Chapter 38

■ MULTIPLE-CHOICE QUESTIONS

Circle the letter that corresponds to the best answer.

1. If a U.S. citizen could buy £25,000 for $100,000, the rate of exchange for the pound would be
- **(a)** $40
- **(b)** $25
- **(c)** $4
- **(d)** $.25

2. U.S. residents demand foreign currencies to
- **(a)** produce goods and services exported to foreign countries
- **(b)** pay for goods and services imported from foreign countries
- **(c)** receive interest payments on investments in the United States
- **(d)** have foreigners make real and financial investments in the United States

3. A nation's balance of trade is equal to its exports less its imports of
- **(a)** goods
- **(b)** goods and services
- **(c)** financial assets
- **(d)** official reserves

4. A nation's balance on the current account is equal to its exports less its imports of
- **(a)** goods and services
- **(b)** goods and services, plus U.S. purchases of assets abroad
- **(c)** goods and services, plus net investment income and net transfers
- **(d)** goods and services, minus foreign purchases of assets in the United States

5. The net investment income of the United States in its international balance of payment is the
- **(a)** interest income it receives from foreign residents
- **(b)** dividends it receives from foreign residents
- **(c)** excess of interest and dividends it receives from foreign residents over what it paid to them
- **(d)** excess of public and private transfer payments it receives from foreign residents over what it paid to them

6. A nation may be able to correct or eliminate a persistent (long-term) balance of payments deficit by
- **(a)** lowering the barriers on imported goods
- **(b)** reducing the international value of its currency
- **(c)** expanding its national income
- **(d)** reducing its official reserves

7. If exchange rates float freely, the exchange rate for any currency is determined by the
- **(a)** demand for it
- **(b)** supply of it
- **(c)** demand for and the supply of it
- **(d)** official reserves that back it

8. If a nation had a balance of payments surplus and exchange rates floated freely, the foreign exchange rate for its currency would
- **(a)** rise, its exports would increase, and its imports would decrease
- **(b)** rise, its exports would decrease, and its imports would increase
- **(c)** fall, its exports would increase, and its imports would decrease
- **(d)** fall, its exports would decrease, and its imports would increase

9. Assuming exchange rates are flexible, which of the following should increase the dollar price of the Swedish krona?
- **(a)** a rate of inflation greater in Sweden than in the United States
- **(b)** real interest rate increases greater in Sweden than in the United States
- **(c)** national income increases greater in Sweden than in the United States
- **(d)** the increased preference of Swedish citizens for U.S. automobiles over Swedish automobiles

10. Which would be a result associated with the use of freely floating foreign exchange rates to correct a nation's balance of payments surplus?
- **(a)** The nation's terms of trade with other nations would be worsened.
- **(b)** Importers in the nation who had made contracts for the future delivery of goods would find that they had to pay a higher price than expected for the goods.
- **(c)** If the nation were at full employment, the decrease in exports and the increase in imports would be inflationary.
- **(d)** Exporters in the nation would find their sales abroad had decreased.

11. When exchange rates are fixed and a nation at full employment has a balance of payments surplus, the result in that nation will be
- **(a)** a declining price level
- **(b)** falling currency income
- **(c)** inflation
- **(d)** rising real income

12. The use of exchange controls to eliminate a nation's balance of payments deficit results in decreasing the nation's
- **(a)** imports
- **(b)** exports
- **(c)** price level
- **(d)** income

13. Which of these conditions did a nation have to fulfill if it were to be under the gold standard?
- **(a)** use only gold as a medium of exchange
- **(b)** maintain a flexible relationship between its gold stock and its currency supply
- **(c)** allow gold to be freely exported from and imported into the nation
- **(d)** define its monetary unit in terms of a fixed quantity of dollars

14. If the nations of the world were on the gold standard and one nation had a balance of payments surplus,
- **(a)** foreign exchange rates in that nation would rise
- **(b)** gold would tend to be imported into that country
- **(c)** the level of prices in that country would fall
- **(d)** employment and output in that country would fall

15. Which was the principal disadvantage of the gold standard?
- **(a)** unstable foreign exchange rates
- **(b)** persistent payments imbalances
- **(c)** the uncertainties and decreased trade that resulted from the depreciation of gold
- **(d)** the domestic macroeconomic adjustments experienced by a nation with a payments deficit or surplus

16. The objective of the adjustable-peg system was exchange rates that were
- **(a)** adjustable in the short run and fixed in the long run
- **(b)** adjustable in both the short and the long run
- **(c)** fixed in both the short and the long run
- **(d)** fixed in the short run and adjustable in the long run

17. Which is the best definition of international monetary reserves in the Bretton Woods system?
- **(a)** gold
- **(b)** dollars
- **(c)** gold and dollars
- **(d)** gold, dollars, and British pounds

18. The major dilemma created by the persistent U.S. payments deficits under the Bretton Woods system was that in order to maintain the status of the dollar as an acceptable international monetary reserve, the deficits had to
- **(a)** decrease, but to expand reserves to accommodate world trade, the deficits had to continue
- **(b)** continue, but to expand reserves to accommodate world trade, the deficits had to be eliminated

(c) increase, but to expand reserves to accommodate world trade, the deficits had to be reduced
(d) decrease, but to expand reserves to accommodate world trade, the deficits had to be eliminated

19. "Floating" the dollar means
(a) the value of the dollar is determined by the demand for and the supply of the dollar
(b) the dollar price of gold has been increased
(c) the price of the dollar has been allowed to crawl upward at the rate of one-fourth of 1% a month
(d) the IMF decreased the value of the dollar by 10%

20. A system of managed floating exchange rates
(a) allows nations to stabilize exchange rates in the short term
(b) requires nations to stabilize exchange rates in the long term
(c) entails stable exchange rates in both the short and long term
(d) fixes exchange rates at market levels

21. Floating exchange rates
(a) tend to correct balance of payments imbalances
(b) reduce the uncertainties and risks associated with international trade
(c) increase the world's need for international monetary reserves
(d) tend to have no effect on the volume of trade

22. The trade problem that faced the United States during the 1990s was a
(a) deficit in its capital account
(b) surplus in its balance on goods
(c) deficit in its current account
(d) surplus in its current account

23. Which was a cause of the growth of U.S. trade deficits during the 1990s?
(a) protective tariffs imposed by the United States
(b) slower economic growth in the United States
(c) direct foreign investment in the United States
(d) a declining saving rate in the United States

24. What would be the effect on U.S. imports and exports when the United States experiences strong economic growth but its major trading partners experience sluggish economic growth?
(a) U.S. imports will increase more than U.S. exports
(b) U.S. exports will increase more than U.S. imports
(c) U.S. imports will decrease but U.S. exports will increase
(d) there will be no effect on U.S. imports and exports

25. Two major outcomes from the trade deficits of the 1990s were
(a) decreased domestic consumption and U.S. indebtedness
(b) increased domestic consumption and U.S. indebtedness
(c) increased domestic consumption but decreased U.S. indebtedness
(d) decreased domestic consumption but increased U.S. indebtedness