Chapter 37

For each question, decide if it is true or false. For "false" statements, rewrite the entire statment with the correct changes.

■ TRUE–FALSE QUESTIONS

Circle T if the statement is true, F if it is false.

1. The imports of goods and services by U.S. citizens from abroad create a supply of dollars in the foreign exchange market. **T F**

2. The balance of payments of the United States records all the payments its residents receive from and make to the residents of foreign nations. **T F**

3. Exports are a debit item and are shown with a minus sign (−), and imports are a credit item and are shown with a plus sign (+) in the balance of payments of a nation. **T F**

4. The United States would have a balance of payments surplus if the balances on its current and capital accounts were positive. **T F**

5. Any nation with a balance of payments deficit in its current and capital accounts must reduce its official reserves. **T F**

6. The sum of a nation's current account balance, its capital account balance, and the change in its official reserves in any year is always equal to zero. **T F**

7. The purchasing-power-parity theory basically explains why there is an inverse relationship between the price of dollars and the quantity demanded. **T F**

8. The expectations of speculators in the United States that the exchange rate for Japanese yen will fall in the future will increase the supply of yen in the foreign exchange market and decrease the exchange rate for the yen. **T F**

9. If a nation has a balance of payments deficit and exchange rates are flexible, the price of that nation's currency in the foreign exchange markets will fall; this will reduce its imports and increase its exports. **T F**

10. Were the United States' terms of trade with Nigeria to worsen, Nigeria would obtain a greater quantity of U.S. goods and services for every barrel of oil it exported to the United States. **T F**

11. If a nation wishes to fix (or peg) the foreign exchange rate for the Swiss franc, it must buy Swiss francs with its own currency when the rate of exchange for the Swiss franc rises. **T F**

12. If exchange rates are stable or fixed and a nation has a payments surplus, prices and currency incomes in that nation will tend to rise. **T F**

13. A nation using exchange controls to eliminate a balance of payments surplus might depreciate its currency. **T F**

14. If country A defined its currency as worth 100 grains of gold and country B defined its currency as worth 20 grains of gold, then, ignoring packing, insuring, and shipping charges, 5 units of country A's currency would be worth 1 unit of country B's currency. **T F**

15. Under the gold standard, the potential free flow of gold among nations would result in exchange rates that are fixed. **T F**

16. In the Bretton Woods system, a nation could not devalue its currency by more than 10% without the permission of the International Monetary Fund. **T F**

17. In the Bretton Woods system, a nation with persistent balance of payments surpluses had an undervalued currency and should have increased the pegged value of its currency. **T F**

18. To accommodate expanding world trade in the Bretton Woods system, the U.S. dollar served as a reserve medium of exchange and the United States ran persistent balance of payments deficits. **T F**

19. A basic shortcoming of the Bretton Woods system was its inability to bring about the changes in exchange rates needed to correct persistent payments deficits and surpluses. **T F**

20. Using the managed floating system of exchange rates, a nation with a persistent balance of payments surplus should allow the value of its currency in foreign exchange markets to decrease. **T F**

21. Two criticisms of the current managed floating exchange-rate system are its potential for volatility and its lack of clear policy rules or guidelines for nations to manage exchange rates. **T F**

22. The trade deficits of the United States in the 1990s were caused by sharp increases in U.S. exports and slight increases in U.S. imports. **T F**

23. Improved economic growth in the major economies of the major trading partners of the United States would tend to worsen the trade deficit. **T F**

24. The decline in the saving rate in the United States contributed to the persistent trade deficit of the past decade. **T F**

25. The negative net exports of the United States have increased the indebtedness of U.S. citizens to foreigners. **T F**