1. When the dollar appreciates relative to the Euro, the dollar price of the Euro
a. increases.
b. decreases.
c. is not affected.
d. increases or decreases, depending on the amount of the appreciation.
e. increases or decreases, depending on the effects of tariffs and quotas.

2. Which of the following, ceteris paribus, will cause the real exchange rate to rise?
a. A rise in the nominal exchange rate.
b. A rise in the foreign price level.
c. A fall in the domestic price level.
d. All of the above.
e. None of the above.

3. When two countries make a believable commitment to fix their bilateral exchange rate,
a. the uncovered interest parity condition need no longer hold.
b. citizens of each country will prefer to invest in the foreign country.
c. each country can freely allow its interest rate to diverge from that of the other country.
d. the interest rate in the two countries must me together.
e. neither country will run a trade deficit.

4. Which of the following would increase exports?
a. A fall in the real exchange rate.
b. A rise in domestic output.
c. A rise in foreign output.
d. All of the above.
e. None of the above.

5. Equilibrium in an open economy occurs when domestic output is equal to
a. the demand for domestic goods.
b. the domestic demand for goods.
c. the domestic demand for domestic goods.
d. net exports.
e. the domestic demand for goods minus net exports.

6. Which of the following will always improve the trade balance?
a. An increase in foreign output.
b. A decrease in the real exchange rate.
c. An increase in government spending.
d. An increase in investment.
e. All of the above.

Answers: b d d c a a
7. When the U.S. has a current account deficit, we know that it is also
   a. running a trade deficit.
   b. lending to the rest of the world.
   c. borrowing from the rest of the world.
   d. suffering from negative investment income.
   e. running a trade surplus.

8. The difference between the net capital inflows and the current account deficit is called the
   a. capital account surplus
   b. capital account deficit
   c. balance of payments
   d. statistical discrepancy
   e. balance on current accounts

9. According to the uncovered interest parity condition, if the U.S. interest rate is greater than the Swiss interest rate, then investors expect
   a. the Swiss franc to depreciate.
   b. the dollar to depreciate.
   c. the dollar-franc exchange rate to remain fixed.
   d. the U.S. interest rate to rise.
   e. the U.S. interest rate to fall.

10. Which of the following would increase the demand for imports?
    a. a rise in the real exchange rate.
    b. a rise in domestic output.
    c. a rise in foreign output.
    d. all of the above.
    e. none of the above.

11. In an open economy, an increase in government spending will cause
    a. a rise in domestic output.
    b. a rise in imports.
    c. a fall in net exports.
    d. all of the above.
    e. none of the above.

12. Suppose policy makers want to increase Y and keep NX constant. Which of the following policies would most likely achieve this?
    a. an increase in government spending.
    b. an increase in the real exchange rate.
    c. an increase in government spending and an increase in the real exchange rate.
    d. a reduction in the real exchange rate.
    e. none of the above.

Answers: c d b b d c