build opposing stations in the same area.
 - D. lower their prices to undercut their competition.

5. Economic booms tend to be transmitted across the U.S. border because
 - A. as other nations experience a downturn in their economies, the United States must experience an upturn in its economy.
 - B. the United States will import more foreign goods in a recession.
 - C. a boom abroad gives foreigners rising incomes, which means they will buy more imported goods and U.S. exports will rise.

- D. All of the above are correct.
6. The "capital account" in balance of payments data includes
- A. everything in the balance of trade.
 - B. U.S. government payments to other countries for military bases.
 - C. profits that Nissan of America sends back to Japan.
 - D. new U.S. investments abroad.
 - E. None of the above.
7. The ratio of a company's share price to its profits (i.e., earnings) per share is called the _____, which is currently _____ compared with the past 20-year average.
- A. p/e ratio, lower.
 - B. e/p ratio, higher.
 - C. p/e ratio, higher.
 - D. e/p ratio, lower.
 - E. p/e ratio, about the same.
8. Which of the following statements is true?
- A. The value of a dollar increases when there is inflation.
 - B. If the CPI (Consumer Price Index) is 140, consumer prices are 140% higher than they were in the base period.
 - C. One measure of the rate of inflation is the percentage change in the CPI
 - D. The CPI measures price changes for all goods in the economy.
 - E. All the above statements are true.
9. A deficit on the current account
- A. tends to cause a surplus on the capital account.
 - B. tends to cause a deficit on the capital account.
 - C. has no relationship to the capital account.
 - D. means that a nation is making international transfers.
10. The U.S. Treasury secretary met with the Japanese finance minister to discuss possible cuts in the Japanese discount rate. The likely outcome of currency speculation on this matter is
- A. the dollar will appreciate relative to the yen.
 - B. the dollar will depreciate relative to the yen.

- C. the value of the dollar will remain constant relative to the yen.
D. not enough information is given.
11. Subsidies mean that infant industry firms can likely charge
- A. higher prices while competing with foreign producers
 - B. higher prices than foreign producers are able to receive.
 - C. a price equal to the world price and still earn a profit.
 - D. the foreign tariff to other customers of the foreign firm.
12. The World Bank was created to
- A. help finance economic development in poor countries.
 - B. supervise exchange-rate practices of member countries.
 - C. lend money to countries that are having difficulty meeting their international payment obligations.
 - D. All of the above.
13. In a nation's balance of payments, which one of the following items is always recorded as a positive entry?
- A. merchandise exports
 - B. changes in foreign currency reserves
 - C. exports of services
 - D. none of the above
14. A voluntary exchange between two nations
- A. is expected to lead to mutual gains.
 - B. is expected to make one of the two nations stronger.
 - C. usually comes after devious negotiations.
 - D. can only happen with prior approval from the United Nations.
15. Which of the following is most likely correct?
- A. An easy money policy will cause the dollar to depreciate and will increase U.S. net exports.
 - B. An easy money policy will cause the dollar to depreciate and will decrease U.S. net exports.
 - C. An easy money policy will cause the dollar to appreciate and will increase U.S. net exports.

- D. An easy money policy will cause the dollar to appreciate and will decrease U.S. net exports.
16. The purchasing-power parity theory of exchange rate determination holds that
- A. in the short run, the cost of labor really sets the exchange rate.
 - B. in the long run, a government agency sets the rate at par (or parity).
 - C. in the long run, the rate reflects differences in price levels between the two countries.
 - D. in the short run, rates will adjust to parity.
17. In the current international monetary system, what is the role for gold?
- A. The system is a gold-exchange standard, based on a fixed value for a key currency.
 - B. It serves as a stabilizing asset.
 - C. Gold backs each currency and therefore the system as a whole.
 - D. It has no significant role.
18. Which of the following might lead a nation to engage in international trade?
- A. Differences in natural endowments such as climate.
 - B. Differences in skills of labor force.
 - C. Differences in endowments of natural resources.
 - D. Inability to attain economies of scale in all industries.
 - E. All of the above.
19. An essential point in the refutation of the "cheap foreign labor" argument is
- A. foreign workers have a lower standard of living.
 - B. foreign workers are less productive.
 - C. low foreign wages mean fewer exports for the United States.
 - D. the United States does not benefit from cheap foreign labor so the goods should be kept out.
20. In 1980, U.S. citizens imported merchandise valued at about \$28 billion more than the merchandise they exported. This counts as a deficit
- A. in the balance of trade.
 - B. in the balance of payments.
 - C. in unilateral transfers.
 - D. on the capital account.
 - E. All of the above are correct.

Answers

1. A
2. B
3. B
4. D
5. C
6. D
7. C
8. C
9. A
10. A
11. C
12. A
13. C
14. A
15. A
16. C
17. D
18. E
19. B
20. A