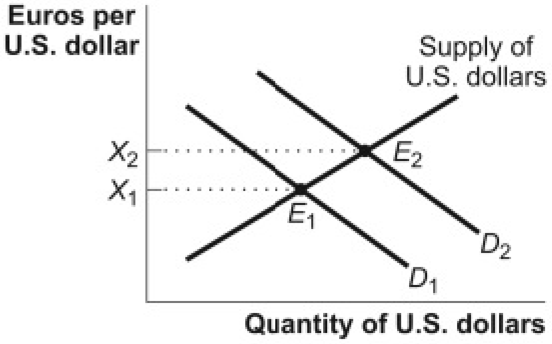
Name: ____________________________ Date: ______________

Use the following to answer questions 1-3:

Figure: Change in the Demand for U.S. Dollars



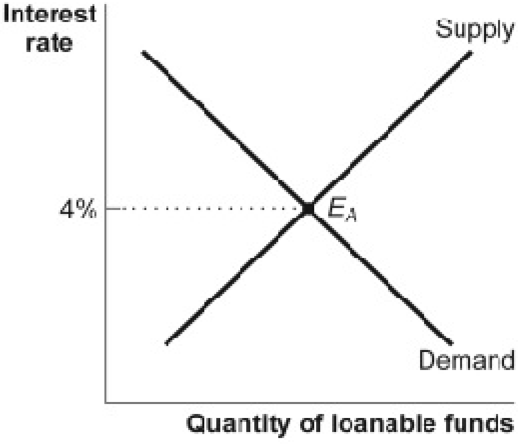
1. (Figure: Change in the Demand for U.S. Dollars) Refer to the information in the figure. The change from D_1 to D_2 will occur, all other things being equal, if the:
   A) supply of euros decreases.
   B) demand for euros increases.
   C) demand for euros decreases.
   D) demand for dollars increases.

2. (Figure: Change in the Demand for U.S. Dollars) Refer to the information in the figure. The change from D_1 to D_2 will occur, all other things being equal, if:
   A) interest rates are higher in Europe.
   B) interest rates are higher in the United States.
   C) interest rates in the United States and Europe are equal.
   D) inflation is higher in Europe.

3. (Figure: Change in the Demand for U.S. Dollars) Refer to the information in the figure. A movement from E_1 to E_2 in this foreign exchange market would cause Americans to purchase ______ goods and services from Europe.
   A) the same amount of
   B) fewer
   C) more
   D) The answer cannot be determined from the information provided.

Use the following to answer questions 4-6:

Figure: The Loanable Funds Model in the U.S. Market



4. (Figure: The Loanable Funds Model in the U.S. Market) Refer to the information in the figure. If the actual interest rate is less than 4% in the U.S. market, then the quantity supplied of loanable funds will be ______ the quantity of loanable funds demanded.
   A) greater than
   B) less than
   C) equal to
   D) unrelated to

5. (Figure: The Loanable Funds Model in the U.S. Market) Refer to the information in the figure. If the actual interest rate is equal to 4% in the U.S. market, then the quantity supplied of loanable funds will be ______ the quantity of loanable funds demanded.
   A) greater than
   B) less than
   C) equal to
   D) unrelated to

6. (Figure: The Loanable Funds Model in the U.S. Market) Refer to the information in the figure. If the actual interest rate is higher than 4% in the U.S. market, then the quantity supplied of loanable funds will be ______ the quantity of loanable funds demanded.
   A) greater than
   B) less than
   C) equal to
   D) unrelated to

7. When a country's currency undergoes a real appreciation:
   A) exports fall, and imports rise.
   B) exports rise, and imports fall.
   C) the merchandise trade balance becomes positive.
   D) exports and imports do not change.

8. Holding everything else constant, if the U.S. dollar falls against the Mexican peso:
   A) U.S. goods will look cheaper to Mexico.
   B) U.S. goods will look more expensive to Mexico.
   C) Mexico's goods will look cheaper to the United States
   D) one peso buys fewer U.S. dollars.

9. When a country's currency depreciates:
   A) foreigners find the country's goods to be relatively cheaper.
   B) the country's exports fall.
   C) the country's imports rise.
   D) foreign goods become cheaper.

10. Holding everything else constant, a decrease in political risk in a country will MOST likely cause:
    A) capital inflows into that country to increase.
    B) capital inflows into that country to decrease.
    C) the supply of loanable funds in that country to decrease.
    D) the country to become a politically riskier place to invest.

11. Fast-growing economies often have a greater demand for loanable funds than do slower-growing economies because:
    A) fast-growing economies also have high private savings rates.
    B) fast-growing economies have more investment opportunities.
    C) they tend to have high public savings rates.
    D) their balance of payments tends to be in surplus most of the time.

12. If a country's loanable funds market is initially in equilibrium and then there are capital outflows, this will result in a(n):
    A) a fall in the equilibrium interest rate, while the equilibrium quantity of loanable funds will increase.
    B) a rise in the equilibrium interest rate, while the equilibrium quantity of loanable funds will decrease.
    C) a fall in the equilibrium interest rate, while the equilibrium quantity of loanable funds will decrease.
    D) a rise in the equilibrium interest rate, while the equilibrium quantity of loanable funds will increase.

13. China has fixed the exchange rate between the yuan and the U.S. dollar. Therefore, a recession in China ________ American ________ to China more than would happen under a floating exchange rate regime.
    A) raises; exports
    B) reduces; imports
    C) raises; imports
    D) reduces; exports

14. China's exchange rate policy:
    A) led to current account deficits in the early 2000s.
    B) led to the supply of yuan exceeding the demand for yuan.
    C) is a floating exchange rate policy.
    D) is a fixed exchange rate policy.

15. Money flows into the United States from other countries as a result of:
    A) foreign purchases of U.S. goods and services.
    B) U.S. purchases of foreign goods and services.
    C) U.S. investment in foreign companies.
    D) U.S. purchases of foreign assets.

16. Why did China buy $450 billion in foreign exchange reserves?
    A) to encourage free trade between all nations
    B) to keep the yuan from depreciating
    C) to keep the yuan from appreciating
    D) to slow down the growth of the Chinese economy

17. To determine the real exchange rate, one needs to know:
    A) the nominal exchange rate and the aggregate price level in both countries.
    B) the amount of exports and imports.
    C) the balance of payments.
    D) the purchasing power parity.