Country A both imports and produces tea. If Country A imposes a tariff on imported tea, which of the following will occur?

(A)Tea consumption will increase.

(B)Domestic tea production will decrease.

(C)Employment in the domestic tea industry will increase.

(D)The domestic price of tea will decrease.

(E)Country A’s currency will depreciate.

Which of the following will increase the United States trade deficit?

(A)United States firms buying technologically advanced computers from Germany

(B)European citizens traveling in large numbers to the United States

(C)A United States company being hired to build a production plant in another country

(D)The United States dollar depreciating in the foreign exchange market

(E)The United States selling one million tons of wheat to China

Which of the following is true in the short-run if consumers buy more imported goods and fewer domestic goods?

(A)The trade balance moves toward deficit, and equilibrium income decreases.

(B)The trade balance moves toward deficit, and equilibrium income increases.

(C)The trade balance moves toward surplus, and equilibrium income is unaffected.

(D)The trade balance moves toward surplus, and equilibrium income decreases.

(E)The trade balance is unaffected, and equilibrium income decreases.

Tariffs are different from assigned import quotas in that tariffs will

(A)restrict imports

(B)increase the price of imported goods

(C)benefit domestic consumers of imported goods

(D)hurt domestic producers of goods facing import competition

(E)generate additional revenue for the domestic government

An increase in the international value of the United States dollar will tend to cause

(A)United States exports to fall

(B)the national income of the United States to increase

(C)employment in the manufacturing sector of the United States to increase

(D)the inflation rate in the United States to increase

(E)the growth rate of the United States economy to increase

Which of the following statements best describes the impact of a decrease in Japanese income on aggregate demand in the United States?

(A)There will be no change in aggregate demand because United States aggregate demand depends only on the income of United States consumers.

(B)Aggregate demand will decrease because the demand for United States exports decreases.

(C)Aggregate demand will decrease because the value of the United States dollar decreases relative to the Japanese yen.

(D)Aggregate demand will increase because a decrease in income in Japan causes an increase in income in the United States.

(E)Aggregate demand will increase because interest rates in the United States decrease.

If the exchange rate between the United States dollar ($) and the British pound (£) changed from $2 per £1 to $3 per £1, and domestic prices in both countries stayed the same, then the United States dollar would

(A)depreciate, making United States imports from Britain more expensive

(B)depreciate, making United States imports from Britain cheaper

(C)appreciate, making United States imports from Britain more expensive

(D)appreciate, making United States imports from Britain cheaper

(E)purchase 3 times more British goods than before the change occurred

Which of the following best explains why many United States economists support free international trade?

(A)Workers who lose their jobs can collect unemployment compensation.

(B)It is more important to reduce world inflation than to reduce United States unemployment.

(C)Workers are not affected; only businesses suffer.

(D)The long-run gains to consumers and some producers exceed the losses to other producers.

(E)Government can protect United States industries while encouraging free trade.

Assume that Canada imports more goods and services than it exports. Which of the following is true of the Canadian balance of payments accounts?

(A)The current account balance must be negative.

(B)The current account balance must be positive.

(C)The trade balance must be negative.

(D)The financial account (formerly called capital account) balance must be negative.

(E)The financial account (formerly called capital account) balance must be positive.

An increase in Canada’s real interest rates relative to real interest rates in the rest of the world will lead to which of the following in Canada?

(A)An increase in exports

(B)A decrease in imports

(C)A reduced government budget deficit

(D)Financial capital inflow

(E)Depreciation of the Canadian dollar

The purchase of United States government bonds by Japanese investors will be included in Japan's

(A)current account

(B)financial account (formerly called capital account)

(C)trade deficit

(D)foreign direct investment

(E)imports

Following a decrease in the real interest rate, there is an increase in financial capital outflows from Country A. The increase in capital outflows will most likely have which of the following effects on Country A's net exports and aggregate demand?

(A)Net Exports = Decrease ; Aggregate Demand = Decrease

(B)Net Exports = Decrease ; Aggregate Demand = No Change

(C)Net Exports = Increase ; Aggregate Demand = Increase

(D)Net Exports = Increase ; Aggregate Demand = Decrease

(E)Net Exports = Increase ; Aggregate Demand = No Change

Which of the following will lower the prices of a country's outstanding government bonds?

(A)An open-market purchase of government bonds by the country's central bank

(B)A decrease in the required reserve ratio for the country's commercial banks

(C)An outflow of financial capital to other countries

(D)A decrease in the country's government spending

(E)A decrease in inflationary expectations in the country

If a country has a deficit in its current account, there will be a

(A)surplus in the financial account (formerly called capital account)

(B)surplus in the trade balance

(C)surplus in the balance of payments

(D)deficit in the financial account (formerly called capital account)

(E)deficit in the balance of payments

A country can have an increased surplus in its balance of trade as a result of

(A)an increase in domestic inflation

(B)declining imports and rising exports

(C)higher tariffs imposed by its trading partners

(D)an increase in capital inflow

(E)an appreciating currency

Which of the following would be a current account transaction?

(A)India buys $10 billion of new United States Treasury bonds.

(B)A United States firm buys 5 percent of the stock of another United States firm.

(C)A United States firm builds a new factory in Kenya.

(D)A United States firm sells $500 million of its products to a Chinese company.

(E)The United States buys $8 billion worth of euros.

Which of the following is an example of foreign direct investment?

(A)A United States automobile manufacturer building a steel plant in Russia

(B)A United States citizen purchasing corporate bonds issued by a French manufacturing firm

(C)A Mexican citizen purchasing United States Treasury bills

(D)The Federal Reserve purchasing Japanese yen

(E)Immigrant workers in the United States sending money to their native country

If the real interest rate in the United States increases relative to that of the rest of the world, capital should flow

(A)into the United States and the dollar will depreciate

(B)into the United States and the dollar will appreciate

(C)out of the United States and the dollar will depreciate

(D)out of the United States and the dollar will appreciate

(E)out of the United States and the value of the dollar will not change

If a country has a current account deficit, which of the following must be true?

(A)It must also show a deficit in its capital account.

(B)It must show a surplus in its capital account.

(C)It must increase the purchases of foreign goods and services.

(D)It must increase the domestic interest rates on its bonds.

(E)It must limit the flow of foreign capital investment.

Which of the following is true if exchange rates are freely floating?

(A)The free market forces of demand and supply determine the equilibrium exchange rates.

(B)The demand curve for the currency is upward sloping.

(C)Only nominal values of currency can be determined.

(D)The market determines the equilibrium value of the currency, but governments buy and sell currency at a fixed rate.

(E)Governments are unable to affect the international value of their currency.

When Country X’s central bank engages in monetary policy actions that lead to a decrease in interest rates, the international value of Country X’s currency and Country X’s exports and imports will most likely change in which of the following ways?

(A)Value of the Currency = Increase ; Exports = Increase ; Imports = Increase

(B)Value of the Currency = Increase ; Exports = Increase ; Imports = Decrease

(C)Value of the Currency = Increase ; Exports = Decrease ; Imports = Decrease

(D)Value of the Currency = Decrease ; Exports = Increase ; Imports = Decrease

(E)Value of the Currency = Decrease ; Exports = Increase ; Imports = Increase

An increase in the international value of the United States dollar will most likely benefit

(A)domestic producers of premium wines sold to people in other countries

(B)currency traders holding large quantities of yen

(C)German citizens vacationing in the United States

(D)Canadian citizens expecting to purchase real estate in the United States

(E)retired United States citizens living overseas on their social security checks

Suppose that Country A is experiencing high inflation relative to Country B, which is enjoying steady growth with a stable price level. Which of the following would occur in the foreign exchange market?

(A)An increase in the demand for Country A's currency

(B)An increase in the supply of Country B's currency

(C)A decrease in the supply of Country A's currency

(D)A decrease in the demand for Country B's currency

(E)A depreciation of Country A's currency

Which of the following will lead to a depreciation of a nation's currency?

(A)Lower inflation in the nation than in the rest of the world

(B)Higher required reserve ratio in the nation than in the rest of the world

(C)Decreased real interest rates in the nation compared with the rest of the world

(D)Increased demand for the nation's currency

(E)Decreased supply of the nation's currency

If the value of the United States dollar increases on the foreign exchange market, which of the following is most likely to occur in the short run?

(A)Aggregate demand will decrease.

(B)Aggregate demand will increase.

(C)Aggregate supply will decrease.

(D)Both aggregate demand and aggregate supply will decrease.

(E)Both aggregate demand and aggregate supply will increase.

If the international value of the United States dollar depreciates in comparison with the Japanese yen, which of the following is most likely to occur?

(A)United States exports to Japan will increase.

(B)The United States government will increase the tariff on Japanese imports.

(C)The United States balance-of-trade deficit with Japan will become even larger.

(D)United States tourists can be expected to visit Japan in greater numbers.

(E)Trade between the United States and Japan will not be affected.

Which of the following is most likely to benefit from an appreciation in the United States dollar in the short run?

(A)United States investors holding European bonds

(B)Importers in foreign countries seeking raw inputs at a lower price

(C)United States exporters selling capital equipment

(D)United States tourists traveling to foreign countries

(E)European consumers buying United States goods

An increase in United States imports will result in which of the following in foreign exchange markets?

(A)Increased foreign demand for United States dollars

(B)Decreased supply of United States dollars

(C)Increased United States demand for foreign currencies

(D)A decrease in the value of foreign currencies

(E)An increase in the value of the United States dollar

Assume that the Federal Reserve pursues a contractionary monetary policy. Based on the resulting change in the interest rate, what will happen to the international value of the dollar, United States imports, and United States exports?

(A)International Value of the Dollar = Increase ; United States Imports = Increase ; United States Exports = Increase

(B)International Value of the Dollar = Increase ; United States Imports = Increase ; United States Exports = Decrease

(C)International Value of the Dollar = Increase ; United States Imports = Decrease ; United States Exports = Increase

(D)International Value of the Dollar = Decrease ; United States Imports = Increase ; United States Exports = Decrease

(E)International Value of the Dollar = Decrease ; United States Imports = Decrease ; United States Exports = Increase

The value of a country's currency will tend to appreciate if

(A)demand for the country's exports increases

(B)the country's money supply increases

(C)the country's citizens increase their travel abroad

(D)domestic interest rates decrease

(E)tariffs on the country's imports decrease

Which of the following is likely to occur following the depreciation of the United States dollar?

(A)United States imports will increase.

(B)United States exports will increase.

(C)Demand for the United States dollar will decrease.

(D)United States demand for foreign currencies will increase.

(E)United States goods will become more expensive in foreign markets.

If Country Alpha has been experiencing a higher inflation rate than Country Beta over the past decade, which of the following is true?

(A)Alpha's currency will have appreciated relative to Beta's currency.

(B)Alpha's currency will have depreciated relative to Beta's currency.

(C)Alpha will have had lower nominal interest rates than Beta.

(D)Alpha will have had slower growth in the money supply than Beta.

(E)Alpha's economy will have grown at a faster rate than Beta's.

Under a flexible exchange-rate system, the Indian rupee will appreciate against the Japanese yen when

(A)India's inflation rate exceeds Japan's

(B)India has a trade deficit with Japan

(C)Japan's economy enters a recession, but India's does not

(D)Japan's money supply decreases while India's money supply increases

(E)real interest rates in India increase relative to those in Japan

The price of one nation s currency expressed in terms of another nation's currency is called

(A)the world price

(B)the exchange rate

(C)the law of one price

(D)terms of trade

(E)purchasing-power parity

Assume that the inflation rate in Country X is very high relative to the inflation rates in all of its trading partners. Which of the following is likely to happen to Country X's currency on the foreign exchange market?

(A)The demand curve for the currency will shift to the right, and the currency will appreciate.

(B)The demand curve for the currency will shift to the left, and the currency will depreciate.

(C)The supply curve for the currency will shift to the left, and the currency will appreciate.

(D)The supply curve for the currency will shift to the left, and the currency will depreciate.

(E)There will be no shift in the demand curve for the currency, but the-currency will depreciate.

If a French firm buys computers from the United States, there would be an increase in which of the following in the foreign exchange market?

(A)Demand for United States dollars and supply of euros

(B)Demand for both United States dollars and euros

(C)Supply of United States dollars and demand for euros

(D)Supply of both United States dollars and euros

(E)International value of the euro relative to the United States dollar

If the real interest rates in the United States rise relative to rates in other countries, what will happen to the international value of the United States dollar and United States net exports?

(A)Value of the Dollar = Depreciate ; Net Exports = Increase

(B)Value of the Dollar = Depreciate ; Net Exports = Decrease

(C)Value of the Dollar = Depreciate ; Net Exports = No Change

(D)Value of the Dollar = Appreciate ; Net Exports = Decrease

(E)Value of the Dollar = Appreciate ; Net Exports = Increase

An appreciation of the United States dollar on the foreign exchange market could be caused by a decrease in which of the following?

(A)United States interest rates

(B)The United States consumer price index

(C)Demand for the dollar by United States residents

(D)Exports from the United States

(E)The tariff on goods imported into the United States

Which of the following will cause the United States dollar to depreciate relative to the euro?

(A)An increase in household income in the United States

(B)An increase in interest rates in the United States

(C)An increase in household income in Europe

(D)A decrease in interest rates in Europe

(E)A decrease in price level in the United States

Assume that the world operates under a flexible exchange rate system. If the central bank of Mexico increases its money supply but other countries do not change theirs, Mexico's inflation rate and the international value of the Mexican peso will most likely change in which of the following ways?

(A)Inflation Rate = Increase ; International Value of the Peso = Appreciate

(B)Inflation Rate = Increase ; International Value of the Peso = Depreciate

(C)Inflation Rate = Increase ; International Value of the Peso = No Change

(D)Inflation Rate = Decrease ; International Value of the Peso = Appreciate

(E)Inflation Rate = Decrease ; International Value of the Peso = Depreciate

Assuming fixed exchange rates, if country Z's rate of inflation increases relative to its trading partners, Country Z's imports and exports will most likely change in which of the following ways?

(A)Imports = Decrease ; Exports = Decrease

(B)Imports = Decrease ; Exports = Increase

(C)Imports = Increase ; Exports = Decrease

(D)Imports = Increase ; Exports = Increase

(E)Imports = No Change ; Exports = No Change

In an open economy, an increase in government budget deficit tends to cause the international value of a country's currency and its trade deficit to change in which of the following ways?

(A)Value of Currency = Appreciate ; Trade Deficit = Become Smaller

(B)Value of Currency = Appreciate ; Trade Deficit = Become Larger

(C)Value of Currency = Depreciate ; Trade Deficit = Become Smaller

(D)Value of Currency = Depreciate ; Trade Deficit = Become Larger

(E)Value of Currency = Not Change ; Trade Deficit = Not Change

If Mexicans increase their investment in the United States, the supply of Mexican pesos to the foreign exchange market and the dollar price of the peso will most likely change in which of the following ways?

(A)Supply of Pesos = Increase ; Dollar Price of Peso = Increase

(B)Supply of Pesos = Increase ; Dollar Price of Peso = Decrease

(C)Supply of Pesos = Decrease ; Dollar Price of Peso = Increase

(D)Supply of Pesos = Decrease ; Dollar Price of Peso = Decrease

(E)Supply of Pesos = Decrease ; Dollar Price of Peso = Not Change

If the real interest rate in Country X increases relative to the real interest rate in Country Y and there are no trade barriers between the two countries, then for Country X which of the following will be true of its capital flow, the value of its currency, and its exports?

(A)Capital Flow = Inflow ; Currency = Appreciation ; Exports = Increase

(B)Capital Flow = Inflow ; Currency = Appreciation ; Exports = Decrease

(C)Capital Flow = Inflow ; Currency = Depreciation ; Exports = Increase

(D)Capital Flow = Outflow ; Currency = Depreciation ; Exports = Increase

(E)Capital Flow = Outflow ; Currency = Appreciation ; Exports = Decrease

With an increase in investment demand in the United States, the real interest rate rises. In this situation, the most likely change in the capital stock in the United States and in the international value of the dollar would be which of the following?

(A)Capital Stock in United States = Increase ; International Value of the Dollar = Decrease

(B)Capital Stock in United States = Increase ; International Value of the Dollar = No change

(C)Capital Stock in United States = Increase ; International Value of the Dollar = Increase

(D)Capital Stock in United States = Decrease ; International Value of the Dollar = Increase

(E)Capital Stock in United States = No change ; International Value of the Dollar = Decrease

Which of the following would cause the United States dollar to increase in value compared to the Japanese yen?

(A)An increase in the money supply in the United States

(B)An increase in interest rates in the United States

(C)An increase in the United States trade deficit with Japan

(D)The United States purchase of gold on the open market

(E)The sale of $2 billion dollars worth of Japanese television sets to the United States

Assume that the supply of loanable funds increases in Country X. The international value of Country X's currency and Country X's exports will most likely change in which of the following ways?

(A)International Value of Country X’s Currency = Decrease ; Country X’s Exports = Decrease

(B)International Value of Country X’s Currency = Decrease ; Country X’s Exports = Increase

(C)International Value of Country X’s Currency = Increase ; Country X’s Exports = Decrease

(D)International Value of Country X’s Currency = Increase ; Country X’s Exports = Increase

(E)International Value of Country X’s Currency = Not Change ; Country X’s Exports = Not Change

An increase in Japan's demand for United States goods would cause the value of the dollar to

(A)depreciate because of inflation

(B)depreciate because the United States would be selling more dollars to Japan

(C)depreciate because the United States money supply would increase as exports rise

(D)appreciate because Japan would be buying more United States dollars

(E)appreciate because Japan would be selling more United States dollars

Which of the following changes will occur to the demand for United States dollars and the international value of the dollar in the short run if investors in the United States and abroad increase their purchases of United States government bonds?

(A)Demand for Dollars = Decrease ; International Value of the Dollar = Decrease

(B)Demand for Dollars = Decrease ; International Value of the Dollar = Increase

(C)Demand for Dollars = Decrease ; International Value of the Dollar = No Change

(D)Demand for Dollars = Increase ; International Value of the Dollar = Decrease

(E)Demand for Dollars = Increase ; International Value of the Dollar = Increase

In a flexible system of exchange rates, an open market sale of bonds by the Federal Reserve will most likely change the money supply, the interest rate, and the value of the United States dollar in which of the following ways?

(A)Money Supply = Increase ; Interest Rate = Decrease ; Value of the Dollar = Decrease

(B)Money Supply = Increase ; Interest Rate = Decrease ; Value of the Dollar = Increase

(C)Money Supply = Decrease ; Interest Rate = Decrease ; Value of the Dollar = Decrease

(D)Money Supply = Decrease ; Interest Rate = Increase ; Value of the Dollar = Increase

(E)Money Supply = Decrease ; Interest Rate = Increase ; Value of the Dollar = Decrease