

INTERNATIONAL ECONOMICS

1. Karl Marx is quoted as saying that "the capitalistic system contains the **seed of its own destruction.**" What "seed" was he referring to?
 - A. Private property.
 - B. Consumer sovereignty.
 - C. The profit motive.
 - D. Control of the money supply by the government.
 - E. Ignorant and/or misinformed consumers.

2. To deal with the problems associated with a **concentration of economic power** in industries requiring large-scale production methods for efficiency (such as, energy, transportation, steel, and banking), many countries including Britain, Sweden, and France have chosen (unlike the U.S.) to:
 - A. regulate the prices charged and quantities produced by these industries.
 - B. turn these industries into consumer-owned cooperatives.
 - C. break-up the large companies dominating these industries into smaller, albeit less efficient, competing firms.
 - D. nationalize these industries (that is, they are government owned and controlled).
 - E. do nothing and virtually ignore any real or perceived economic problems.

3. If country A can produce **both** goods X and Y using smaller total amounts of resources than could country B, then:
 - A. country B would find it economically advantageous to import both X and Y from country A.
 - B. we can conclude that country A has a more developed economy than country B.
 - C. there is no possible basis for mutually beneficial trade between these countries with respect to these goods.
 - D. mutually beneficial trade between these countries with respect to these goods might still be possible.
 - E. any trade between these countries with respect to these goods would only be beneficial to country B but not A.

4. Given one unit of labor working one year Japan can produce **10 radios or 5 television sets**, while Korea can produce with the same amount of labor only **4 radios or 1 television set**. Which of the following **terms of trade** would be beneficial to both countries?
 - A. one television for one radio.
 - B. one television for two radios.
 - C. one television for three radios.
 - D. one television for five radios.
 - E. there is no terms of trade which would benefit both Japan and Korea.

5. In saying that the present system of **floating exchange rates** is "**managed**" we mean that:
- A. the central banks of various countries buy and sell foreign exchange to smooth out short-term fluctuations in exchange rates.
 - B. International Monetary Fund officials set exchange rates on a day-to-day basis.
 - C. the value of any country's currency is only allowed to vary at most 1% each day.
 - D. it depends on the price of gold which is controlled to a large extent by the U.S. Treasury Department.
 - E. All of the above are true.
6. Which of the following would contribute to a U.S. **balance of trade deficit**?
- A. Brazil pays interest on its debt to a U.S. bank.
 - B. A Saudi Arabian builds a mansion in Beverly Hills.
 - C. U.S. tourists travel in large numbers to China.
 - D. Kawasaki builds a motorcycle manufacturing plant in Ohio.
 - E. Grain sales to Russia are increased.
7. Which of the following economic questions must **all** societies deal with?
- A. What goods will be produced and in what quantities?
 - B. How can markets be kept competitive?
 - C. How can the problem of scarcity best be eliminated?
 - D. What will insure income is distributed equally to all members of society?
 - E. All of the above.
8. With **freely floating exchange rates**, a **decrease** in the value of a nation's currency will:
- A. cause an international shortage of its currency.
 - B. contribute to disequilibrium in its balance of payments.
 - C. cause its imports to fall.
 - D. cause gold to flow out of that nation.
 - E. cause the value of other nation's currencies to also decrease.
9. If the U.S. has a **absolute advantage** over Mexico in producing computers and in producing jet aircraft:
- A. the opportunity cost of producing computers in the U.S. is lower than in Mexico.
 - B. the U.S. needs less resources to produce a jet aircraft than does Mexico.
 - C. the U.S. could not possibly gain by trading for either of these items from Mexico.
 - D. the U.S. should specialize in producing both these items.
 - E. All of the above are true.

10. **Workers** in the former Soviet Union were:
- A. assigned to jobs by central planners and cannot leave these positions without government permission.
 - B. relatively free to be occupationally, industrially, and geographically mobile.
 - C. approximately as productive as workers in the United States.
 - D. allowed to bargain collectively in determining their wage rates.
 - E. all paid about the same wage rate.
11. Which of the following characteristics is unique to **capitalism**?
- A. Markets.
 - B. Division of labor and specialization.
 - C. Private ownership of productive resources.
 - D. Use of money and the development of a banking system.
 - E. All of the above.
12. While _____ is a principal problem in a real-world **capitalistic** economy, _____ is a principal problem in a real-world **socialistic** economy.
- A. the growth of economic power resulting from an uneven distribution of resources; the lack of productive incentives.
 - B. coordinating economic activities; achieving an equitable distribution of income.
 - C. the lack of consumer sovereignty; an inability to achieve economic growth.
 - D. the lack of productive incentives; coordinating economic activities.
 - E. productive efficiency; the lack of planned objectives.
13. A barrier to trade in the form of laws **forbidding trade** in certain goods is called:
- A. A tariff.
 - B. An embargo.
 - C. A quota.
 - D. An import tax.
 - E. A voluntary restraint agreement.
14. A "**stronger**" U.S. dollar in foreign exchange markets:
- A. improves sales for U.S. exporters.
 - B. tends to lower aggregate demand in the U.S.
 - C. tends to improve the U.S. balance of trade.
 - D. lowers the purchasing power of the dollar in foreign countries.
 - E. causes high interest rates in the U.S.
15. Which two countries are the U.S.'s number one and number two **trading partners in terms of volume of trade**?
- A. Japan and Korea.
 - B. Canada and Japan.
 - C. Germany and Britain.
 - D. Japan and Mexico.
 - E. Canada and Mexico.

16. Consider the data below on the **aggregate spending** of some country (in billions of dollars):

Gross Domestic Product	\$400
Consumption Expenditures	230
Investment	80
Government Expenditures	140

This country's **balance of trade** is:

- A. In deficit by \$50 billion.
 - B. In surplus by \$50 billion.
 - C. In deficit by \$30 billion.
 - D. In surplus by \$30 billion.
 - E. In balance.
17. Other things equal, which of the following is likely to lead to an **appreciation** of the exchange rate for the U.S. dollar?
- A. An increase in the price of gold.
 - B. A lower European inflation rate.
 - C. Lower Japanese interest rates.
 - D. Increased political stability in Korea.
 - E. A more rapid growth of the money supply in the U.S.
18. Which of the following would be most likely to improve the economic position of a **non-oil-producing, less-developed, debtor country**?
- A. An increase in oil prices.
 - B. An increase in interest rates worldwide.
 - C. Increased protectionism by the developed countries.
 - D. Increased growth in the developed countries.
 - E. An increase in its population growth.
19. An economic system characterized by **public ownership** of all economic resources, **altruism** (the unselfish concern for others), and **distribution based on need** is called:
- A. Pure capitalism.
 - B. Market socialism.
 - C. Pure communism.
 - D. A traditional system.
 - E. Feudalism.
20. If a country is running a **balance of trade deficit**,
- A. It must also be running a balance of payments deficit.
 - B. Capital inflows into the country likely exceed capital outflows from the country.
 - C. Its currency must be depreciating in value.
 - D. Its exports must be greater than its imports.
 - E. Capital outflows from the country likely exceed capital inflows into the country.

21. If the exchange rate between the U.S. dollar and the European euro is **50 cents = one euro**, what would be the price in dollars of a German car which costs 40,000 euros?
A. \$80,000. C. \$10,000. E. \$2,000.
B. \$20,000. D. \$ 8,000.
22. According to the **law of comparative advantage**, a nation gains from international trade:
A. Only if some other country loses.
B. Only if it is able to run balance of payments surpluses.
C. When it produces and sells those products for which it has the lowest opportunity cost.
D. When it produces and sells those products for which it has the highest opportunity cost.
E. Only if some other country can produce a product it desires more cheaply (that is, use less resources).
23. An **increase in U.S. tariffs** on foreign-produced steel would probably benefit all the following groups **except**:
A. Domestic steel producers.
B. U.S. steelworkers.
C. Users of domestic steel.
D. Domestic iron ore producers.
E. Businesses in steel-producing areas.
24. One reason why parents in many **developing** countries have **many children** is due to the fact that in most of these countries:
A. There is free public education.
B. There is a lack of social security programs and high infant mortality rates.
C. There are government incentive programs to have children such as tax exemptions and housing allowances.
D. There are low infant mortality rates.
E. Land is distributed according to the size of one's family.
25. Which of the following can cause major **disruptions** in the operation of **foreign exchange markets**?
A. the buying and selling of dollars.
B. flexible exchange rates.
C. currency speculation.
D. a slowdown in world economic growth.
E. new gold discoveries.
26. The **demand for U.S. dollars** would **increase** with an **increase** in U.S.:
A. imports from Japan.
B. tourism abroad.
C. purchases of foreign stocks and bonds.
D. inflation.
E. real interest rates.

27. The main accounts for keeping track of international transactions are the **current and capital** accounts. Which of the following transactions would be entered in a **capital** account?
- A. British tourist expenditures in Germany.
 - B. U.S. purchases of Japanese computer equipment.
 - C. payments to maintain an embassy abroad.
 - D. a Swedish company's purchase of a U.S. auto factory.
 - E. Korean purchases of Middle East oil.
28. The largest percentage of **exports** from **developing** countries is in the form of:
- A. raw materials.
 - B. consumer goods.
 - C. services.
 - D. weapons.
 - E. capital goods.
29. The table below gives the number of tons of **widgets and cogs** than can be produced in Country X and Country Y by using the exact **same amount of productive resources**:

	<u>Widgets</u>	<u>Cogs</u>
Country X	10	5
Country Y	8	2

- The theory of **comparative advantage** suggests that under these conditions, Country Y would find it advantageous to:
- A. export widgets and import cogs.
 - B. export cogs and import widgets.
 - C. export both widgets and cogs and import nothing.
 - D. import both widgets and cogs and export nothing.
 - E. neither export nor import either widgets or cogs.
30. **Barriers to trade**:
- A. increase the number of jobs worldwide.
 - B. decrease consumer prices.
 - C. increase the amount of global production.
 - D. benefit some groups at the expense of others.
 - E. are necessary to maintain international competition.
31. In **Adam Smith's** view of capitalism:
- A. having a few large corporations would be more efficient than having many smaller firms.
 - B. a country should emphasize exports over imports to enhance it's wealth.
 - C. people, acting in their own self-interest, unwittingly do good for others.
 - D. the government should play a major role in allocating resources.
 - E. specialization would lead to worker alienation, not increased productivity.

32. **Karl Marx** did **not** predict which of the following?
- A. growing unemployment among the working class.
 - B. ever-greater concentrations of capital ownership.
 - C. a government which would bow to the demands of the owners of capital.
 - D. explosive business cycles.
 - E. communist revolutions in less industrialized countries.
33. In the **former Soviet Union** people stood in long lines to buy almost anything. This:
- A. results in goods being distributed to those who need them most.
 - B. involves very low opportunity costs for most people.
 - C. is a fairly efficient allocation system.
 - D. allocates goods on a first-come, first-served basis.
 - E. system took the place of prices since the goods received were free.
34. In **socialist** economies:
- A. natural and capital resources are owned collectively with the government acting as their trustee.
 - B. all productive resources are owned collectively.
 - C. decision making is usually decentralized.
 - D. workers all receive the same incomes.
 - E. pursuit of self-interest is encouraged more than the pursuit of the common good.
35. **Tariffs**:
- A. legally specify maximum quantities of imported goods.
 - B. lower the prices of imported goods and their domestically-produced substitutes.
 - C. only benefit the country which imposes them.
 - D. were a significant source of revenue for the federal government in the 1800's.
 - E. have been eliminated by most large trading nations.
36. **Marxists** believe that **capitalism**:
- A. operates efficiently but unfairly.
 - B. is dynamically unstable.
 - C. will peacefully evolve into socialism.
 - D. can be saved from complete collapse through active fiscal and monetary policy.
 - E. cannot produce goods as efficiently as a planned economy.
37. In a **centrally-planned** economy:
- A. markets are used to set wages and prices.
 - B. the government can increase the rate of capital accumulation by forcing consumption down.
 - C. the voluntary rate of saving is higher than in a market economy.
 - D. rapid growth is not possible.
 - E. consumer sovereignty is usually guaranteed.

38. In an economy based on **pure capitalism**, the government:
- A. is completely unnecessary.
 - B. specifies production and distribution plans.
 - C. generally only establishes and protects property rights.
 - D. regulates such areas as consumer protection, pollution control, utilities, and banks.
 - E. distributes any economic profits earned.
39. If a country **exports fish and imports wheat**, an interruption of trade will likely do all the following **except**:
- A. decrease the welfare of the wheat eaters.
 - B. decrease the welfare of the fishery workers.
 - C. decrease the total world output of wheat and fish.
 - D. increase the domestic price of wheat.
 - E. increase the domestic price of fish.
40. If **interest rates** in the U.S. and South Korea are initially at **10 percent**, but then U.S. interest rates fall to **5 percent**, we would expect that:
- A. the dollar would appreciate against the South Korean won.
 - B. the dollar would depreciate against the South Korean won.
 - C. there would be no significant change in exchange rates between the dollar and the won.
 - D. both the dollar and the won would fall in value against gold.
 - E. both the dollar and the won would rise in value against gold.
41. Which of the following is **not** a form of **protectionism**, either obvious or disguised?
- A. the imposition of a tariff on foreign car imports.
 - B. providing subsidies to domestic textile producers.
 - C. the easing of pollution standards for the domestic steel industry.
 - D. increasing corporate income taxes.
 - E. the establishment of new health standards that foreign-produced beauty products must meet before importation.
42. Suppose California and Wisconsin both produce wine and cheese. Making a **bottle of wine costs \$3 in California**, but **\$12 in Wisconsin**. Meanwhile, making a **pound of cheese costs \$5 in California** and **\$6 in Wisconsin**. Given this:
- A. California has a comparative advantage in producing both wine and cheese.
 - B. California cannot gain from trading with Wisconsin.
 - C. California has an absolute advantage in producing both wine and cheese.
 - D. A, B, and C are all true.
 - E. A, B, and C are all false.

43. Does Cuba, a non-capitalist nation, produce **capital**?
- A. No, it must import it from capitalistic nations.
 - B. No, it doesn't have a stock market.
 - C. No, it is not needed in a planned economy.
 - D. Yes, but it is owned and controlled by the state.
 - E. Yes, but it is only used to trade for natural resources which Cuba doesn't have.
44. The extraordinary performance of the **Japanese** economy from after World War II through the 1980s can be attributed in part to all of the following **except**:
- A. pro-business government policies.
 - B. abundant natural resources.
 - C. highly skilled and educated work force.
 - D. high saving/investment rate.
 - E. strong work ethic.
45. Which of the following would help **decrease the debt burden** of "Third World" nations?
- A. An increase in the demand for exports from these countries.
 - B. Higher international interest rates.
 - C. A recession in the developed nations.
 - D. An increase in the value of the U.S. dollar.
 - E. A recession in the "Third World" nations.
46. The **demand for U.S. dollars would rise** with an **increase** in U.S.:
- A. purchases of Canadian products.
 - B. real interest rates.
 - C. inflation.
 - D. tourism in Europe.
 - E. imports.
47. **Trade** between countries leads to:
- A. reduced labor productivity.
 - B. increased interdependence.
 - C. higher product prices.
 - D. job losses in at least one of the countries.
 - E. decreased amounts of products in at least one of the countries.
48. Which of the following will occur if the dollar is **strong**?
- A. Export prices will decrease and American exporters will benefit.
 - B. Import prices will decrease and American exporters will benefit.
 - C. Export prices will decrease and American consumers will benefit.
 - D. Import prices will decrease and American consumers will benefit.
 - E. None of the above.

49. Suppose that Canada can produce every good using **fewer resources** than Peru. Which of the following is **true**?
- A. Canada cannot gain by trading with Peru, but Peru can gain by trading with Canada.
 - B. With respect to Peru, Canada has a comparative advantage in the production of all goods.
 - C. With respect to Canada, Peru has neither an absolute nor a comparative advantage in the production of any goods.
 - D. Both countries could still benefit from trading with each other because Peru could have a comparative advantage in producing some goods.
 - E. Both countries could still benefit from trading with each other because Canada could still have an absolute disadvantage in producing some goods.
50. By **value**, the largest category of goods **both** imported **and** exported by the United States is:
- A. petroleum and petroleum products.
 - B. raw (crude) materials.
 - C. food and animal products.
 - D. machinery and transport equipment.
 - E. chemicals.
51. **Raising the tariff** on a product generally results in:
- A. higher prices for consumers on the product.
 - B. lower profits for domestic producers of the product.
 - C. retaliation by other countries who may increase some of their tariffs.
 - D. both A and C are true.
 - E. A, B, and C are all true.
52. As the U.S. dollar **depreciates** relative to the Japanese yen:
- A. Japanese would tend to buy more U.S. exports.
 - B. Americans would begin to increase their purchases of Japanese-made products.
 - C. the Japanese yen appreciates relative to the U.S. dollar.
 - D. both A and B are true.
 - E. both A and C are true.
53. A **"favorable" balance of trade**:
- A. results in greater aggregate spending for a country's output.
 - B. occurs when a country imports more than it exports.
 - C. occurs when a country invests more capital in other countries than they invest in it.
 - D. means domestic consumers have a better selection of imported goods.
 - E. occurs when gold is flowing into (instead of out of) a country.

54. The **U.S. Constitution** forbids:
- A. import tariffs.
 - B. export tariffs.
 - C. import quotas.
 - D. trade embargos.
 - E. exports.
55. Which of the following "chain of events" is most logical?
- A. Comparative advantage leads to specialization, which leads to interdependency.
 - B. Specialization leads to comparative advantage, which leads to interdependency.
 - C. Interdependency leads to comparative advantage, which leads to specialization.
 - D. Specialization leads to interdependency, which leads to comparative advantage.
 - E. Interdependency leads to specialization, which leads to comparative advantage.
56. In **India** many jobs can only be held by members of **certain castes**. This is characteristic of what kind of economic system?
- A. a mixed market economy.
 - B. a command economy.
 - C. a traditional economy.
 - D. a socialistic economy.
 - E. a planned economy.
57. In a **debt-for-equity** swap, a firm purchases a country's debt for less than its face value and then trades the debt for:
- A. an ownership position in a firm in the debtor nation.
 - B. bonds issued by a firm in the debtor nation.
 - C. equity in the debtor government itself.
 - D. an ownership position of a government monopoly.
 - E. a given percentage of the debtor nation's stock exchange transactions.
58. How has **Japan** maintained **high total spending** levels while at the same time has maintained a **high rate of saving**?
- A. by running trade surpluses.
 - B. by having its government run budget surpluses.
 - C. by keeping its interest rates high.
 - D. through growth in productivity.
 - E. by borrowing from foreigners.
59. Suppose the per capita income in the **U.S. is \$20,000** while in **Pakistan it is \$1000**. If the growth rate in the U.S. is only **1%**, what **growth rate** would Pakistan need to achieve to get the **same dollar amount change** in its per capita income as the U.S.?
- A. 100%.
 - B. 20%.
 - C. 10%.
 - D. 5%.
 - E. 2%.

60. In deciding what products to produce, the **central planners** in a **command economy** need **not** consider:
- A. the size of the economy's labor force.
 - B. the country's stock of raw materials.
 - C. consumer preferences.
 - D. the production capabilities of the economy's factories.
 - E. the current state of production technology.
61. Suppose Britain can produce either **10 bicycles or 80 calculators** with one "unit" of resources while Taiwan can produce either **20 bicycles or 100 calculators** with one unit. Which of the following would be **true**?
- A. Britain has a comparative advantage in calculators.
 - B. Britain has an absolute advantage in bicycles.
 - C. Taiwan has a comparative advantage in calculators.
 - D. Britain has an absolute advantage in calculators.
 - E. These countries could not gain from trading.
62. Which of the following is **true** about **trade barriers**?
- A. They tend to enhance competition and benefit consumers.
 - B. They benefit society as a whole but hurt some groups.
 - C. They serve the interests of some groups but hurt society as a whole.
 - D. They tend to lower the price of domestic goods.
 - E. They are needed to protect American workers from cheap foreign labor.
63. If total **exports** by the United States **exceed** total **imports**, the United States is experiencing a:
- A. balance of payments deficit.
 - B. balance of payments surplus.
 - C. balance of trade deficit.
 - D. balance of trade surplus.
 - E. budget surplus.
64. Which of the following is **not** a source of **foreign exchange** for the United States?
- A. Foreign tourists visiting the United States.
 - B. U.S. exports to France.
 - C. U.S. purchases of Japanese electronic equipment.
 - D. German investments in the United States.
 - E. Interest payments by Brazil to U.S. banks which hold part of its debt.
65. If Americans decide to **buy less** Japanese automobiles:
- A. the demand for Japanese yen will shift to the right.
 - B. the demand for U.S. dollars will shift to the left.
 - C. the supply of Japanese yen will shift to the left.
 - D. the demand for Japanese yen will shift to the left.
 - E. the supply of U.S. dollars will shift to the right.

66. If a \$40,000 American computer costs a Korean importer 120,000 won, the **exchange rate** must be:
- A. 1 won to 3 dollars.
 - B. 1 won to 0.25 dollars.
 - C. 1 dollar to 0.33 won.
 - D. 1 dollar to 3 won.
 - E. none of the above.
67. Families in developing countries are often **larger** than in industrialized nations because:
- A. children are viewed as "consumption" goods instead of as "investment" goods.
 - B. the governments of developing countries encourage population growth to increase the size of their labor force.
 - C. there are more resources per capita in developing countries.
 - D. of government bans on the use of birth control.
 - E. children help the family make a living and provide their parents with some economic security.
68. Which of the following are the major industrial countries of **Latin America**?
- A. the Caribbean nations.
 - B. Brazil, Mexico, and Argentina.
 - C. Ecuador, Venezuela, and Columbia.
 - D. Bolivia, Peru, and Chile.
 - E. the Central America nations.
69. Which of the following best represents a **radical** economist's **description of the problem** with capitalism?
- A. Underconsumption (inadequate spending) is a chronic feature of the system.
 - B. There is too much spending on consumer goods and not enough on capital goods.
 - C. Workers exert too much economic power through their labor unions.
 - D. There is too much government intervention leading to inefficient use of resources.
 - E. There are not enough incentives to save and invest for economic growth.
70. **Labor-intensive** products are likely to be **exported** by countries:
- A. with a small population.
 - B. with a highly-skilled labor force.
 - C. with many unskilled workers.
 - D. that have few raw materials.
 - E. that have abundant capital resources.

71. The **World Trade Organization** (WTO) promotes:
- protectionism.
 - elimination of export controls.
 - uniform tariff rates.
 - increased international trade through reduced import tariffs.
 - the formation of trading blocs.
72. Which of the following is not a likely result of allowing the unrestricted migration of labor from a low-wage country, B, to a high-wage country, A?
- wages fall in country A.
 - production falls in country B.
 - employment rises in country A.
 - wages rise in country B.
 - none of the above.
73. Which of the following is a leading export of the United States?
- | | | |
|---------------|-------------|-------------|
| A. chemicals. | C. steel. | E. clothes. |
| B. petroleum. | D. bananas. | |
74. The basic difference in the economic effect of tariffs versus quotas is that:
- tariffs discourage trade while quotas do not.
 - tariffs increase the efficiency of domestic industries while quotas do not.
 - tariffs raise product prices while quotas do not.
 - tariffs generate revenues for the government while quotas do not.
 - tariffs only discourage imports while quotas only discourage exports.
75. The main motive behind creating barriers to the importation of goods and services from abroad is to:
- increase economic efficiency.
 - reduce the prices of domestically-produced goods.
 - help expand the exportation of goods.
 - benefit some special interest group(s).
 - lower the cost of producing goods.
76. Which of the following scenarios would most likely lead to an appreciation in the value of Mexican pesos.
- | | Mexican
Exports | Travel by Mexicans
to the U.S. | Flow of U.S.
capital to Mexico |
|----|--------------------|-----------------------------------|-----------------------------------|
| A. | increase | increase | increase |
| B. | decrease | increase | decrease |
| C. | increase | increase | decrease |
| D. | decrease | decrease | decrease |
| E. | increase | decrease | increase |

77. Which of the following is characteristic of less-developed nations?
- a small percentage of the labor force in agriculture.
 - a relatively equitable distribution of resources.
 - low levels of labor productivity.
 - low rates of population growth.
 - high rates of female participation in the labor force.
78. All of the following probably attributed to the collapse of the former Soviet economy except:
- low labor productivity.
 - the difficulty of central planners to efficiently coordinate production.
 - the difficulty of encouraging and incorporating technological change.
 - the devotion of a relatively large percentage of its resources to military uses.
 - Soviet consumers' widespread discontent over the high prices set by the government for most consumer goods.
79. Money is not used in a:
- socialistic economy.
 - capitalistic economy.
 - command economy.
 - barter economy.
 - market economy.
80. Below are three completions of the statement: "Many people who are poor in a capitalistic economy are so because..."
- ...they never were given the opportunity by the system to help themselves."
 - ...the system requires a large pool of unemployed to keep the work incentives of other up and their wage demands down."
 - ...they never chose to develop the skills or training the market demanded."

Match each completion with the ideology it is most closely associated with.

	<u>Conservative</u>	<u>Liberal</u>	<u>Radical</u>
A.	1	2	3
B.	1	3	2
C.	3	2	1
D.	3	1	2
E.	2	1	3

81. Radical economists are most concerned about what aspect of capitalism?
- A. the power of the federal government.
 - B. the power of labor unions.
 - C. its inability to operate very efficiently.
 - D. its tendency to concentrate wealth and economic power.
 - E. who controls the money supply.
82. Which of the following would be entered as a debit on the current account section of the U.S. balance of payments?
- A. U.S. tourists in London purchase British pounds.
 - B. A Swedish investment corporation grants a loan to a U.S. business.
 - C. Your parents receive dividends on investments they have in Finland.
 - D. Norwegians purchase U.S. Treasury securities.
 - E. A taconite plant in Minnesota exports pellets to a steel mill in Canada.
83. When the average price level rises in our economy, consumers tend to buy _____ imported goods and _____ domestically-produced goods (every else held the same).

- | | <u>imported</u> | <u>domestic</u> |
|----|-----------------|-----------------|
| A. | more | more |
| B. | more | less |
| C. | less | more |
| D. | less | less |

84. How would expansionary monetary policy affect foreign investment in the U.S. and the international value of the U.S. dollar?

- | | <u>Foreign Investment</u> | <u>Value of the dollar</u> |
|----|---------------------------|----------------------------|
| A. | decrease | appreciate |
| B. | decrease | depreciate |
| C. | increase | appreciate |
| D. | increase | depreciate |
| E. | no change | no change |

85. If a nation chooses to specialize and trade, which of the following situations could be expected to occur as a result?
- I. Increased quantity and quality of products.
 - II. Lower product prices.
 - III. Fewer domestic jobs.

- A. I only.
- B. III only.
- C. I and II only.
- D. I and III only.
- E. I, II, and III.

86. The chart below shows how many hours it takes to produce a pound of rice and a bushel of corn in Japan and India.

	<u>Rice</u>	<u>Corn</u>
Japan	5	2
India	6	3

Which of the following is/are true?

- I. Japan has an absolute advantage in corn.
- II. India has an absolute advantage in rice.
- III. Japan has a comparative advantage in corn.
- IV. India has a comparative advantage in rice.

- A. II only.
- B. I and III only.
- C. II and IV only.
- D. III and IV only.
- E. I, III and IV only.

87. What would happen to each of the following if the U.S. followed an expansionary fiscal policy and a contractionary monetary policy so that there was no change in aggregate demand?

	<u>Interest Rates</u>	<u>Exports</u>	<u>Imports</u>
A.	increase	increase	decrease
B.	decrease	increase	decrease
C.	decrease	decrease	increase
D.	increase	increase	increase
E.	increase	decrease	increase

88. All of the following tend to hinder improvements in the living standards of people in LCDs (less developed countries) except:
- A. inadequate protection of property rights.
 - B. poor infrastructure.
 - C. rapid population growth.
 - D. high levels of saving and investment.
 - E. low labor productivity.
89. The U.S. has been running trade deficits for many years. How are most of these deficits financed each year?
- A. By buying securities or assets from other nations.
 - B. By selling securities or assets to other nations.
 - C. By sending gold reserves to other nations.
 - D. By printing the extra dollars needed (which invariably leads to a depreciation in the value of the U.S. dollar).
 - E. By borrowing from the federal government.
90. Which of the following does not result from a tariff on a particular product?
- A. Decreased imports of the product.
 - B. Government revenue.
 - C. Higher product price.
 - D. Less competition for domestic producers of the product.
 - E. Increased consumption of the product.
91. An economic system is said to be a:
- A. market system if there is substantial central planning.
 - B. traditional system if it is based on consumer sovereignty.
 - C. command system if it is based on private ownership of property.
 - D. market system if it relies on self-interested behavior based on incentives.
 - E. command system if it relies on long-standing practices.
92. All other things unchanged, if there is a large increase in U.S. exports, then there will be:
- A. an increase in U.S. demand for foreign currencies.
 - B. a decrease in the supply of foreign currencies.
 - C. upward pressure on the U.S. price level.
 - D. a decrease in the U.S. GDP.
 - E. a decrease in U.S. interest rates.

93. If Ireland can produce 2 tons of potatoes or 4 tons of linen with one unit of resource and Portugal can produce 1 ton of potatoes or 2 tons of linen with one unit of resource:
- A. Portugal has an absolute advantage in producing linen.
 - B. Portugal has a comparative advantage in producing linen.
 - C. Portugal should export potatoes to Ireland in exchange for imports of linen.
 - D. Both Ireland and Portugal should export linen.
 - E. There is nothing to be gained from trade in these two items between these two countries.
94. What characteristic have most of the newly independent states (former Soviet republics) shared in their transition to more market-based economic systems?
- A. rapid growth with high inflation.
 - B. negative growth with high inflation.
 - C. high unemployment with low inflation.
 - D. rapid growth with low inflation.
 - E. low unemployment with high inflation.
95. If the U.S. imports cars from Japan, then in the U.S.:
- A. car producers lose while consumers gain and the gain is greater than the loss.
 - B. car producers lose while consumers gain and the loss is greater than the gain.
 - C. car producers gain while consumers lose and the gain is greater than the loss.
 - D. car producers gain while consumers lose and the loss is greater than the gain.
 - E. car producers and consumers both lose.
96. If the U.S. eliminated all tariffs and other trade restrictions, then economic well-being would:
- A. increase for the U.S., but fall for smaller countries.
 - B. increase for the U.S. only if other countries did the same.
 - C. increase for the U.S. and all of its trading partners.
 - D. decrease for the U.S. even if other countries did the same.
 - E. decrease for the U.S. and all of its trading partners.
97. For any country net exports equal:
- A. imports minus exports.
 - B. net foreign investment.
 - C. national saving plus domestic investment.
 - D. domestic investment minus net foreign investment.
 - E. None of the above.

98. Which of the following people would be pleased by a depreciation of the U.S. dollar?
- A. a U.S. tourist traveling in Europe.
 - B. a U.S. importer of Russian vodka.
 - C. a U.S. exporter of heavy equipment.
 - D. a French exporter of wine to the U.S.
 - E. a Japanese banker with a large holding of U.S. currency.
99. Suppose the nominal exchange rate between Italian lira and the U.S. dollar is 100 lira per dollar. Further, suppose that a pound of hamburger costs \$2 in the U.S. and 250 lira in Italy. What is the real exchange rate?
- A. 0.5 lb. of Italian hamburger/lb. of American hamburger.
 - B. 0.8 lb. of Italian hamburger/lb. of American hamburger.
 - C. 1.25 lbs. of Italian hamburger/lb. of American hamburger.
 - D. 2.0 lbs. of Italian hamburger/lb. of American hamburger.
 - E. 2.5 lbs. of Italian hamburger/lb. of American hamburger.
100. Other things being the same, which of the following is false?
- A. An increase in a country's real interest rate tends to increase its net foreign investment.
 - B. An increase in a country's net exports tends to appreciate the value of its currency.
 - C. An increase in a country's budget deficit tends to decrease its net exports.
 - D. A decrease in the demand for a country's currency tends to depreciate the value of its currency.
 - E. None of the above statements is false.