

1. Open-economy macroeconomics is the branch of economics that deals with:
  - A) reducing regulations on business.
  - B) the relationships between economies of different nations.
  - C) reducing employment discrimination.
  - D) the provision of financial information to investors.
2. If the United States imports more goods from Japan than it exports to Japan, how can the difference be financed?
  - A) U.S. consumers would simply borrow money from domestic banks.
  - B) The United States could buy more Japanese assets.
  - C) The United States could sell assets and create a liability obligating Americans to pay for those imports in the future.
  - D) The United States could sell assets to the Japanese, which would reduce its liabilities.
3. If assets owners in Japan and the United States consider Japanese and U.S. assets as good substitutes for each other and if the U.S. interest rate is 5% and the Japanese interest rate is 2%, then all of the following will occur EXCEPT that:
  - A) financial inflows will reduce the U.S. interest rate.
  - B) financial outflows will increase the Japanese interest rate.
  - C) the interest rate gap between the United States and Japan will be eliminated.
  - D) loanable funds will be exported from the United States to Japan.
4. If asset owners in Japan and the United States consider Japanese and U.S. assets as good substitutes for each other and if the U.S. interest rate is 5% while the Japanese interest rate is 2%:
  - A) financial inflows will reduce the U.S. interest rate.
  - B) financial outflows will reduce the Japanese interest rate.
  - C) the interest rate gap between the United States and Japan will grow.
  - D) financial inflows will increase the U.S. interest rate.
5. If foreign countries are increasing their demand for U.S. financial assets, then we can expect the U.S. dollar to \_\_\_\_\_ and the current account balance to \_\_\_\_\_, all other things equal.
  - A) appreciate; increase
  - B) appreciate; decrease
  - C) depreciate; increase
  - D) depreciate; decrease

6. If the U.S. dollar depreciates relative to currencies in other countries, then U.S. imports:
- A) and exports will both increase.
  - B) and exports will both decrease.
  - C) will decrease and exports will increase.
  - D) will increase and exports will decrease.
7. If the exchange rate is 8 Chinese yuan per U.S. dollar, the U.S. price index is 145, and the Chinese price index is 206, the real exchange rate is:
- A) 11.36 yuan.
  - B) 7.62 yuan.
  - C) 5.63 yuan.
  - D) 0.08 yuan.
8. If the exchange rate is \$1.50 per euro, the U.S. price level is 180, and the Eurozone price level is 120, then the real exchange rate is:
- A) \$1.
  - B) \$1.50.
  - C) \$2.40.
  - D) \$1.20.
9. The real exchange rate between the U.S. dollar and the Indian rupee is the:
- A) exchange rate between the dollar and the rupee.
  - B) exchange rate between the dollar and the rupee divided by the price level in India.
  - C) amount of Indian rupees per dollar multiplied by the relative price levels in the United States and India.
  - D) official exchange rate between the dollar and the rupee quoted by the banks in the United States and India.
10. Purchasing power parity refers to:
- A) how many units of foreign currency a dollar will buy.
  - B) how many foreign assets the United States is buying.
  - C) how many foreign assets a foreign country is buying.
  - D) the nominal exchange rate for which a market basket would cost the same in each country.
11. U.S. exports increased in 2006 because:
- A) NAFTA was repealed.
  - B) a global currency was established.
  - C) the dollar depreciated.
  - D) the dollar appreciated.

12. If the U.S. dollar depreciates, other things being equal, then:
- A) the U.S. financial account is in surplus.
  - B) exports from the United States to other countries will decrease.
  - C) it falls in value against some other currency.
  - D) the U.S. current account is in deficit.
13. A decrease in U.S. interest rates causes the dollar to \_\_\_\_\_ and aggregate demand to \_\_\_\_\_.
- A) depreciate; increase
  - B) depreciate; decrease
  - C) appreciate; increase
  - D) appreciate; decrease
14. An increase in U.S. interest rates causes a decrease in aggregate demand by:
- A) increasing investment, appreciating the dollar, and increasing imports.
  - B) decreasing investment, appreciating the dollar, and increasing imports.
  - C) increasing investment, depreciating the dollar, and increasing exports.
  - D) decreasing investment, depreciating the dollar, and decreasing exports.
15. The nominal exchange rate:
- A) is adjusted for inflation.
  - B) always equals the purchasing power parity.
  - C) is unadjusted for inflation.
  - D) affects the current account.
16. All other things being equal, if the economy of Europe expands rapidly and this increases tourism dramatically in the United States, which of the following will be the likely result?
- A) The euro will appreciate.
  - B) The U.S. dollar will appreciate.
  - C) The demand for the dollar will fall.
  - D) The demand for the euro will fall.
17. If the supply of U.S. dollars in Britain increases, then all of the following occurs EXCEPT that:
- A) the dollar depreciates against the British pound.
  - B) the British pound appreciates against the dollar.
  - C) the dollar price of the pound increases.
  - D) the dollar appreciates.

18. If the demand for British pounds in the United States rises, then:
- A) the U.S. dollar appreciates.
  - B) the British pound price of the U.S. dollar increases.
  - C) the U.S. dollar price of the British pound increases.
  - D) the pound depreciates.

Use the following to answer questions 19-20:

**Scenario: Exchange Rates**

The value of a euro goes from US\$1.25 to US\$1.50.

19. (Scenario: Exchange Rates) Refer to the information provided in the scenario. In Germany, exports:
- A) will increase, and imports will decrease.
  - B) and imports will increase.
  - C) will decrease, and imports will increase.
  - D) and imports will decrease.
20. (Scenario: Exchange Rates) Refer to the information provided in the scenario. French exports to the United States will:
- A) be cheaper.
  - B) be more expensive.
  - C) be unaffected.
  - D) increase.