1. A merchandise trade deficit arises when
   a. a country imports more goods than it exports.
   b. a country imports more services than goods.
   c. a country imports more goods than services.
   d. there is a surplus of factor income.

2. For any country, it will be true that
   a. total exports will equal total imports.
   b. the sum the current account and the financial account will be zero.
   c. the sum of the merchandise trade balance and factor income will be zero.
   d. the sum of the current account and factor income will be zero.

3. The balance of payments on financial account
   a. reflects transfers of factor income.
   b. is the difference between exports of goods and exports of services.
   c. is the total value of exports.
   d. is the difference between the country's sales of assets to foreigners and its purchases of assets from foreigners.

4. Foreigners buying U.S. assets
   a. contribute to the U.S. financial account surplus.
   b. contribute to the merchandise trade deficit.
   c. dampen the growth of U.S. GDP.
   d. are not entitled to receive interest income on those assets.

5. A capital inflow is most likely to occur when
   a. domestic economic growth is relatively low.
   b. domestic inflation is relatively high.
   c. domestic real interest rates are relatively high.
   d. domestic unemployment is relatively high.

6. When capital can flow freely among countries,
   a. the flows will tend to enlarge the gap between interest rates in different countries.
   b. the flows will tend to raise interest rates where they are relatively low and to lower them where they are relatively high.
   c. it will flow from places where savings rates are relatively low to places where savings rates are relatively high.
   d. it will flow into countries where rates of economic growth are relatively low.

7. Which of the following economic conditions would be most likely to attract a capital inflow?
   a. a relatively low interest rate
   b. a relatively high rate of domestic savings
   c. a relatively high rate of economic growth
   d. a merchandise trade surplus
8. A country that receives a net capital inflow must
   a. export more goods than it imports.
   b. export more services than goods.
   c. maintain a fixed exchange rate.
   d. run a matching current account deficit.

9. The main component of the current account is
   a. international transfer payments.
   b. the balance of factor income.
   c. purchases of foreign assets.
   d. the balance of payments on goods and services.

10. If the dollar appreciates against the euro,
   a. then the euro will also appreciate against the dollar.
   b. it will take fewer dollars to buy a given amount of euros.
   c. it will take fewer euros to buy a given amount of dollars.
   d. European-made goods will become relatively more expensive in the United States.

11. An appreciation of the Mexican peso against the U.S. dollar would mean that
   a. U.S. tourists will now find it relatively more expensive to travel in Mexico.
   b. U.S. tourists will now find it relatively less expensive to travel in Mexico.
   c. the foreign exchange market is now out of equilibrium.
   d. the volume of Mexican-made goods imported into the United States will increase.

12. Depreciation of the U.S. dollar against the Canadian dollar would
   a. affect the financial account between the countries, but not the current account.
   b. cause U.S.-made goods to become relatively more expensive in Canada.
   c. increase the volume of U.S.-made goods exported to Canada.
   d. decrease the volume of U.S.-made goods exported to Canada.

13. Which of the following is true at the equilibrium exchange rate?
   a. The sum of the current account and the financial account is equal to zero.
   b. The balance of payments on current account is zero.
   c. The balance of payments on financial account is zero.
   d. The nominal exchange rate is equal to purchasing power parity.

14. Which of the following would lead to an appreciation of the Japanese yen against the euro?
   a. an increase in demand for euros by Japanese investors and consumers
   b. an increase in demand for European-made goods by Japanese consumers
   c. an increase in the supply of Japanese yen on the foreign exchange market
   d. an increase in demand for Japanese-made goods by European consumers

15. A fall in capital inflows into the U.S. leads to a weaker dollar, which in turn
   a. generates a decrease in U.S. net exports.
   b. generates an increase in U.S. net exports.
   c. will cause a disequilibrium in the foreign exchange market.
   d. will make it less expensive for U.S. citizens to travel abroad.
16. Suppose that the purchasing power parity of the British pound against the U.S. dollar is higher than the nominal exchange rate. This implies that
   a. the United States is running a current account deficit with Britain.
   b. the United States is running a current account surplus with Britain.
   c. the United States is running a financial account surplus with Britain.
   d. a given market basket of goods and services does not cost the same in both countries.

17. When a nation's currency appreciates, it is likely that
   a. this will lead to a surplus in the current account.
   b. this will lead to a deficit in the current account.
   c. the nation's exports will increase.
   d. the nation's imports will decrease.

18. A floating exchange rate is
   a. incompatible with a current account deficit.
   b. incompatible with a financial account deficit.
   c. incompatible with a financial account surplus.
   d. set by the market forces of supply and demand.

19. A central bank trying to depress the value of its currency on the foreign exchange market will follow a policy of
   a. reducing the supply of its currency on the foreign exchange market.
   b. buying its own currency on the foreign exchange market.
   c. buying foreign assets.
   d. selling foreign assets.

20. A country that chooses to maintain a fixed exchange rate
   a. will have complete discretion in the conduct of monetary policy.
   b. will have to maintain foreign currency reserves.
   c. will not be able to run a current account surplus.
   d. will not be able to run a current account deficit.