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 billionBalance on the capital account = BKA = -$86 billionBalance 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 isY = GNP = national incomeC = consumptionI = private investmentG = government spendingX = exportsM = 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 billionBalance on the capital account = BKA = -$86 billionBalance 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 isY = GNP = national incomeC = consumptionI = private investmentG = government spendingX = exportsM = 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* |