Chapter 03

Balance of Payments

**True / False Questions**

|  |  |
| --- | --- |
| 1. | Over half of all dollar bills in circulation are held outside American's borders.    True    False |

**Multiple Choice Questions**

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 2. | The current account balance, which is the difference between a country's exports and imports, is a component of the country's GNP. Other components of GNP include      |  |  | | --- | --- | | A. | consumption and investment and government expenditure. |  |  |  | | --- | --- | | B. | consumption and government expenditure and net exports. |  |  |  | | --- | --- | | C. | consumption and net exports and government expenditure. |  |  |  | | --- | --- | | D. | consumption less imports. | |

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 3. | If the United States imports more than it exports, then this means that      |  |  | | --- | --- | | A. | the supply of dollars is likely to exceed the demand in the foreign exchange market, ceteris paribus. |  |  |  | | --- | --- | | B. | the demand for dollars is likely to exceed the supply in the foreign exchange market, ceteris paribus. |  |  |  | | --- | --- | | C. | the U.S. dollar would be under pressure to appreciate against other currencies. |  |  |  | | --- | --- | | D. | both b and c are correct | |

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 4. | Balance of payments      |  |  | | --- | --- | | A. | is defined as the statistical record of a country's international transactions over a certain period of time presented in the form of a double-entry bookkeeping. |  |  |  | | --- | --- | | B. | provides detailed information concerning the demand and supply of a country's currency. |  |  |  | | --- | --- | | C. | can be used to evaluate the performance of a country in international economic competition. |  |  |  | | --- | --- | | D. | all of the above | |

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 5. | If a country is grappling with a major balance-of-payment difficulty, it may not be able to expand imports from the outside world. Instead, the country may be tempted to      |  |  | | --- | --- | | A. | impose measures to restrict imports. |  |  |  | | --- | --- | | B. | impose measures to discourage capital outflows. |  |  |  | | --- | --- | | C. | Both a and b |  |  |  | | --- | --- | | D. | None of the above | |

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 6. | If the United States imports more than it exports, then      |  |  | | --- | --- | | A. | the supply of dollars is likely to exceed the demand in the foreign exchange market, *ceteris paribus.* |  |  |  | | --- | --- | | B. | one can infer that the U.S. dollar would be under pressure to depreciate against other currencies. |  |  |  | | --- | --- | | C. | a and b |  |  |  | | --- | --- | | D. | None of the above | |

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 7. | Generally speaking, any transaction that results in a receipt from foreigners      |  |  | | --- | --- | | A. | will be recorded as a debit, with a negative sign, in the U.S. balance of payments. |  |  |  | | --- | --- | | B. | will be recorded as a debit, with a positive sign, in the U.S. balance of payments. |  |  |  | | --- | --- | | C. | will be recorded as a credit, with a negative sign, in the U.S. balance of payments. |  |  |  | | --- | --- | | D. | will be recorded as a credit, with a positive sign, in the U.S. balance of payments. | |

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 8. | Generally speaking, any transaction that results in a payment to foreigners      |  |  | | --- | --- | | A. | will be recorded as a debit, with a negative sign, in the U.S. balance of payments. |  |  |  | | --- | --- | | B. | will be recorded as a debit, with a positive sign, in the U.S. balance of payments. |  |  |  | | --- | --- | | C. | will be recorded as a credit, with a negative sign, in the U.S. balance of payments. |  |  |  | | --- | --- | | D. | will be recorded as a credit, with a positive sign, in the U.S. balance of payments. | |

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 9. | If Japan exports more than it imports, then      |  |  | | --- | --- | | A. | the supply of dollars is likely to exceed the demand in the foreign exchange market, *ceteris paribus.* |  |  |  | | --- | --- | | B. | one can infer that the yen would be likely to appreciate against other currencies. |  |  |  | | --- | --- | | C. | a and b |  |  |  | | --- | --- | | D. | None of the above | |

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 10. | The balance of payments records      |  |  | | --- | --- | | A. | only international trade, (exports and imports). |  |  |  | | --- | --- | | B. | only cross-border investments (FDI and portfolio investment). |  |  |  | | --- | --- | | C. | not only international trade, (exports and imports) but also cross-border investments. |  |  |  | | --- | --- | | D. | none of the above | |

|  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 11. | Credit entries in the U.S. balance of payments      |  |  | | --- | --- | | A. | result from foreign sales of U.S. goods and services, goodwill, financial claims, and real assets. |  |  |  | | --- | --- | | B. | result from U.S. purchases of foreign goods and services, goodwill, financial claims, and real assets. |  |  |  | | --- | --- | | C. | give rise to the demand for dollars. |  |  |  | | --- | --- | | D. | give rise to the supply of dollars. |  |  |  | | --- | --- | | E. | both a and c | |

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 12. | A country experiencing a significant balance-of-payments surplus would be likely to      |  |  | | --- | --- | | A. | expand imports, offering marketing opportunities for foreign enterprises. |  |  |  | | --- | --- | | B. | refrain from imposing foreign exchange restrictions. |  |  |  | | --- | --- | | C. | expand exports, offering international marketing opportunities for domestic enterprises. |  |  |  | | --- | --- | | D. | Both a and b | |

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 13. | Suppose the McDonalds Corporation imports Canadian beef, paying for it by transferring the funds to a New York bank account kept by the Canadian beef producer.      |  |  | | --- | --- | | A. | Payment by McDonalds will be recorded as a debit. |  |  |  | | --- | --- | | B. | The deposit of the funds by the seller will be recorded as a debit. |  |  |  | | --- | --- | | C. | Payment by McDonalds will be recorded as a credit. |  |  |  | | --- | --- | | D. | The deposit of the funds by the buyer will be credit. | |

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 14. | Since the balance of payments is presented as a system of double-entry bookkeeping,      |  |  | | --- | --- | | A. | every credit in the account is balanced by a matching debit. |  |  |  | | --- | --- | | B. | every debit in the account is balanced by a matching credit. |  |  |  | | --- | --- | | C. | answers a and b are both true |  |  |  | | --- | --- | | D. | none of the above | |

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 15. | Suppose the InBev Corporation (a non-U.S. MNC) buys the Anheuser-Busch Corporation, paying the U.S. shareholders cash.      |  |  | | --- | --- | | A. | Payment by InBev will be recorded as a debit. |  |  |  | | --- | --- | | B. | The deposit of the funds by the sellers will be recorded as a debit. |  |  |  | | --- | --- | | C. | Payment by InBev will be recorded as a credit. |  |  |  | | --- | --- | | D. | The deposit of the funds by the buyer will be credit. | |

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 16. | The current account includes      |  |  | | --- | --- | | A. | the export and import of goods and services. |  |  |  | | --- | --- | | B. | all purchases and sales of assets such as stocks, bonds, bank accounts, real estate, and businesses. |  |  |  | | --- | --- | | C. | all purchases and sales of international reserve assets such as dollars, foreign exchanges, gold, and special drawing rights (SDRs). |  |  |  | | --- | --- | | D. | none of the above | |

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 17. | A country with a current account surplus      |  |  | | --- | --- | | A. | acquires IOUs from foreigners, thereby increasing its net foreign wealth. |  |  |  | | --- | --- | | B. | must borrow from foreigners or draw down on its previously accumulated foreign wealth. |  |  |  | | --- | --- | | C. | will experience a reduction in the country's net foreign wealth. |  |  |  | | --- | --- | | D. | both b and c | |

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 18. | The capital account includes      |  |  | | --- | --- | | A. | the export and import of goods and services. |  |  |  | | --- | --- | | B. | all purchases and sales of assets such as stocks, bonds, bank accounts, real estate, and businesses. |  |  |  | | --- | --- | | C. | all purchases and sales of international reserve assets such as dollars, foreign exchanges, gold, and special drawing rights (SDRs). |  |  |  | | --- | --- | | D. | none of the above | |

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 19. | The official reserve account includes      |  |  | | --- | --- | | A. | the export and import of goods and services. |  |  |  | | --- | --- | | B. | all purchases and sales of assets such as stocks, bonds, bank accounts, real estate, and businesses. |  |  |  | | --- | --- | | C. | all purchases and sales of international reserve assets such as dollars, foreign exchanges, gold, and special drawing rights (SDRs). |  |  |  | | --- | --- | | D. | none of the above | |

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 20. | A country's international transactions can be grouped into the following three main types:      |  |  | | --- | --- | | A. | current account, medium term account, and long term capital account. |  |  |  | | --- | --- | | B. | current account, long term capital account, and official reserve account. |  |  |  | | --- | --- | | C. | current account, capital account, and official reserve account. |  |  |  | | --- | --- | | D. | capital account, official reserve account, trade account. | |

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 21. | Invisible trade refers to      |  |  | | --- | --- | | A. | services that avoid tax payments. |  |  |  | | --- | --- | | B. | the underground economy. |  |  |  | | --- | --- | | C. | legal, consulting, and engineering services. |  |  |  | | --- | --- | | D. | tourist expenditures, only. | |

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| 22. | A country that gives foreign aid to another country can be viewed as      |  |  | | --- | --- | | A. | importing goodwill from the latter. |  |  |  | | --- | --- | | B. | exporting goodwill to the latter. | |

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 23. | In 2012 the United States had a current account deficit. The current account deficit implies that the United States      |  |  | | --- | --- | | A. | had a surplus on legal consulting and engineering services. |  |  |  | | --- | --- | | B. | produced more output than it consumed. |  |  |  | | --- | --- | | C. | consumed more output than it produced. |  |  |  | | --- | --- | | D. | none of the above | |

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 24. | The current account is divided into four finer categories:      |  |  | | --- | --- | | A. | merchandise trade, services, factor income, and statistical discrepancy. |  |  |  | | --- | --- | | B. | merchandise trade, services, factor income, and unilateral transfers. |  |  |  | | --- | --- | | C. | merchandise trade, services, portfolio investment, and unilateral transfers. |  |  |  | | --- | --- | | D. | merchandise trade, services, factor income, and direct investment. | |

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 25. | The factors of production are      |  |  | | --- | --- | | A. | land, labor, capital, and entrepreneurial ability. |  |  |  | | --- | --- | | B. | interest, wages and dividends. |  |  |  | | --- | --- | | C. | payments and receipts of interest, dividends, and other income on foreign investments that were previously made. |  |  |  | | --- | --- | | D. | none of the above | |

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 26. | Factor income      |  |  | | --- | --- | | A. | consists largely of interest, dividends, and other income on foreign investments. |  |  |  | | --- | --- | | B. | is a theoretical construct of the factors of production, land, labor, capital, and entrepreneurial ability. |  |  |  | | --- | --- | | C. | is generally a very minor part of national income accounting, smaller than the statistical discrepancy. |  |  |  | | --- | --- | | D. | none of the above | |

|  |  |
| --- | --- |
|  | The entries in the "current account" and the "capital account", combined together, can be outlined (in alphabetic order) as:  (i) - direct investment (ii) - factor income (iii) - merchandise (iv) - official transfer (v) - other capital (vi) - portfolio investment (vii) - private transfer (viii) - services |

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 27. | Current account includes      |  |  | | --- | --- | | A. | (i), (ii), and (iii) |  |  |  | | --- | --- | | B. | (ii), (iii), and (vii) |  |  |  | | --- | --- | | C. | (iv), (v), and (vii) |  |  |  | | --- | --- | | D. | (i), (v), and (vi) | |

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 28. | Capital account includes      |  |  | | --- | --- | | A. | (i), (ii), and (iii) |  |  |  | | --- | --- | | B. | (ii), (iii), and (vii) |  |  |  | | --- | --- | | C. | (iv), (v), and (vii) |  |  |  | | --- | --- | | D. | (i), (v), and (vi) | |

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 29. | The "J-curve effect" shows      |  |  | | --- | --- | | A. | the initial deterioration and the eventual improvement of a country's trade balance following a currency depreciation. |  |  |  | | --- | --- | | B. | the initial improvement and the eventual depreciation of a country's trade balance following a currency depreciation. |  |  |  | | --- | --- | | C. | the trade balance's lack of responsiveness to the exchanges rate changes. |  |  |  | | --- | --- | | D. | none of the above | |

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 30. | The "J-curve effect"      |  |  | | --- | --- | | A. | happens most of the time, in the short run. |  |  |  | | --- | --- | | B. | actually only occurs in about 40 percent of the cases according to a study by Sebastian Edwards. |  |  |  | | --- | --- | | C. | is a long-run phenomenon, not a short-run one. |  |  |  | | --- | --- | | D. | none of the above. | |

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 31. | The J-curve effect received wide attention when      |  |  | | --- | --- | | A. | the British trade balance worsened after a strengthening of the pound in 1967. |  |  |  | | --- | --- | | B. | the British trade balance worsened after a devaluation of the pound in 1967. |  |  |  | | --- | --- | | C. | the British trade balance improved after a devaluation of the pound in 1967. |  |  |  | | --- | --- | | D. | none of the above | |

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 32. | A currency depreciation will begin to improve the trade balance immediately      |  |  | | --- | --- | | A. | if the demand for imports and exports are inelastic. |  |  |  | | --- | --- | | B. | if the demand for imports and exports are elastic. |  |  |  | | --- | --- | | C. | if imports decrease and exports decrease. |  |  |  | | --- | --- | | D. | none of the above | |

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 33. | When a country's currency depreciates against the currencies of major trading partners,      |  |  | | --- | --- | | A. | the country's exports tend to rise and imports fall. |  |  |  | | --- | --- | | B. | the country's exports tend to fall and imports rise. |  |  |  | | --- | --- | | C. | the country's exports tend to rise and imports rise. |  |  |  | | --- | --- | | D. | the country's exports tend to fall and imports fall. | |

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 34. | A depreciation will begin to improve the trade balance immediately if      |  |  | | --- | --- | | A. | imports and exports are responsive to the exchange rate changes. |  |  |  | | --- | --- | | B. | imports and exports are inelastic to the exchange rate changes. |  |  |  | | --- | --- | | C. | consumers exhibit brand loyalty and price inelasticity. |  |  |  | | --- | --- | | D. | b and c | |

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
| 35. | In the short run a currency depreciation can make a trade balance worse if      |  |  | | --- | --- | | A. | there is no domestic producer of an import. |  |  |  | | --- | --- | | B. | there is no domestic buyer for an import. |  |  |  | | --- | --- | | C. | there is no export market for a country's output. | |

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 36. | What is the correct label for the vertical axis in the J-curve?          |  |  | | --- | --- | | A. | Time |  |  |  | | --- | --- | | B. | Change in the Trade Balance |  |  |  | | --- | --- | | C. | Size of Trade Balance |  |  |  | | --- | --- | | D. | Size of Merchandise Trade Balance | |

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 37. | In the long run, both exports and imports tend to be      |  |  | | --- | --- | | A. | unresponsive to changes in exchange rates. |  |  |  | | --- | --- | | B. | responsive to changes in exchange rates. |  |  |  | | --- | --- | | C. | both a and b |  |  |  | | --- | --- | | D. | none of the above | |

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 38. | With regard to the capital account      |  |  | | --- | --- | | A. | the capital account balance measures the difference between U.S. sales of assets to foreigners and U.S. purchases of foreign assets. |  |  |  | | --- | --- | | B. | U.S. sales (or exports) of assets are recorded as credits, as they result in capital inflow. |  |  |  | | --- | --- | | C. | U.S. purchases (imports) of foreign assets are recorded as debits, as they lead to capital outflow. |  |  |  | | --- | --- | | D. | all of the above | |

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 39. | The difference between Foreign Direct Investment and Portfolio Investment is that      |  |  | | --- | --- | | A. | Portfolio Investment mostly represents the sale and purchase of foreign financial assets such as stocks and bonds *that do not involve a transfer of control*. |  |  |  | | --- | --- | | B. | Foreign Direct Investment mostly represents the sale and purchase of foreign financial assets such as stocks whereas Portfolio Investment mostly involves the sales and purchase of foreign bonds. |  |  |  | | --- | --- | | C. | Foreign Direct Investment is about buying land and building factories, whereas portfolio investment is about buying stocks and bonds. |  |  |  | | --- | --- | | D. | All of the above | |

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 40. | In the latter half of the 1980s, with a strong yen, Japanese firms      |  |  | | --- | --- | | A. | faced difficulty exporting. |  |  |  | | --- | --- | | B. | could better afford to acquire U.S. assets that had become less expensive in terms of yen. |  |  |  | | --- | --- | | C. | financed a sharp increase in Japanese FDI in the United States. |  |  |  | | --- | --- | | D. | all of the above | |

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 41. | International portfolio investments have boomed in recent years, as a result of      |  |  | | --- | --- | | A. | a depreciating U.S. dollar. |  |  |  | | --- | --- | | B. | increased gasoline and other commodity prices. |  |  |  | | --- | --- | | C. | the general relaxation of capital controls and regulation in many countries. |  |  |  | | --- | --- | | D. | none of the above | |

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 42. | If the interest rate rises in the U.S. while other variables remain constant      |  |  | | --- | --- | | A. | capital inflows into the U.S. will increase. |  |  |  | | --- | --- | | B. | capital inflows into the U.S. may not materialize. |  |  |  | | --- | --- | | C. | capital will flow out of the U.S. |  |  |  | | --- | --- | | D. | none of the above | |

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 43. | If for a particular county an increase in the interest rate is more or less matched by an expected depreciation in the local currency,      |  |  | | --- | --- | | A. | traders will probably be tempted to find another country to invest in. |  |  |  | | --- | --- | | B. | the interest rate increase *per se* will not be enough to spark capital flow into the country. |  |  |  | | --- | --- | | C. | both a and b are true |  |  |  | | --- | --- | | D. | capital will glow out of the country as the disgruntled citizens riot and go to war with the neighbors. | |

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 44. | The capital account measures      |  |  | | --- | --- | | A. | the sum of U.S. sales of assets to foreigners and U.S. purchases of foreign assets. |  |  |  | | --- | --- | | B. | the difference between U.S. sales of assets to foreigners and U.S. purchases of foreign assets. |  |  |  | | --- | --- | | C. | the difference between U.S. sales of manufactured goods to foreigners and U.S. purchases of foreign products. |  |  |  | | --- | --- | | D. | none of the above | |

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 45. | When Honda, a Japanese auto maker, built a factory in Ohio,      |  |  | | --- | --- | | A. | it was engaged in foreign direct investment. |  |  |  | | --- | --- | | B. | it was engaged in portfolio investment. |  |  |  | | --- | --- | | C. | it was engaged in a cross-border acquisition. |  |  |  | | --- | --- | | D. | none of the above. | |

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 46. | Government controlled investment funds, known as sovereign wealth funds,      |  |  | | --- | --- | | A. | are playing a less-important role in international finance following the end of the fixed exchange rate era. |  |  |  | | --- | --- | | B. | are mostly domiciled in Asian and Middle Eastern countries. |  |  |  | | --- | --- | | C. | are usually are responsible for converting trade surpluses and oil revenues into foreign exchange reserves. |  |  |  | | --- | --- | | D. | none of the above | |

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 47. | Foreign direct investment (FDI) occurs      |  |  | | --- | --- | | A. | when an investor acquires a measure of control of a foreign business. |  |  |  | | --- | --- | | B. | when there is an acquisition, by a foreign entity in the U.S., of 10 percent or more of the voting shares of a business. |  |  |  | | --- | --- | | C. | with sales and purchases of foreign stocks and bonds that do not involve a transfer of control. |  |  |  | | --- | --- | | D. | both a and b | |

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 48. | The capital account may be divided into three categories:      |  |  | | --- | --- | | A. | cross-border mergers and acquisitions, portfolio investment, and other investment. |  |  |  | | --- | --- | | B. | direct investment, portfolio investment, and Cross-border mergers and acquisitions. |  |  |  | | --- | --- | | C. | direct investment, mergers and acquisitions, and other investment. |  |  |  | | --- | --- | | D. | direct investment, portfolio investment, and other investment. | |

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 49. | When Nestlé, a Swiss firm, bought the American firm Carnation, it was engaged in foreign direct investment. If Nestlé had only bought a non-controlling number of shares of the firm,      |  |  | | --- | --- | | A. | Nestlé would have been engaged in portfolio investment. |  |  |  | | --- | --- | | B. | Nestlé would have been engaged in a cross-border acquisition. |  |  |  | | --- | --- | | C. | it would depend if they bought the shares from an American or a Canadian. |  |  |  | | --- | --- | | D. | none of the above | |

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 50. | Transactions in currency, bank deposits and so forth      |  |  | | --- | --- | | A. | tend to be insensitive to both changes in relative interest rates and the anticipated change in exchange rate. |  |  |  | | --- | --- | | B. | tend to be sensitive to both changes in relative interest rates and the anticipated change in exchange rate. |  |  |  | | --- | --- | | C. | tend to be sensitive to changes in relative interest rates but insensitive to the anticipated change in exchange rate. |  |  |  | | --- | --- | | D. | tend to be insensitive to changes in relative interest rates but sensitive to the anticipated change in exchange rate. | |

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 51. | Since security returns tend to have low correlations among countries,      |  |  | | --- | --- | | A. | investors can reduce risk more effectively if they diversify their portfolio holdings internationally rather than purely domestically. |  |  |  | | --- | --- | | B. | investors who have a domestically diversified portfolio, with exposures across industry types will not gain much from diversifying abroad. |  |  |  | | --- | --- | | C. | investors who diversify internationally will likely underperform investors who keep all their investments in one country. |  |  |  | | --- | --- | | D. | none of the above | |

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 52. | The world's largest debtor nation and creditor nation, respectively, are      |  |  | | --- | --- | | A. | Japan and the U.S. |  |  |  | | --- | --- | | B. | The U.S. and Japan. |  |  |  | | --- | --- | | C. | The U.S. and Canada. |  |  |  | | --- | --- | | D. | Great Britain and Mexico. | |

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 53. | Statistical discrepancy, which by definition represents errors and omissions      |  |  | | --- | --- | | A. | cannot be calculated directly. |  |  |  | | --- | --- | | B. | is calculated by taking into account the balance-of-payments identity. |  |  |  | | --- | --- | | C. | probably has some elements that are honest mistakes, it can't all be money laundering and drugs. |  |  |  | | --- | --- | | D. | all of the above | |

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 54. | The statistical discrepancy in the balance-of-payments accounts      |  |  | | --- | --- | | A. | arise since recordings of payments and receipts are done at different times, in different places, possibly using different methods. |  |  |  | | --- | --- | | B. | arise since some transactions (illegal transactions) occur "off the books". |  |  |  | | --- | --- | | C. | represents omitted and misreported transactions. |  |  |  | | --- | --- | | D. | all of the above | |

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 55. | Which of the following is most indicative of the pressure that a country's currency faces for depreciation or appreciation?      |  |  | | --- | --- | | A. | The current account |  |  |  | | --- | --- | | B. | The capital account |  |  |  | | --- | --- | | C. | The statistical discrepancies |  |  |  | | --- | --- | | D. | The official settlement balance | |

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| 56. | The United States is considered      |  |  | | --- | --- | | A. | a net creditor nation. |  |  |  | | --- | --- | | B. | a net debtor nation. | |

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 57. | Regarding the statistical discrepancy in the balance-of-payments accounts      |  |  | | --- | --- | | A. | there is some evidence that financial transactions may be mainly responsible for the discrepancy. |  |  |  | | --- | --- | | B. | the sum of the balance on the capital account and the statistical discrepancy is very close to the balance of the current account in magnitude. |  |  |  | | --- | --- | | C. | it tends to be positive one year and negative in others, so it's safe to ignore it. |  |  |  | | --- | --- | | D. | a and b | |

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 58. | The central bank of the United States is      |  |  | | --- | --- | | A. | the New York Fed. |  |  |  | | --- | --- | | B. | the Federal Reserve System. |  |  |  | | --- | --- | | C. | the EXIM bank. |  |  |  | | --- | --- | | D. | none of the above—the U.S. does not have a central bank. | |

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 59. | When a country must make a net payment to foreigners because of a balance-of-payments deficit, the central bank of the country      |  |  | | --- | --- | | A. | should do nothing. |  |  |  | | --- | --- | | B. | should run down its official reserve assets (e.g. gold, foreign exchanges, and SDRs). |  |  |  | | --- | --- | | C. | should borrow anew from foreign central banks. |  |  |  | | --- | --- | | D. | either b or c will work. | |

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 60. | Continued U.S. trade deficits coupled with foreigners' desire to diversify their currency holdings away from U.S. dollars      |  |  | | --- | --- | | A. | could further diminish the position of the dollar as the dominant reserve currency. |  |  |  | | --- | --- | | B. | could affect the value of U.S. dollar (e.g. through the currency diversification decisions of Asian central banks). |  |  |  | | --- | --- | | C. | could lend steam to the emergence of the euro as a credible reserve currency. |  |  |  | | --- | --- | | D. | all of the above | |

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 61. | Currently, international reserve assets are comprised of      |  |  | | --- | --- | | A. | gold, platinum, foreign exchanges, and special drawing rights (SDRs). |  |  |  | | --- | --- | | B. | gold, foreign exchanges, special drawing rights (SDRs), and reserve positions in the International Monetary Fund (IMF). |  |  |  | | --- | --- | | C. | gold, diamonds, foreign exchanges, and special drawing rights (SDRs). |  |  |  | | --- | --- | | D. | reserve positions in the International Monetary Fund (IMF), only. | |

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 62. | International reserve assets include "foreign exchanges". These are      |  |  | | --- | --- | | A. | Special Drawing Rights (SDRs) at the IMF. |  |  |  | | --- | --- | | B. | reserve positions in the International Monetary Fund (IMF). |  |  |  | | --- | --- | | C. | foreign currency held by a country's central bank. |  |  |  | | --- | --- | | D. | none of the above | |

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 63. | The most important international reserve asset, comprising 94 percent of the total reserve assets held by IMF member countries is      |  |  | | --- | --- | | A. | gold. |  |  |  | | --- | --- | | B. | foreign exchanges. |  |  |  | | --- | --- | | C. | special Drawing Rights (SDRs). |  |  |  | | --- | --- | | D. | reserve positions in the International Monetary Fund (IMF). | |

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 64. | The "one word that haunts the dollar" is      |  |  | | --- | --- | | A. | (Central bank) diversification. |  |  |  | | --- | --- | | B. | Reunification (Korean). |  |  |  | | --- | --- | | C. | Euro. |  |  |  | | --- | --- | | D. | (Current account) deficit. | |

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 65. | The vast majority of the foreign-exchange reserves held by central banks are denominated in      |  |  | | --- | --- | | A. | local currencies. |  |  |  | | --- | --- | | B. | U.S. dollars. |  |  |  | | --- | --- | | C. | Yen. |  |  |  | | --- | --- | | D. | Euro. | |

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 66. | Among IMF member countries, the dollar's dominant position in the world's reserve holdings may decline to a certain extent as the euro becomes a "known quantity" and its external value becomes more stable. In fact, the euro's share has increased      |  |  | | --- | --- | | A. | from zero percent in 1999 to 25.8 percent in 2006. |  |  |  | | --- | --- | | B. | from 13.5 percent in 1999 to 25.8 percent in 2006. |  |  |  | | --- | --- | | C. | from 13.5 percent in 1999 to 52.8 percent in 2006. |  |  |  | | --- | --- | | D. | none of the above | |

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 67. | Which of the following would not count as a foreign-exchange reserve held by a central bank?      |  |  | | --- | --- | | A. | The local currency |  |  |  | | --- | --- | | B. | U.S. dollars |  |  |  | | --- | --- | | C. | SDRs |  |  |  | | --- | --- | | D. | Euro | |

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 68. | The balance of payments identity is given by BCA + BKA + BRA = 0. Rearrange the identity for a country with a pure flexible exchange rate regime      |  |  | | --- | --- | | A. | BCA + BKA + BRA = 0 |  |  |  | | --- | --- | | B. | BCA = -BKA |  |  |  | | --- | --- | | C. | BCA + BKA = -BRA |  |  |  | | --- | --- | | D. | BRA = -BCA | |

|  |  |
| --- | --- |
|  | Assume that the balance-of-payments accounts for a country are recorded correctly.  Balance on the current account = BCA = $130 billion Balance on the capital account = BKA = -$86 billion Balance on the reserves account = BRA = ? |

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 69. | The balance on the reserves account (BRA), under the fixed exchange regime is      |  |  | | --- | --- | | A. | -$44 billion |  |  |  | | --- | --- | | B. | $44 billion |  |  |  | | --- | --- | | C. | $216 billion |  |  |  | | --- | --- | | D. | none of the above | |

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 70. | The balance on the reserves account (BRA), under the pure flexible exchange regime is      |  |  | | --- | --- | | A. | -$44 billion. |  |  |  | | --- | --- | | B. | $44 billion. |  |  |  | | --- | --- | | C. | $216 billion. |  |  |  | | --- | --- | | D. | none of the above | |

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 71. | In a pure flexible exchange rate regime, a country's central banks will not need to maintain official reserves. Under this regime      |  |  | | --- | --- | | A. | -BCA = BKA. |  |  |  | | --- | --- | | B. | BCA = -BRA = 0. |  |  |  | | --- | --- | | C. | BKA = -BRA. |  |  |  | | --- | --- | | D. | BSA = BCA. | |

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 72. | When the balance-of-payments accounts are recorded correctly, the combined balance of the current account, the capital account, and the reserves account must be      |  |  | | --- | --- | | A. | equal in magnitude to the country's national debt. |  |  |  | | --- | --- | | B. | zero. |  |  |  | | --- | --- | | C. | equal in magnitude to the Trade Deficit or Surplus. |  |  |  | | --- | --- | | D. | none of the above | |

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 73. | The balance of payments identity is given by BCA + BKA + BRA = 0. Rearrange the identity to solve for the statistical discrepancy.      |  |  | | --- | --- | | A. | The statistical discrepancy = (BCA + BKA) - BRA |  |  |  | | --- | --- | | B. | The statistical discrepancy = BCA - BKA + BRA |  |  |  | | --- | --- | | C. | The statistical discrepancy = BCA - BKA - BRA |  |  |  | | --- | --- | | D. | The statistical discrepancy = BCA + BKA + BRA | |

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 74. | BCA stands for      |  |  | | --- | --- | | A. | the balance on the current account. |  |  |  | | --- | --- | | B. | the balance on the capital account. |  |  |  | | --- | --- | | C. | the balance on the official reserves. |  |  |  | | --- | --- | | D. | net imports. | |

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 75. | BKA stands for      |  |  | | --- | --- | | A. | the balance on the current account. |  |  |  | | --- | --- | | B. | the balance on the capital account. |  |  |  | | --- | --- | | C. | the balance on the official reserves. |  |  |  | | --- | --- | | D. | net imports. | |

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
| 76. | If the central banks of the world chose to diversify their foreign-exchange reserves away from the dollar and into the euro,      |  |  | | --- | --- | | A. | this would have the result of a strengthening of the value of the dollar. |  |  |  | | --- | --- | | B. | this have the result of a weakening in the value of the dollar. |  |  |  | | --- | --- | | C. | this would not have much impact, as the information would be lost in the day-to-day volatility of exchange rates. | |

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 77. | The economic theory of *mercantilism* holds that      |  |  | | --- | --- | | A. | a continuing trade surplus should be a government's major policy goal. |  |  |  | | --- | --- | | B. | the main source of wealth of a country is its productive capacity. |  |  |  | | --- | --- | | C. | free trade is the result of countries exploiting their comparative advantage. |  |  |  | | --- | --- | | D. | none of the above | |

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 78. | The U.S. Trade Deficit      |  |  | | --- | --- | | A. | is a capital account surplus. |  |  |  | | --- | --- | | B. | is a current account deficit. |  |  |  | | --- | --- | | C. | is both a capital account surplus and a current account deficit. |  |  |  | | --- | --- | | D. | none of the above | |

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 79. | As of 2011 gold accounted for      |  |  | | --- | --- | | A. | 90 percent of the total reserve assets held by IMF member countries. |  |  |  | | --- | --- | | B. | 70 percent of the total reserve assets held by IMF member countries. |  |  |  | | --- | --- | | C. | approximately 50 percent of the total reserve assets held by IMF member countries. |  |  |  | | --- | --- | | D. | less than one percent of the total reserve assets held by IMF member countries. | |

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
| 80. | The most popular reserve currency is now the      |  |  | | --- | --- | | A. | U.S. dollar. |  |  |  | | --- | --- | | B. | Euro. |  |  |  | | --- | --- | | C. | Japanese Yen. | |

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 81. | Suppose a country is currently experiencing a trade deficit. In the long run, this could be self correcting if      |  |  | | --- | --- | | A. | the deficit exists because of the import demand for capital goods. |  |  |  | | --- | --- | | B. | the deficit exists because of the import demand for consumption goods. |  |  |  | | --- | --- | | C. | the deficit exists because foreigners want to buy the country's currency as an investment. |  |  |  | | --- | --- | | D. | none of the above | |

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 82. | The capital account is divided into three subcategories: direct investment, portfolio investment, and other investment. Direct investment involves      |  |  | | --- | --- | | A. | acquisitions of controlling interests in foreign businesses. |  |  |  | | --- | --- | | B. | investments in foreign stocks and bonds that do not involve acquisitions of control. |  |  |  | | --- | --- | | C. | bank deposits, currency investment, trade credit, and the like. |  |  |  | | --- | --- | | D. | all of the above | |

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 83. | The capital account is divided into three subcategories: direct investment, portfolio investment, and other investment. Portfolio investment involves      |  |  | | --- | --- | | A. | acquisitions of controlling interests in foreign businesses. |  |  |  | | --- | --- | | B. | investments in foreign stocks and bonds that do not involve acquisitions of control. |  |  |  | | --- | --- | | C. | bank deposits, currency investment, trade credit, and the like. |  |  |  | | --- | --- | | D. | all of the above | |

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 84. | The capital account is divided into three subcategories: direct investment, portfolio investment, and other investment. "Other" investment involves      |  |  | | --- | --- | | A. | acquisitions of controlling interests in foreign businesses. |  |  |  | | --- | --- | | B. | investments in foreign stocks and bonds that do not involve acquisitions of control. |  |  |  | | --- | --- | | C. | bank deposits, currency investment, trade credit, and the like. |  |  |  | | --- | --- | | D. | all of the above | |

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 85. | Over the last several years the U.S. has run persistent      |  |  | | --- | --- | | A. | balance-of-payments deficits. |  |  |  | | --- | --- | | B. | balance-of-payments surpluses. |  |  |  | | --- | --- | | C. | current Account deficits. |  |  |  | | --- | --- | | D. | capital Account deficits. | |

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 86. | If a country must make a net payment to foreigners because of a balance-of-payments deficit, the country should      |  |  | | --- | --- | | A. | either increase its official reserve assets or borrow anew from foreigners. |  |  |  | | --- | --- | | B. | either run down its official reserve assets or borrow anew from foreigners. |  |  |  | | --- | --- | | C. | either run down its official reserve assets or lend more foreigners. |  |  |  | | --- | --- | | D. | none of the above | |

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 87. | Under the fixed exchange rate regime      |  |  | | --- | --- | | A. | the combined balance on the current and capital accounts will be equal in size, but opposite in sign, to the change in the official reserves. |  |  |  | | --- | --- | | B. | the balance on the current and capital accounts will be equal in size, but opposite in sign. |  |  |  | | --- | --- | | C. | a current account surplus or deficit must be matched by an official reserves deficit or surplus. |  |  |  | | --- | --- | | D. | a capital account surplus or deficit must be matched by an official reserves deficit or surplus. | |

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 88. | Under the pure flexible exchange rate regime      |  |  | | --- | --- | | A. | the combined balance on the current and capital accounts will be equal in size, but opposite in sign, to the change in the official reserves. |  |  |  | | --- | --- | | B. | the balance on the current and capital accounts will be equal in size, but opposite in sign. |  |  |  | | --- | --- | | C. | a current account surplus or deficit must be matched by an official reserves deficit or surplus. |  |  |  | | --- | --- | | D. | a capital account surplus or deficit must be matched by an official reserves deficit or surplus. | |

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 89. | More important than he absolute size of a country's balance-of-payments disequilibrium      |  |  | | --- | --- | | A. | is the nature and cause of the disequilibrium. |  |  |  | | --- | --- | | B. | is whether it is a trade surplus or deficit. |  |  |  | | --- | --- | | C. | is whether the local government is mercantilist or not. |  |  |  | | --- | --- | | D. | Nothing is more important than he absolute size of a country's balance-of-payments disequilibrium. | |

|  |  |
| --- | --- |
|  | For question in this section, the notation is  Y = GNP = national income C = consumption I = private investment G = government spending X = exports M = imports |

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 90. | The current account balance is given by      |  |  | | --- | --- | | A. | C + I + G + X + M |  |  |  | | --- | --- | | B. | X - M |  |  |  | | --- | --- | | C. | I + X + M |  |  |  | | --- | --- | | D. | M - X | |

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 91. | The difference between a country's savings and investment is given by      |  |  | | --- | --- | | A. | S - I |  |  |  | | --- | --- | | B. | I × S |  |  |  | | --- | --- | | C. | X - M |  |  |  | | --- | --- | | D. | GNP - Y | |

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 92. | If the difference between tax revenue and government expenditures is negative, it implies that      |  |  | | --- | --- | | A. | tax revenue is insufficient to cover government spending. |  |  |  | | --- | --- | | B. | a government budget deficit exists. |  |  |  | | --- | --- | | C. | the government will be issuing new debt securities. |  |  |  | | --- | --- | | D. | all of the above | |

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 93. | National income, or Gross National Product is given by      |  |  | | --- | --- | | A. | GNP ≡ Y ≡ C + I + G + X + M |  |  |  | | --- | --- | | B. | GNP ≡ Y ≡ C + I + G + X - M |  |  |  | | --- | --- | | C. | GNP ≡ I ≡ C + Y + G + X - M |  |  |  | | --- | --- | | D. | GNP ≡ Y ≡ C + I + X + M - G | |

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 94. | Which of the following is a true statement?      |  |  | | --- | --- | | A. | BCA ≡ X - M |  |  |  | | --- | --- | | B. | BKA ≡ X - M |  |  |  | | --- | --- | | C. | BKA - BCA ≡ X - M |  |  |  | | --- | --- | | D. | BKA ≡ M - X | |

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 95. | There is an intimate relationship between a country's BCA and how the country finances its domestic investment and pays for government expenditures. This relationship is given by BCA ≡ X - M ≡ (S - I) + (T - G). Given this, which of the following is a true statement?      |  |  | | --- | --- | | A. | If (S - I) < 0, it implies that a country's domestic savings is insufficient to finance domestic investment. |  |  |  | | --- | --- | | B. | If (T - G) < 0, it implies that a country's tax revenue is insufficient to finance government spending. |  |  |  | | --- | --- | | C. | both a and b are true |  |  |  | | --- | --- | | D. | none of the above | |

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 96. | There is an intimate relationship between a country's BCA and how the country finances its domestic investment and pays for government expenditures. Given this, which of the following is a true statement?      |  |  | | --- | --- | | A. | If (S - I) < 0, it implies that a country's domestic savings is insufficient to finance domestic investment. |  |  |  | | --- | --- | | B. | If (T - G) < 0, it implies that a country's tax revenue is insufficient to finance government spending. |  |  |  | | --- | --- | | C. | both a and b are true |  |  |  | | --- | --- | | D. | none of the above | |

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 97. | There is an intimate relationship between a country's BCA and how the country finances its domestic investment and pays for government expenditures. This relationship is given by BCA ≡ X - M ≡ (S - I) + (T - G). Given this, which of the following is a true statement?      |  |  | | --- | --- | | A. | If (S - I) < 0, it implies that a country's domestic savings is insufficient to finance domestic investment. |  |  |  | | --- | --- | | B. | If (T - G) < 0, it implies that a country's tax revenue is insufficient to finance government spending. |  |  |  | | --- | --- | | C. | When BCA is negative, it implies that government budget deficits an/or part of domestic investment are being finance with foreign-controlled capital. |  |  |  | | --- | --- | | D. | All of the above are true | |

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 98. | There is an intimate relationship between a country's BCA and how the country finances its domestic investment and pays for government expenditures. Given this, which of the following is a true statement?      |  |  | | --- | --- | | A. | If (S - I) < 0, it implies that a country's domestic savings is insufficient to finance domestic investment. |  |  |  | | --- | --- | | B. | If (T - G) < 0, it implies that a country's tax revenue is insufficient to finance government spending. |  |  |  | | --- | --- | | C. | When BCA is negative, it implies that government budget deficits an/or part of domestic investment are being finance with foreign-controlled capital. |  |  |  | | --- | --- | | D. | All of the above are true. | |

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 99. | There is an intimate relationship between a country's BCA and how the country finances its domestic investment and pays for government expenditures. This relationship is given by BCA ≡ X - M ≡ (S - I) + (T - G). Given this, in order for a country to reduce a BCA deficit, which of the following must occur?      |  |  | | --- | --- | | A. | For a given level of S and I, the government budget deficit (T - G) must be reduced. |  |  |  | | --- | --- | | B. | For a given level of I and (T - G), S must be increased. |  |  |  | | --- | --- | | C. | For a given level of S and (T - G), I must fall. |  |  |  | | --- | --- | | D. | All of the above would work to reduce a BCA deficit. | |

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 100. | There is an intimate relationship between a country's BCA and how the country finances its domestic investment and pays for government expenditures. Given this, in order for a country to reduce a BCA deficit, which of the following must occur?      |  |  | | --- | --- | | A. | For a given level of S and I, the government budget deficit (T - G) must be reduced. |  |  |  | | --- | --- | | B. | For a given level of I and (T - G), S must be increased. |  |  |  | | --- | --- | | C. | For a given level of S and (T - G), I must fall. |  |  |  | | --- | --- | | D. | All of the above would work to reduce a BCA deficit. | |

Chapter 03 Balance of Payments Answer Key

**True / False Questions**

|  |  |
| --- | --- |
| 1. | Over half of all dollar bills in circulation are held outside American's borders.    **TRUE** |

|  |
| --- |
| *Topic: Balance of Payments Trends in Major Countries* |

**Multiple Choice Questions**

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 2. | The current account balance, which is the difference between a country's exports and imports, is a component of the country's GNP. Other components of GNP include      |  |  | | --- | --- | | **A.** | consumption and investment and government expenditure. |  |  |  | | --- | --- | | B. | consumption and government expenditure and net exports. |  |  |  | | --- | --- | | C. | consumption and net exports and government expenditure. |  |  |  | | --- | --- | | D. | consumption less imports. | |

|  |
| --- |
| *Topic: Balance of Payments Accounting* |

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 3. | If the United States imports more than it exports, then this means that      |  |  | | --- | --- | | **A.** | the supply of dollars is likely to exceed the demand in the foreign exchange market, ceteris paribus. |  |  |  | | --- | --- | | B. | the demand for dollars is likely to exceed the supply in the foreign exchange market, ceteris paribus. |  |  |  | | --- | --- | | C. | the U.S. dollar would be under pressure to appreciate against other currencies. |  |  |  | | --- | --- | | D. | both b and c are correct | |

|  |
| --- |
| *Topic: Balance of Payments Accounting* |

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 4. | Balance of payments      |  |  | | --- | --- | | A. | is defined as the statistical record of a country's international transactions over a certain period of time presented in the form of a double-entry bookkeeping. |  |  |  | | --- | --- | | B. | provides detailed information concerning the demand and supply of a country's currency. |  |  |  | | --- | --- | | C. | can be used to evaluate the performance of a country in international economic competition. |  |  |  | | --- | --- | | **D.** | all of the above | |

|  |
| --- |
| *Topic: Balance of Payments Accounting* |

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 5. | If a country is grappling with a major balance-of-payment difficulty, it may not be able to expand imports from the outside world. Instead, the country may be tempted to      |  |  | | --- | --- | | A. | impose measures to restrict imports. |  |  |  | | --- | --- | | B. | impose measures to discourage capital outflows. |  |  |  | | --- | --- | | **C.** | Both a and b |  |  |  | | --- | --- | | D. | None of the above | |

|  |
| --- |
| *Topic: Balance of Payments Accounting* |

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 6. | If the United States imports more than it exports, then      |  |  | | --- | --- | | A. | the supply of dollars is likely to exceed the demand in the foreign exchange market, *ceteris paribus.* |  |  |  | | --- | --- | | B. | one can infer that the U.S. dollar would be under pressure to depreciate against other currencies. |  |  |  | | --- | --- | | **C.** | a and b |  |  |  | | --- | --- | | D. | None of the above | |

|  |
| --- |
| *Topic: Balance of Payments Accounting* |

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 7. | Generally speaking, any transaction that results in a receipt from foreigners      |  |  | | --- | --- | | A. | will be recorded as a debit, with a negative sign, in the U.S. balance of payments. |  |  |  | | --- | --- | | B. | will be recorded as a debit, with a positive sign, in the U.S. balance of payments. |  |  |  | | --- | --- | | C. | will be recorded as a credit, with a negative sign, in the U.S. balance of payments. |  |  |  | | --- | --- | | **D.** | will be recorded as a credit, with a positive sign, in the U.S. balance of payments. | |

|  |
| --- |
| *Topic: Balance of Payments Accounting* |

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 8. | Generally speaking, any transaction that results in a payment to foreigners      |  |  | | --- | --- | | **A.** | will be recorded as a debit, with a negative sign, in the U.S. balance of payments. |  |  |  | | --- | --- | | B. | will be recorded as a debit, with a positive sign, in the U.S. balance of payments. |  |  |  | | --- | --- | | C. | will be recorded as a credit, with a negative sign, in the U.S. balance of payments. |  |  |  | | --- | --- | | D. | will be recorded as a credit, with a positive sign, in the U.S. balance of payments. | |

|  |
| --- |
| *Topic: Balance of Payments Accounting* |

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 9. | If Japan exports more than it imports, then      |  |  | | --- | --- | | A. | the supply of dollars is likely to exceed the demand in the foreign exchange market, *ceteris paribus.* |  |  |  | | --- | --- | | **B.** | one can infer that the yen would be likely to appreciate against other currencies. |  |  |  | | --- | --- | | C. | a and b |  |  |  | | --- | --- | | D. | None of the above | |

|  |
| --- |
| *Topic: Balance of Payments Accounting* |

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 10. | The balance of payments records      |  |  | | --- | --- | | A. | only international trade, (exports and imports). |  |  |  | | --- | --- | | B. | only cross-border investments (FDI and portfolio investment). |  |  |  | | --- | --- | | **C.** | not only international trade, (exports and imports) but also cross-border investments. |  |  |  | | --- | --- | | D. | none of the above | |

|  |
| --- |
| *Topic: Balance of Payments Accounting* |

|  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 11. | Credit entries in the U.S. balance of payments      |  |  | | --- | --- | | A. | result from foreign sales of U.S. goods and services, goodwill, financial claims, and real assets. |  |  |  | | --- | --- | | B. | result from U.S. purchases of foreign goods and services, goodwill, financial claims, and real assets. |  |  |  | | --- | --- | | C. | give rise to the demand for dollars. |  |  |  | | --- | --- | | D. | give rise to the supply of dollars. |  |  |  | | --- | --- | | **E.** | both a and c | |

|  |
| --- |
| *Topic: Balance of Payments Accounting* |

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 12. | A country experiencing a significant balance-of-payments surplus would be likely to      |  |  | | --- | --- | | A. | expand imports, offering marketing opportunities for foreign enterprises. |  |  |  | | --- | --- | | B. | refrain from imposing foreign exchange restrictions. |  |  |  | | --- | --- | | C. | expand exports, offering international marketing opportunities for domestic enterprises. |  |  |  | | --- | --- | | **D.** | Both a and b | |

|  |
| --- |
| *Topic: Balance of Payments Accounting* |

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 13. | Suppose the McDonalds Corporation imports Canadian beef, paying for it by transferring the funds to a New York bank account kept by the Canadian beef producer.      |  |  | | --- | --- | | **A.** | Payment by McDonalds will be recorded as a debit. |  |  |  | | --- | --- | | B. | The deposit of the funds by the seller will be recorded as a debit. |  |  |  | | --- | --- | | C. | Payment by McDonalds will be recorded as a credit. |  |  |  | | --- | --- | | D. | The deposit of the funds by the buyer will be credit. | |

|  |
| --- |
| *Topic: Balance of Payments Accounting* |

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 14. | Since the balance of payments is presented as a system of double-entry bookkeeping,      |  |  | | --- | --- | | A. | every credit in the account is balanced by a matching debit. |  |  |  | | --- | --- | | B. | every debit in the account is balanced by a matching credit. |  |  |  | | --- | --- | | **C.** | answers a and b are both true |  |  |  | | --- | --- | | D. | none of the above | |

|  |
| --- |
| *Topic: Balance of Payments Accounting* |

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 15. | Suppose the InBev Corporation (a non-U.S. MNC) buys the Anheuser-Busch Corporation, paying the U.S. shareholders cash.      |  |  | | --- | --- | | A. | Payment by InBev will be recorded as a debit. |  |  |  | | --- | --- | | B. | The deposit of the funds by the sellers will be recorded as a debit. |  |  |  | | --- | --- | | **C.** | Payment by InBev will be recorded as a credit. |  |  |  | | --- | --- | | D. | The deposit of the funds by the buyer will be credit. | |

|  |
| --- |
| *Topic: Balance of Payments Accounts* |

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 16. | The current account includes      |  |  | | --- | --- | | **A.** | the export and import of goods and services. |  |  |  | | --- | --- | | B. | all purchases and sales of assets such as stocks, bonds, bank accounts, real estate, and businesses. |  |  |  | | --- | --- | | C. | all purchases and sales of international reserve assets such as dollars, foreign exchanges, gold, and special drawing rights (SDRs). |  |  |  | | --- | --- | | D. | none of the above | |

|  |
| --- |
| *Topic: Balance of Payments Accounts* |

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 17. | A country with a current account surplus      |  |  | | --- | --- | | **A.** | acquires IOUs from foreigners, thereby increasing its net foreign wealth. |  |  |  | | --- | --- | | B. | must borrow from foreigners or draw down on its previously accumulated foreign wealth. |  |  |  | | --- | --- | | C. | will experience a reduction in the country's net foreign wealth. |  |  |  | | --- | --- | | D. | both b and c | |

|  |
| --- |
| *Topic: Balance of Payments Accounts* |

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 18. | The capital account includes      |  |  | | --- | --- | | A. | the export and import of goods and services. |  |  |  | | --- | --- | | **B.** | all purchases and sales of assets such as stocks, bonds, bank accounts, real estate, and businesses. |  |  |  | | --- | --- | | C. | all purchases and sales of international reserve assets such as dollars, foreign exchanges, gold, and special drawing rights (SDRs). |  |  |  | | --- | --- | | D. | none of the above | |

|  |
| --- |
| *Topic: Balance of Payments Accounts* |

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 19. | The official reserve account includes      |  |  | | --- | --- | | A. | the export and import of goods and services. |  |  |  | | --- | --- | | B. | all purchases and sales of assets such as stocks, bonds, bank accounts, real estate, and businesses. |  |  |  | | --- | --- | | **C.** | all purchases and sales of international reserve assets such as dollars, foreign exchanges, gold, and special drawing rights (SDRs). |  |  |  | | --- | --- | | D. | none of the above | |

|  |
| --- |
| *Topic: Balance of Payments Accounts* |

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 20. | A country's international transactions can be grouped into the following three main types:      |  |  | | --- | --- | | A. | current account, medium term account, and long term capital account. |  |  |  | | --- | --- | | B. | current account, long term capital account, and official reserve account. |  |  |  | | --- | --- | | **C.** | current account, capital account, and official reserve account. |  |  |  | | --- | --- | | D. | capital account, official reserve account, trade account. | |

|  |
| --- |
| *Topic: Balance of Payments Accounts* |

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 21. | Invisible trade refers to      |  |  | | --- | --- | | A. | services that avoid tax payments. |  |  |  | | --- | --- | | B. | the underground economy. |  |  |  | | --- | --- | | **C.** | legal, consulting, and engineering services. |  |  |  | | --- | --- | | D. | tourist expenditures, only. | |

|  |
| --- |
| *Topic: Balance of Payments Accounts* |

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| 22. | A country that gives foreign aid to another country can be viewed as      |  |  | | --- | --- | | **A.** | importing goodwill from the latter. |  |  |  | | --- | --- | | B. | exporting goodwill to the latter. | |

|  |
| --- |
| *Topic: Balance of Payments Accounts* |

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 23. | In 2012 the United States had a current account deficit. The current account deficit implies that the United States      |  |  | | --- | --- | | A. | had a surplus on legal consulting and engineering services. |  |  |  | | --- | --- | | B. | produced more output than it consumed. |  |  |  | | --- | --- | | **C.** | consumed more output than it produced. |  |  |  | | --- | --- | | D. | none of the above | |

|  |
| --- |
| *Topic: The Current Account* |

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 24. | The current account is divided into four finer categories:      |  |  | | --- | --- | | A. | merchandise trade, services, factor income, and statistical discrepancy. |  |  |  | | --- | --- | | **B.** | merchandise trade, services, factor income, and unilateral transfers. |  |  |  | | --- | --- | | C. | merchandise trade, services, portfolio investment, and unilateral transfers. |  |  |  | | --- | --- | | D. | merchandise trade, services, factor income, and direct investment. | |

|  |
| --- |
| *Topic: The Current Account* |

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 25. | The factors of production are      |  |  | | --- | --- | | **A.** | land, labor, capital, and entrepreneurial ability. |  |  |  | | --- | --- | | B. | interest, wages and dividends. |  |  |  | | --- | --- | | C. | payments and receipts of interest, dividends, and other income on foreign investments that were previously made. |  |  |  | | --- | --- | | D. | none of the above | |

|  |
| --- |
| *Topic: The Current Account* |

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 26. | Factor income      |  |  | | --- | --- | | **A.** | consists largely of interest, dividends, and other income on foreign investments. |  |  |  | | --- | --- | | B. | is a theoretical construct of the factors of production, land, labor, capital, and entrepreneurial ability. |  |  |  | | --- | --- | | C. | is generally a very minor part of national income accounting, smaller than the statistical discrepancy. |  |  |  | | --- | --- | | D. | none of the above | |

|  |
| --- |
| *Topic: The Current Account* |

|  |  |
| --- | --- |
|  | The entries in the "current account" and the "capital account", combined together, can be outlined (in alphabetic order) as:  (i) - direct investment (ii) - factor income (iii) - merchandise (iv) - official transfer (v) - other capital (vi) - portfolio investment (vii) - private transfer (viii) - services |

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 27. | Current account includes      |  |  | | --- | --- | | A. | (i), (ii), and (iii) |  |  |  | | --- | --- | | **B.** | (ii), (iii), and (vii) |  |  |  | | --- | --- | | C. | (iv), (v), and (vii) |  |  |  | | --- | --- | | D. | (i), (v), and (vi) | |

|  |
| --- |
| *Topic: The Current Account* |

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 28. | Capital account includes      |  |  | | --- | --- | | A. | (i), (ii), and (iii) |  |  |  | | --- | --- | | B. | (ii), (iii), and (vii) |  |  |  | | --- | --- | | C. | (iv), (v), and (vii) |  |  |  | | --- | --- | | **D.** | (i), (v), and (vi) | |

|  |
| --- |
| *Topic: The Current Account* |

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 29. | The "J-curve effect" shows      |  |  | | --- | --- | | **A.** | the initial deterioration and the eventual improvement of a country's trade balance following a currency depreciation. |  |  |  | | --- | --- | | B. | the initial improvement and the eventual depreciation of a country's trade balance following a currency depreciation. |  |  |  | | --- | --- | | C. | the trade balance's lack of responsiveness to the exchanges rate changes. |  |  |  | | --- | --- | | D. | none of the above | |

|  |
| --- |
| *Topic: The Current Account* |

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 30. | The "J-curve effect"      |  |  | | --- | --- | | A. | happens most of the time, in the short run. |  |  |  | | --- | --- | | **B.** | actually only occurs in about 40 percent of the cases according to a study by Sebastian Edwards. |  |  |  | | --- | --- | | C. | is a long-run phenomenon, not a short-run one. |  |  |  | | --- | --- | | D. | none of the above. | |

|  |
| --- |
| *Topic: The Current Account* |

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 31. | The J-curve effect received wide attention when      |  |  | | --- | --- | | A. | the British trade balance worsened after a strengthening of the pound in 1967. |  |  |  | | --- | --- | | **B.** | the British trade balance worsened after a devaluation of the pound in 1967. |  |  |  | | --- | --- | | C. | the British trade balance improved after a devaluation of the pound in 1967. |  |  |  | | --- | --- | | D. | none of the above | |

|  |
| --- |
| *Topic: The Current Account* |

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 32. | A currency depreciation will begin to improve the trade balance immediately      |  |  | | --- | --- | | A. | if the demand for imports and exports are inelastic. |  |  |  | | --- | --- | | **B.** | if the demand for imports and exports are elastic. |  |  |  | | --- | --- | | C. | if imports decrease and exports decrease. |  |  |  | | --- | --- | | D. | none of the above | |

|  |
| --- |
| *Topic: The Current Account* |

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 33. | When a country's currency depreciates against the currencies of major trading partners,      |  |  | | --- | --- | | **A.** | the country's exports tend to rise and imports fall. |  |  |  | | --- | --- | | B. | the country's exports tend to fall and imports rise. |  |  |  | | --- | --- | | C. | the country's exports tend to rise and imports rise. |  |  |  | | --- | --- | | D. | the country's exports tend to fall and imports fall. | |

|  |
| --- |
| *Topic: The Current Account* |

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 34. | A depreciation will begin to improve the trade balance immediately if      |  |  | | --- | --- | | **A.** | imports and exports are responsive to the exchange rate changes. |  |  |  | | --- | --- | | B. | imports and exports are inelastic to the exchange rate changes. |  |  |  | | --- | --- | | C. | consumers exhibit brand loyalty and price inelasticity. |  |  |  | | --- | --- | | D. | b and c | |

|  |
| --- |
| *Topic: The Current Account* |

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
| 35. | In the short run a currency depreciation can make a trade balance worse if      |  |  | | --- | --- | | **A.** | there is no domestic producer of an import. |  |  |  | | --- | --- | | B. | there is no domestic buyer for an import. |  |  |  | | --- | --- | | C. | there is no export market for a country's output. | |

|  |
| --- |
| *Topic: The Current Account* |

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 36. | What is the correct label for the vertical axis in the J-curve?          |  |  | | --- | --- | | A. | Time |  |  |  | | --- | --- | | **B.** | Change in the Trade Balance |  |  |  | | --- | --- | | C. | Size of Trade Balance |  |  |  | | --- | --- | | D. | Size of Merchandise Trade Balance | |

|  |
| --- |
| *Topic: The Current Account* |

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 37. | In the long run, both exports and imports tend to be      |  |  | | --- | --- | | A. | unresponsive to changes in exchange rates. |  |  |  | | --- | --- | | **B.** | responsive to changes in exchange rates. |  |  |  | | --- | --- | | C. | both a and b |  |  |  | | --- | --- | | D. | none of the above | |

|  |
| --- |
| *Topic: The Current Account* |

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 38. | With regard to the capital account      |  |  | | --- | --- | | A. | the capital account balance measures the difference between U.S. sales of assets to foreigners and U.S. purchases of foreign assets. |  |  |  | | --- | --- | | B. | U.S. sales (or exports) of assets are recorded as credits, as they result in capital inflow. |  |  |  | | --- | --- | | C. | U.S. purchases (imports) of foreign assets are recorded as debits, as they lead to capital outflow. |  |  |  | | --- | --- | | **D.** | all of the above | |

|  |
| --- |
| *Topic: The Capital Account* |

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 39. | The difference between Foreign Direct Investment and Portfolio Investment is that      |  |  | | --- | --- | | **A.** | Portfolio Investment mostly represents the sale and purchase of foreign financial assets such as stocks and bonds *that do not involve a transfer of control*. |  |  |  | | --- | --- | | B. | Foreign Direct Investment mostly represents the sale and purchase of foreign financial assets such as stocks whereas Portfolio Investment mostly involves the sales and purchase of foreign bonds. |  |  |  | | --- | --- | | C. | Foreign Direct Investment is about buying land and building factories, whereas portfolio investment is about buying stocks and bonds. |  |  |  | | --- | --- | | D. | All of the above | |

|  |
| --- |
| *Topic: The Capital Account* |

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 40. | In the latter half of the 1980s, with a strong yen, Japanese firms      |  |  | | --- | --- | | A. | faced difficulty exporting. |  |  |  | | --- | --- | | B. | could better afford to acquire U.S. assets that had become less expensive in terms of yen. |  |  |  | | --- | --- | | C. | financed a sharp increase in Japanese FDI in the United States. |  |  |  | | --- | --- | | **D.** | all of the above | |

|  |
| --- |
| *Topic: The Capital Account* |

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 41. | International portfolio investments have boomed in recent years, as a result of      |  |  | | --- | --- | | A. | a depreciating U.S. dollar. |  |  |  | | --- | --- | | B. | increased gasoline and other commodity prices. |  |  |  | | --- | --- | | **C.** | the general relaxation of capital controls and regulation in many countries. |  |  |  | | --- | --- | | D. | none of the above | |

|  |
| --- |
| *Topic: The Capital Account* |

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 42. | If the interest rate rises in the U.S. while other variables remain constant      |  |  | | --- | --- | | **A.** | capital inflows into the U.S. will increase. |  |  |  | | --- | --- | | B. | capital inflows into the U.S. may not materialize. |  |  |  | | --- | --- | | C. | capital will flow out of the U.S. |  |  |  | | --- | --- | | D. | none of the above | |

|  |
| --- |
| *Topic: The Capital Account* |

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 43. | If for a particular county an increase in the interest rate is more or less matched by an expected depreciation in the local currency,      |  |  | | --- | --- | | A. | traders will probably be tempted to find another country to invest in. |  |  |  | | --- | --- | | B. | the interest rate increase *per se* will not be enough to spark capital flow into the country. |  |  |  | | --- | --- | | **C.** | both a and b are true |  |  |  | | --- | --- | | D. | capital will glow out of the country as the disgruntled citizens riot and go to war with the neighbors. | |

|  |
| --- |
| *Topic: The Capital Account* |

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 44. | The capital account measures      |  |  | | --- | --- | | A. | the sum of U.S. sales of assets to foreigners and U.S. purchases of foreign assets. |  |  |  | | --- | --- | | **B.** | the difference between U.S. sales of assets to foreigners and U.S. purchases of foreign assets. |  |  |  | | --- | --- | | C. | the difference between U.S. sales of manufactured goods to foreigners and U.S. purchases of foreign products. |  |  |  | | --- | --- | | D. | none of the above | |

|  |
| --- |
| *Topic: The Capital Account* |

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 45. | When Honda, a Japanese auto maker, built a factory in Ohio,      |  |  | | --- | --- | | **A.** | it was engaged in foreign direct investment. |  |  |  | | --- | --- | | B. | it was engaged in portfolio investment. |  |  |  | | --- | --- | | C. | it was engaged in a cross-border acquisition. |  |  |  | | --- | --- | | D. | none of the above. | |

|  |
| --- |
| *Topic: The Capital Account* |

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 46. | Government controlled investment funds, known as sovereign wealth funds,      |  |  | | --- | --- | | A. | are playing a less-important role in international finance following the end of the fixed exchange rate era. |  |  |  | | --- | --- | | **B.** | are mostly domiciled in Asian and Middle Eastern countries. |  |  |  | | --- | --- | | C. | are usually are responsible for converting trade surpluses and oil revenues into foreign exchange reserves. |  |  |  | | --- | --- | | D. | none of the above | |

|  |
| --- |
| *Topic: The Capital Account* |

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 47. | Foreign direct investment (FDI) occurs      |  |  | | --- | --- | | A. | when an investor acquires a measure of control of a foreign business. |  |  |  | | --- | --- | | B. | when there is an acquisition, by a foreign entity in the U.S., of 10 percent or more of the voting shares of a business. |  |  |  | | --- | --- | | C. | with sales and purchases of foreign stocks and bonds that do not involve a transfer of control. |  |  |  | | --- | --- | | **D.** | both a and b | |

|  |
| --- |
| *Topic: The Capital Account* |

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 48. | The capital account may be divided into three categories:      |  |  | | --- | --- | | A. | cross-border mergers and acquisitions, portfolio investment, and other investment. |  |  |  | | --- | --- | | B. | direct investment, portfolio investment, and Cross-border mergers and acquisitions. |  |  |  | | --- | --- | | C. | direct investment, mergers and acquisitions, and other investment. |  |  |  | | --- | --- | | **D.** | direct investment, portfolio investment, and other investment. | |

|  |
| --- |
| *Topic: The Capital Account* |

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 49. | When Nestlé, a Swiss firm, bought the American firm Carnation, it was engaged in foreign direct investment. If Nestlé had only bought a non-controlling number of shares of the firm,      |  |  | | --- | --- | | **A.** | Nestlé would have been engaged in portfolio investment. |  |  |  | | --- | --- | | B. | Nestlé would have been engaged in a cross-border acquisition. |  |  |  | | --- | --- | | C. | it would depend if they bought the shares from an American or a Canadian. |  |  |  | | --- | --- | | D. | none of the above | |

|  |
| --- |
| *Topic: The Capital Account* |

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 50. | Transactions in currency, bank deposits and so forth      |  |  | | --- | --- | | A. | tend to be insensitive to both changes in relative interest rates and the anticipated change in exchange rate. |  |  |  | | --- | --- | | **B.** | tend to be sensitive to both changes in relative interest rates and the anticipated change in exchange rate. |  |  |  | | --- | --- | | C. | tend to be sensitive to changes in relative interest rates but insensitive to the anticipated change in exchange rate. |  |  |  | | --- | --- | | D. | tend to be insensitive to changes in relative interest rates but sensitive to the anticipated change in exchange rate. | |

|  |
| --- |
| *Topic: The Capital Account* |

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 51. | Since security returns tend to have low correlations among countries,      |  |  | | --- | --- | | **A.** | investors can reduce risk more effectively if they diversify their portfolio holdings internationally rather than purely domestically. |  |  |  | | --- | --- | | B. | investors who have a domestically diversified portfolio, with exposures across industry types will not gain much from diversifying abroad. |  |  |  | | --- | --- | | C. | investors who diversify internationally will likely underperform investors who keep all their investments in one country. |  |  |  | | --- | --- | | D. | none of the above | |

|  |
| --- |
| *Topic: The Capital Account* |

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 52. | The world's largest debtor nation and creditor nation, respectively, are      |  |  | | --- | --- | | A. | Japan and the U.S. |  |  |  | | --- | --- | | **B.** | The U.S. and Japan. |  |  |  | | --- | --- | | C. | The U.S. and Canada. |  |  |  | | --- | --- | | D. | Great Britain and Mexico. | |

|  |
| --- |
| *Topic: The Capital Account* |

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 53. | Statistical discrepancy, which by definition represents errors and omissions      |  |  | | --- | --- | | A. | cannot be calculated directly. |  |  |  | | --- | --- | | B. | is calculated by taking into account the balance-of-payments identity. |  |  |  | | --- | --- | | C. | probably has some elements that are honest mistakes, it can't all be money laundering and drugs. |  |  |  | | --- | --- | | **D.** | all of the above | |

|  |
| --- |
| *Topic: Statistical Discrepancy* |

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 54. | The statistical discrepancy in the balance-of-payments accounts      |  |  | | --- | --- | | A. | arise since recordings of payments and receipts are done at different times, in different places, possibly using different methods. |  |  |  | | --- | --- | | B. | arise since some transactions (illegal transactions) occur "off the books". |  |  |  | | --- | --- | | C. | represents omitted and misreported transactions. |  |  |  | | --- | --- | | **D.** | all of the above | |

|  |
| --- |
| *Topic: Statistical Discrepancy* |

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 55. | Which of the following is most indicative of the pressure that a country's currency faces for depreciation or appreciation?      |  |  | | --- | --- | | A. | The current account |  |  |  | | --- | --- | | B. | The capital account |  |  |  | | --- | --- | | C. | The statistical discrepancies |  |  |  | | --- | --- | | **D.** | The official settlement balance | |

|  |
| --- |
| *Topic: Statistical Discrepancy* |

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| 56. | The United States is considered      |  |  | | --- | --- | | A. | a net creditor nation. |  |  |  | | --- | --- | | **B.** | a net debtor nation. | |

|  |
| --- |
| *Topic: Statistical Discrepancy* |

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 57. | Regarding the statistical discrepancy in the balance-of-payments accounts      |  |  | | --- | --- | | A. | there is some evidence that financial transactions may be mainly responsible for the discrepancy. |  |  |  | | --- | --- | | B. | the sum of the balance on the capital account and the statistical discrepancy is very close to the balance of the current account in magnitude. |  |  |  | | --- | --- | | C. | it tends to be positive one year and negative in others, so it's safe to ignore it. |  |  |  | | --- | --- | | **D.** | a and b | |

|  |
| --- |
| *Topic: Statistical Discrepancy* |

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 58. | The central bank of the United States is      |  |  | | --- | --- | | A. | the New York Fed. |  |  |  | | --- | --- | | **B.** | the Federal Reserve System. |  |  |  | | --- | --- | | C. | the EXIM bank. |  |  |  | | --- | --- | | D. | none of the above—the U.S. does not have a central bank. | |

|  |
| --- |
| *Topic: Official Reserve Account* |

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 59. | When a country must make a net payment to foreigners because of a balance-of-payments deficit, the central bank of the country      |  |  | | --- | --- | | A. | should do nothing. |  |  |  | | --- | --- | | B. | should run down its official reserve assets (e.g. gold, foreign exchanges, and SDRs). |  |  |  | | --- | --- | | C. | should borrow anew from foreign central banks. |  |  |  | | --- | --- | | **D.** | either b or c will work. | |

|  |
| --- |
| *Topic: Official Reserve Account* |

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 60. | Continued U.S. trade deficits coupled with foreigners' desire to diversify their currency holdings away from U.S. dollars      |  |  | | --- | --- | | A. | could further diminish the position of the dollar as the dominant reserve currency. |  |  |  | | --- | --- | | B. | could affect the value of U.S. dollar (e.g. through the currency diversification decisions of Asian central banks). |  |  |  | | --- | --- | | C. | could lend steam to the emergence of the euro as a credible reserve currency. |  |  |  | | --- | --- | | **D.** | all of the above | |

|  |
| --- |
| *Topic: Official Reserve Account* |

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 61. | Currently, international reserve assets are comprised of      |  |  | | --- | --- | | A. | gold, platinum, foreign exchanges, and special drawing rights (SDRs). |  |  |  | | --- | --- | | **B.** | gold, foreign exchanges, special drawing rights (SDRs), and reserve positions in the International Monetary Fund (IMF). |  |  |  | | --- | --- | | C. | gold, diamonds, foreign exchanges, and special drawing rights (SDRs). |  |  |  | | --- | --- | | D. | reserve positions in the International Monetary Fund (IMF), only. | |

|  |
| --- |
| *Topic: Official Reserve Account* |

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 62. | International reserve assets include "foreign exchanges". These are      |  |  | | --- | --- | | A. | Special Drawing Rights (SDRs) at the IMF. |  |  |  | | --- | --- | | B. | reserve positions in the International Monetary Fund (IMF). |  |  |  | | --- | --- | | **C.** | foreign currency held by a country's central bank. |  |  |  | | --- | --- | | D. | none of the above | |

|  |
| --- |
| *Topic: Official Reserve Account* |

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 63. | The most important international reserve asset, comprising 94 percent of the total reserve assets held by IMF member countries is      |  |  | | --- | --- | | A. | gold. |  |  |  | | --- | --- | | **B.** | foreign exchanges. |  |  |  | | --- | --- | | C. | special Drawing Rights (SDRs). |  |  |  | | --- | --- | | D. | reserve positions in the International Monetary Fund (IMF). | |

|  |
| --- |
| *Topic: Official Reserve Account* |

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 64. | The "one word that haunts the dollar" is      |  |  | | --- | --- | | **A.** | (Central bank) diversification. |  |  |  | | --- | --- | | B. | Reunification (Korean). |  |  |  | | --- | --- | | C. | Euro. |  |  |  | | --- | --- | | D. | (Current account) deficit. | |

|  |
| --- |
| *Topic: Official Reserve Account* |

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 65. | The vast majority of the foreign-exchange reserves held by central banks are denominated in      |  |  | | --- | --- | | A. | local currencies. |  |  |  | | --- | --- | | **B.** | U.S. dollars. |  |  |  | | --- | --- | | C. | Yen. |  |  |  | | --- | --- | | D. | Euro. | |

|  |
| --- |
| *Topic: Official Reserve Account* |

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 66. | Among IMF member countries, the dollar's dominant position in the world's reserve holdings may decline to a certain extent as the euro becomes a "known quantity" and its external value becomes more stable. In fact, the euro's share has increased      |  |  | | --- | --- | | A. | from zero percent in 1999 to 25.8 percent in 2006. |  |  |  | | --- | --- | | **B.** | from 13.5 percent in 1999 to 25.8 percent in 2006. |  |  |  | | --- | --- | | C. | from 13.5 percent in 1999 to 52.8 percent in 2006. |  |  |  | | --- | --- | | D. | none of the above | |

|  |
| --- |
| *Topic: Official Reserve Account* |

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 67. | Which of the following would not count as a foreign-exchange reserve held by a central bank?      |  |  | | --- | --- | | **A.** | The local currency |  |  |  | | --- | --- | | B. | U.S. dollars |  |  |  | | --- | --- | | C. | SDRs |  |  |  | | --- | --- | | D. | Euro | |

|  |
| --- |
| *Topic: Official Reserve Account* |

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 68. | The balance of payments identity is given by BCA + BKA + BRA = 0. Rearrange the identity for a country with a pure flexible exchange rate regime      |  |  | | --- | --- | | A. | BCA + BKA + BRA = 0 |  |  |  | | --- | --- | | **B.** | BCA = -BKA |  |  |  | | --- | --- | | C. | BCA + BKA = -BRA |  |  |  | | --- | --- | | D. | BRA = -BCA | |

|  |
| --- |
| *Topic: The Balance of Payments Identity* |

|  |  |
| --- | --- |
|  | Assume that the balance-of-payments accounts for a country are recorded correctly.  Balance on the current account = BCA = $130 billion Balance on the capital account = BKA = -$86 billion Balance on the reserves account = BRA = ? |

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 69. | The balance on the reserves account (BRA), under the fixed exchange regime is      |  |  | | --- | --- | | **A.** | -$44 billion |  |  |  | | --- | --- | | B. | $44 billion |  |  |  | | --- | --- | | C. | $216 billion |  |  |  | | --- | --- | | D. | none of the above | |

|  |
| --- |
| *Topic: The Balance of Payments Identity* |

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 70. | The balance on the reserves account (BRA), under the pure flexible exchange regime is      |  |  | | --- | --- | | A. | -$44 billion. |  |  |  | | --- | --- | | B. | $44 billion. |  |  |  | | --- | --- | | C. | $216 billion. |  |  |  | | --- | --- | | **D.** | none of the above | |

|  |
| --- |
| *Topic: The Balance of Payments Identity* |

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 71. | In a pure flexible exchange rate regime, a country's central banks will not need to maintain official reserves. Under this regime      |  |  | | --- | --- | | **A.** | -BCA = BKA. |  |  |  | | --- | --- | | B. | BCA = -BRA = 0. |  |  |  | | --- | --- | | C. | BKA = -BRA. |  |  |  | | --- | --- | | D. | BSA = BCA. | |

|  |
| --- |
| *Topic: The Balance of Payments Identity* |

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 72. | When the balance-of-payments accounts are recorded correctly, the combined balance of the current account, the capital account, and the reserves account must be      |  |  | | --- | --- | | A. | equal in magnitude to the country's national debt. |  |  |  | | --- | --- | | **B.** | zero. |  |  |  | | --- | --- | | C. | equal in magnitude to the Trade Deficit or Surplus. |  |  |  | | --- | --- | | D. | none of the above | |

|  |
| --- |
| *Topic: The Balance of Payments Identity* |

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 73. | The balance of payments identity is given by BCA + BKA + BRA = 0. Rearrange the identity to solve for the statistical discrepancy.      |  |  | | --- | --- | | A. | The statistical discrepancy = (BCA + BKA) - BRA |  |  |  | | --- | --- | | B. | The statistical discrepancy = BCA - BKA + BRA |  |  |  | | --- | --- | | C. | The statistical discrepancy = BCA - BKA - BRA |  |  |  | | --- | --- | | **D.** | The statistical discrepancy = BCA + BKA + BRA | |

|  |
| --- |
| *Topic: The Balance of Payments Identity* |

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 74. | BCA stands for      |  |  | | --- | --- | | **A.** | the balance on the current account. |  |  |  | | --- | --- | | B. | the balance on the capital account. |  |  |  | | --- | --- | | C. | the balance on the official reserves. |  |  |  | | --- | --- | | D. | net imports. | |

|  |
| --- |
| *Topic: The Balance of Payments Identity* |

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 75. | BKA stands for      |  |  | | --- | --- | | A. | the balance on the current account. |  |  |  | | --- | --- | | **B.** | the balance on the capital account. |  |  |  | | --- | --- | | C. | the balance on the official reserves. |  |  |  | | --- | --- | | D. | net imports. | |

|  |
| --- |
| *Topic: The Balance of Payments Identity* |

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
| 76. | If the central banks of the world chose to diversify their foreign-exchange reserves away from the dollar and into the euro,      |  |  | | --- | --- | | A. | this would have the result of a strengthening of the value of the dollar. |  |  |  | | --- | --- | | **B.** | this have the result of a weakening in the value of the dollar. |  |  |  | | --- | --- | | C. | this would not have much impact, as the information would be lost in the day-to-day volatility of exchange rates. | |

|  |
| --- |
| *Topic: The Balance of Payments Identity* |

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 77. | The economic theory of *mercantilism* holds that      |  |  | | --- | --- | | **A.** | a continuing trade surplus should be a government's major policy goal. |  |  |  | | --- | --- | | B. | the main source of wealth of a country is its productive capacity. |  |  |  | | --- | --- | | C. | free trade is the result of countries exploiting their comparative advantage. |  |  |  | | --- | --- | | D. | none of the above | |

|  |
| --- |
| *Topic: Balance of Payments Trends in Major Countries* |

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 78. | The U.S. Trade Deficit      |  |  | | --- | --- | | A. | is a capital account surplus. |  |  |  | | --- | --- | | B. | is a current account deficit. |  |  |  | | --- | --- | | **C.** | is both a capital account surplus and a current account deficit. |  |  |  | | --- | --- | | D. | none of the above | |

|  |
| --- |
| *Topic: Balance of Payments Trends in Major Countries* |

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 79. | As of 2011 gold accounted for      |  |  | | --- | --- | | A. | 90 percent of the total reserve assets held by IMF member countries. |  |  |  | | --- | --- | | B. | 70 percent of the total reserve assets held by IMF member countries. |  |  |  | | --- | --- | | C. | approximately 50 percent of the total reserve assets held by IMF member countries. |  |  |  | | --- | --- | | **D.** | less than one percent of the total reserve assets held by IMF member countries. | |

|  |
| --- |
| *Topic: Balance of Payments Trends in Major Countries* |

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
| 80. | The most popular reserve currency is now the      |  |  | | --- | --- | | **A.** | U.S. dollar. |  |  |  | | --- | --- | | B. | Euro. |  |  |  | | --- | --- | | C. | Japanese Yen. | |

|  |
| --- |
| *Topic: Balance of Payments Trends in Major Countries* |

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 81. | Suppose a country is currently experiencing a trade deficit. In the long run, this could be self correcting if      |  |  | | --- | --- | | **A.** | the deficit exists because of the import demand for capital goods. |  |  |  | | --- | --- | | B. | the deficit exists because of the import demand for consumption goods. |  |  |  | | --- | --- | | C. | the deficit exists because foreigners want to buy the country's currency as an investment. |  |  |  | | --- | --- | | D. | none of the above | |

|  |
| --- |
| *Topic: Balance of Payments Trends in Major Countries* |

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 82. | The capital account is divided into three subcategories: direct investment, portfolio investment, and other investment. Direct investment involves      |  |  | | --- | --- | | **A.** | acquisitions of controlling interests in foreign businesses. |  |  |  | | --- | --- | | B. | investments in foreign stocks and bonds that do not involve acquisitions of control. |  |  |  | | --- | --- | | C. | bank deposits, currency investment, trade credit, and the like. |  |  |  | | --- | --- | | D. | all of the above | |

|  |
| --- |
| *Topic: Balance of Payments Trends in Major Countries* |

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 83. | The capital account is divided into three subcategories: direct investment, portfolio investment, and other investment. Portfolio investment involves      |  |  | | --- | --- | | A. | acquisitions of controlling interests in foreign businesses. |  |  |  | | --- | --- | | **B.** | investments in foreign stocks and bonds that do not involve acquisitions of control. |  |  |  | | --- | --- | | C. | bank deposits, currency investment, trade credit, and the like. |  |  |  | | --- | --- | | D. | all of the above | |

|  |
| --- |
| *Topic: Balance of Payments Trends in Major Countries* |

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 84. | The capital account is divided into three subcategories: direct investment, portfolio investment, and other investment. "Other" investment involves      |  |  | | --- | --- | | A. | acquisitions of controlling interests in foreign businesses. |  |  |  | | --- | --- | | B. | investments in foreign stocks and bonds that do not involve acquisitions of control. |  |  |  | | --- | --- | | **C.** | bank deposits, currency investment, trade credit, and the like. |  |  |  | | --- | --- | | D. | all of the above | |

|  |
| --- |
| *Topic: Balance of Payments Trends in Major Countries* |

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 85. | Over the last several years the U.S. has run persistent      |  |  | | --- | --- | | A. | balance-of-payments deficits. |  |  |  | | --- | --- | | B. | balance-of-payments surpluses. |  |  |  | | --- | --- | | **C.** | current Account deficits. |  |  |  | | --- | --- | | D. | capital Account deficits. | |

|  |
| --- |
| *Topic: Balance of Payments Trends in Major Countries* |

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 86. | If a country must make a net payment to foreigners because of a balance-of-payments deficit, the country should      |  |  | | --- | --- | | A. | either increase its official reserve assets or borrow anew from foreigners. |  |  |  | | --- | --- | | **B.** | either run down its official reserve assets or borrow anew from foreigners. |  |  |  | | --- | --- | | C. | either run down its official reserve assets or lend more foreigners. |  |  |  | | --- | --- | | D. | none of the above | |

|  |
| --- |
| *Topic: Balance of Payments Trends in Major Countries* |

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 87. | Under the fixed exchange rate regime      |  |  | | --- | --- | | **A.** | the combined balance on the current and capital accounts will be equal in size, but opposite in sign, to the change in the official reserves. |  |  |  | | --- | --- | | B. | the balance on the current and capital accounts will be equal in size, but opposite in sign. |  |  |  | | --- | --- | | C. | a current account surplus or deficit must be matched by an official reserves deficit or surplus. |  |  |  | | --- | --- | | D. | a capital account surplus or deficit must be matched by an official reserves deficit or surplus. | |

|  |
| --- |
| *Topic: Balance of Payments Trends in Major Countries* |

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 88. | Under the pure flexible exchange rate regime      |  |  | | --- | --- | | A. | the combined balance on the current and capital accounts will be equal in size, but opposite in sign, to the change in the official reserves. |  |  |  | | --- | --- | | **B.** | the balance on the current and capital accounts will be equal in size, but opposite in sign. |  |  |  | | --- | --- | | C. | a current account surplus or deficit must be matched by an official reserves deficit or surplus. |  |  |  | | --- | --- | | D. | a capital account surplus or deficit must be matched by an official reserves deficit or surplus. | |

|  |
| --- |
| *Topic: Balance of Payments Trends in Major Countries* |

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 89. | More important than he absolute size of a country's balance-of-payments disequilibrium      |  |  | | --- | --- | | **A.** | is the nature and cause of the disequilibrium. |  |  |  | | --- | --- | | B. | is whether it is a trade surplus or deficit. |  |  |  | | --- | --- | | C. | is whether the local government is mercantilist or not. |  |  |  | | --- | --- | | D. | Nothing is more important than he absolute size of a country's balance-of-payments disequilibrium. | |

|  |
| --- |
| *Topic: Balance of Payments Trends in Major Countries* |

|  |  |
| --- | --- |
|  | For question in this section, the notation is  Y = GNP = national income C = consumption I = private investment G = government spending X = exports M = imports |

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 90. | The current account balance is given by      |  |  | | --- | --- | | A. | C + I + G + X + M |  |  |  | | --- | --- | | **B.** | X - M |  |  |  | | --- | --- | | C. | I + X + M |  |  |  | | --- | --- | | D. | M - X | |

|  |
| --- |
| *Topic: Appendix 3A: The Relationship between Balance of Payments and National Income Accounting* |

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 91. | The difference between a country's savings and investment is given by      |  |  | | --- | --- | | **A.** | S - I |  |  |  | | --- | --- | | B. | I × S |  |  |  | | --- | --- | | C. | X - M |  |  |  | | --- | --- | | D. | GNP - Y | |

|  |
| --- |
| *Topic: Appendix 3A: The Relationship between Balance of Payments and National Income Accounting* |

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 92. | If the difference between tax revenue and government expenditures is negative, it implies that      |  |  | | --- | --- | | A. | tax revenue is insufficient to cover government spending. |  |  |  | | --- | --- | | B. | a government budget deficit exists. |  |  |  | | --- | --- | | C. | the government will be issuing new debt securities. |  |  |  | | --- | --- | | **D.** | all of the above | |

|  |
| --- |
| *Topic: Appendix 3A: The Relationship between Balance of Payments and National Income Accounting* |

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 93. | National income, or Gross National Product is given by      |  |  | | --- | --- | | A. | GNP ≡ Y ≡ C + I + G + X + M |  |  |  | | --- | --- | | **B.** | GNP ≡ Y ≡ C + I + G + X - M |  |  |  | | --- | --- | | C. | GNP ≡ I ≡ C + Y + G + X - M |  |  |  | | --- | --- | | D. | GNP ≡ Y ≡ C + I + X + M - G | |

|  |
| --- |
| *Topic: Appendix 3A: The Relationship between Balance of Payments and National Income Accounting* |

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 94. | Which of the following is a true statement?      |  |  | | --- | --- | | **A.** | BCA ≡ X - M |  |  |  | | --- | --- | | B. | BKA ≡ X - M |  |  |  | | --- | --- | | C. | BKA - BCA ≡ X - M |  |  |  | | --- | --- | | D. | BKA ≡ M - X | |

|  |
| --- |
| *Topic: Appendix 3A: The Relationship between Balance of Payments and National Income Accounting* |

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 95. | There is an intimate relationship between a country's BCA and how the country finances its domestic investment and pays for government expenditures. This relationship is given by BCA ≡ X - M ≡ (S - I) + (T - G). Given this, which of the following is a true statement?      |  |  | | --- | --- | | A. | If (S - I) < 0, it implies that a country's domestic savings is insufficient to finance domestic investment. |  |  |  | | --- | --- | | B. | If (T - G) < 0, it implies that a country's tax revenue is insufficient to finance government spending. |  |  |  | | --- | --- | | **C.** | both a and b are true |  |  |  | | --- | --- | | D. | none of the above | |

|  |
| --- |
| *Topic: Appendix 3A: The Relationship between Balance of Payments and National Income Accounting* |

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 96. | There is an intimate relationship between a country's BCA and how the country finances its domestic investment and pays for government expenditures. Given this, which of the following is a true statement?      |  |  | | --- | --- | | A. | If (S - I) < 0, it implies that a country's domestic savings is insufficient to finance domestic investment. |  |  |  | | --- | --- | | B. | If (T - G) < 0, it implies that a country's tax revenue is insufficient to finance government spending. |  |  |  | | --- | --- | | **C.** | both a and b are true |  |  |  | | --- | --- | | D. | none of the above | |

|  |
| --- |
| *Topic: Appendix 3A: The Relationship between Balance of Payments and National Income Accounting* |

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 97. | There is an intimate relationship between a country's BCA and how the country finances its domestic investment and pays for government expenditures. This relationship is given by BCA ≡ X - M ≡ (S - I) + (T - G). Given this, which of the following is a true statement?      |  |  | | --- | --- | | A. | If (S - I) < 0, it implies that a country's domestic savings is insufficient to finance domestic investment. |  |  |  | | --- | --- | | B. | If (T - G) < 0, it implies that a country's tax revenue is insufficient to finance government spending. |  |  |  | | --- | --- | | C. | When BCA is negative, it implies that government budget deficits an/or part of domestic investment are being finance with foreign-controlled capital. |  |  |  | | --- | --- | | **D.** | All of the above are true | |

|  |
| --- |
| *Topic: Appendix 3A: The Relationship between Balance of Payments and National Income Accounting* |

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 98. | There is an intimate relationship between a country's BCA and how the country finances its domestic investment and pays for government expenditures. Given this, which of the following is a true statement?      |  |  | | --- | --- | | A. | If (S - I) < 0, it implies that a country's domestic savings is insufficient to finance domestic investment. |  |  |  | | --- | --- | | B. | If (T - G) < 0, it implies that a country's tax revenue is insufficient to finance government spending. |  |  |  | | --- | --- | | C. | When BCA is negative, it implies that government budget deficits an/or part of domestic investment are being finance with foreign-controlled capital. |  |  |  | | --- | --- | | **D.** | All of the above are true. | |

|  |
| --- |
| *Topic: Appendix 3A: The Relationship between Balance of Payments and National Income Accounting* |

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 99. | There is an intimate relationship between a country's BCA and how the country finances its domestic investment and pays for government expenditures. This relationship is given by BCA ≡ X - M ≡ (S - I) + (T - G). Given this, in order for a country to reduce a BCA deficit, which of the following must occur?      |  |  | | --- | --- | | A. | For a given level of S and I, the government budget deficit (T - G) must be reduced. |  |  |  | | --- | --- | | B. | For a given level of I and (T - G), S must be increased. |  |  |  | | --- | --- | | C. | For a given level of S and (T - G), I must fall. |  |  |  | | --- | --- | | **D.** | All of the above would work to reduce a BCA deficit. | |

|  |
| --- |
| *Topic: Appendix 3A: The Relationship between Balance of Payments and National Income Accounting* |

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 100. | There is an intimate relationship between a country's BCA and how the country finances its domestic investment and pays for government expenditures. Given this, in order for a country to reduce a BCA deficit, which of the following must occur?      |  |  | | --- | --- | | A. | For a given level of S and I, the government budget deficit (T - G) must be reduced. |  |  |  | | --- | --- | | B. | For a given level of I and (T - G), S must be increased. |  |  |  | | --- | --- | | C. | For a given level of S and (T - G), I must fall. |  |  |  | | --- | --- | | **D.** | All of the above would work to reduce a BCA deficit. | |

|  |
| --- |
| *Topic: Appendix 3A: The Relationship between Balance of Payments and National Income Accounting* |