Name: ___________________________________ Date: ______________

1. A country's exports may be written as equal to:
   A) GDP minus consumption minus investment minus government spending.
   B) GDP minus consumption of domestic goods and services minus investment of domestic goods and services minus government purchases of domestic goods and services.
   C) imports.
   D) GDP minus imports.

2. The value of net exports is also the value of:
   A) net investment.
   B) net saving.
   C) national saving.
   D) the excess of national saving over domestic investment.

3. Net capital outflow is equal to:
   A) national saving minus the trade balance.
   B) domestic investment plus the trade balance.
   C) domestic investment minus national saving.
   D) national saving minus domestic investment.

4. If domestic saving is less than domestic investment, then net exports are ______ and net capital outflows are ______.
   A) positive; positive
   B) positive; negative
   C) negative; negative
   D) negative; positive

5. In a small open economy, if exports equal $20 billion, imports equal $30 billion, and domestic national saving equals $25 billion, then net capital outflow equals:
   A) –$25 billion.
   B) –$10 billion.
   C) $10 billion.
   D) $25 billion.

6. In a small open economy, if exports equal $5 billion and imports equal $7 billion, then there is a trade ______ and ______ net capital outflow.
   A) deficit; negative
   B) surplus; negative
   C) deficit; positive
   D) surplus; positive

7. In a small open economy, if domestic investment exceeds domestic saving, then the extra investment will be financed by:
   A) borrowing from abroad.
   B) borrowing from domestic banks.
   C) the domestic government.
   D) the World Bank.

8. If a U.S. corporation sells a product in Canada and uses the proceeds to purchase a product manufactured in Canada, then U.S. net exports ______ and net capital outflows ______.
   A) increase; increase
   B) decrease; decrease
   C) do not change; do not change
   D) do not change; increase

9. A "small" economy is one in which the:
   A) level of output is fixed.
   B) price level is fixed.
   C) domestic interest rate equals the world interest rate.
   D) domestic saving is less than domestic investment.

10. A small open economy with perfect capital mobility is characterized by *all* of the following *except* that:
   A) its domestic interest rate always exceeds the world interest rate.
   B) it engages in international trade.
   C) its net capital outflows always equal the trade balance.
   D) its government does not impede international borrowing or lending.

11. Building an economic model based on the assumption of a small open economy is useful because:
    A) it accurately describes the U.S. economy.
    B) it is more complicated and realistic than a model based on the assumption of a large open economy.
    C) this simplifying assumption can assist our understanding and intuition of open economy macroeconomics.
    D) it is not possible to build models of large open economies.

12. Holding other factors constant, legislation to cut taxes in an open economy will:
    A) increase national saving and lead to a trade surplus.
    B) increase national saving and lead to a trade deficit.
    C) reduce national saving and lead to a trade surplus.
    D) reduce national saving and lead to a trade deficit.

13. If the government of a small open economy wishes to reduce a trade deficit, which policy action will be successful in achieving this goal?
    A) increasing taxes
    B) increasing government spending
    C) increasing investment tax credits
    D) imposing protectionist trade policies

14. As the U.S. budget deficit shrank in the 1990s, the increase in U.S. national saving was ______ than the expansionary shift in the U.S. investment function, resulting in a trade ______.
    A) stronger; deficit
    B) stronger; surplus
    C) weaker; deficit
    D) weaker; surplus

15. If the real exchange rate depreciates from 1 Japanese good per U.S. good to 0.5 Japanese good per U.S. good, then U.S. exports ______ and U.S. imports ______.
    A) increase; increase
    B) decrease; decrease
    C) increase; decrease
    D) decrease; increase

16. The real exchange rate is determined by the equality of:
    A) saving and the demand for net exports.
    B) investment and the demand for net exports.
    C) net capital outflow and the demand for net exports.
    D) the negative value of net capital outflow and the demand for net exports.

17. In a small open economy with perfect capital mobility, a reduction in the government's budget deficit ______ net exports and the real exchange rate ______.
    A) increases; appreciates
    B) increases; depreciates
    C) decreases; appreciates
    D) decreases; depreciates

18. In a small open economy, when foreign governments reduce national saving in their countries, the equilibrium real exchange rate:
    A) rises and net exports fall.
    B) rises and net exports rise.
    C) falls and net exports fall.
    D) falls and net exports rise.

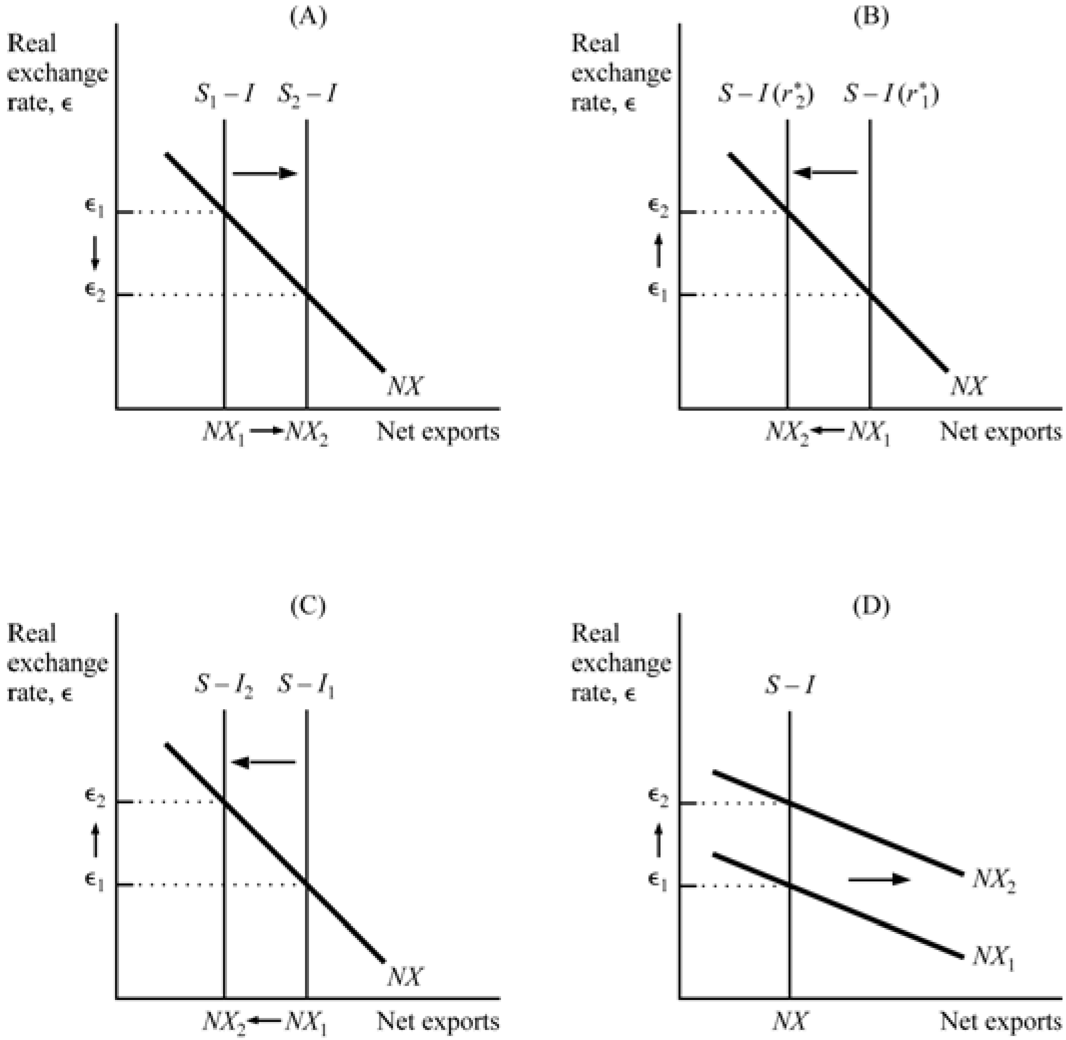
19. In a small open economy, if the government encourages investment, through, say, an investment tax credit, investment:
    A) increases and is financed through an increase in national saving.
    B) increases and is financed through an increase in exports.
    C) increases and is financed through an inflow of foreign capital.
    D) does not increase; the interest rate rises instead.

20. If the information technology boom increases investment demand in a small open economy, then net exports ______ and the real exchange rate ______.
    A) increase; appreciates
    B) increase; depreciates
    C) decrease; appreciates
    D) decrease; depreciates

21. An appreciation of the real exchange rate in a small open economy could be the result of:
    A) an increase in government spending.
    B) an increase in taxes.
    C) a decrease in the world interest rate.
    D) the expiration of an investment tax-credit provision.

Use the following to answer question 22.

Exhibit: Policies Influence Real Exchange Rate



22. (Exhibit: Policies Influence Real Exchange Rate) Which of the panels illustrates the impact on the real exchange rate of contractionary fiscal policies at home?
A) (A)
B) (B)
C) (C)
D) (D)

23. Expansionary fiscal policy in a large open economy ______ the real interest rate and ______ the real exchange rate.
    A) does not change; increases
    B) increases; increases
    C) increases; decreases
    D) decreases; increases