MULTIPLE CHOICE. Choose the one alternative that best completes the statement or answers the question.

1) The currency used to buy imported goods is
   A) the buyer's home currency.       B) the seller's home currency.
   C) the currency of a third country. D) special drawing rights.

2) If portable disk players made in China are imported into the United States, the Chinese manufacturer is paid with
   A) international monetary credits. B) dollars.
   C) yuan, the Chinese currency.      D) euros, or any other third currency.

3) If the United States sells beef to Japan, the U.S. beef producer is paid with
   A) euros, or any other third currency. B) dollars.
   C) yen, the Japanese currency.      D) international monetary credits.

4) When Safeway supermarkets in the United States buy strawberries from Mexico,
   A) it must use dollars to pay Mexican farmers.
   B) it may use any currency it chooses.
   C) it must use pesos to pay Mexican farmers.
   D) the transaction shows up in the U.S. capital account.

5) A country records its international finance accounts in its
   A) balance of payments accounts. B) import/export log accounts.
   C) trade payments accounts. D) net exports payments account.

6) A country’s balance of payments accounts record
   A) its international trading, borrowing, and lending.
   B) only its official transactions with other governments.
   C) the country’s net indebtedness to foreigners.
   D) the flow of human and nonhuman resources between it and its trading partners.

7) A country’s balance of payments accounts include all of the following EXCEPT
   A) military account. B) capital account.
   C) current account. D) official settlements account.

8) The balance of payments accounts include the
   A) non-performing account. B) export bank account.
   C) current account. D) exim bank account.

9) In part, a country’s current account measures
   A) its current debt as opposed to its long-term debt.
   B) receipts from the sale of goods and services to foreigners and payments for goods and services bought from foreigners.
   C) net increases and decreases in a country’s holdings of foreign currency.
   D) borrowing and lending activity between the country’s residents and foreigners.

10) The balance of payments account used to record payments for imported goods and services is the
    A) exim account. B) current account.
    C) capital account. D) import account.
11) The largest part of the U.S. current account consists of
A) net transfer payments between the United States and Mexico.
B) Fed transfers of U.S. dollars to other central banks.
C) receipts from exports and payments for imports.
D) net borrowing between the United States and other countries.

12) In 2003, the U.S. current account had a
A) deficit of $559 billion.
B) balance with a discrepancy of $40 billion.
C) surplus of $559 billion.
D) deficit of $90 billion.

13) The balance of payments account that records foreign investment in the United States is the
A) capital account. B) current account. C) exim account D) non-performing account.

14) The U.S. capital account measures
A) foreign investment in the United States minus U.S. investment abroad.
B) net increases and decreases in the U.S. holdings of foreign currency.
C) net transfer payments between U.S. residents and foreigners.
D) receipts from goods and services sold and transfers to and from foreigners.

15) If foreign investment in the United States exceeds U.S. investment abroad, there is a _______; and when U.S. investment abroad exceeds foreign investment in the United States, there is a(n) ________.
A) current account surplus; current account deficit
B) capital account deficit; capital account surplus
C) current account surplus; official accounts surplus
D) capital account surplus; capital account deficit

16) In 2003, the U.S. capital account had a
A) deficit of $559 billion. B) surplus of $115 billion.
C) surplus of $559 billion. D) deficit of $115 billion.

17) The official settlements account of a country measures
A) the receipts from goods and services bought and sold, and transfers to and from foreigners.
B) borrowing and lending between the country's residents and foreigners.
C) net transfer payments between the country's citizens and foreigners.
D) the net increase or decrease in the country's official reserves.

18) The account used to record changes in the official reserve is the
A) capital account. B) current account. C) official settlements account. D) official reserves account.

19) The official settlements account for the United States measures the
A) net value of foreign goods purchased by U.S. residents.
B) value of U.S. merchandise purchased by foreigners.
C) net value of U.S. exports of services.
D) net increase or decrease in the government's holdings of foreign currency.
20) The change in U.S. official reserves is equal to
   A) the current account balance minus the capital account balance.
   B) the current account balance plus the capital account balance.
   C) borrowing from abroad plus the current account deficit.
   D) foreign investment in the United States minus U.S. investment abroad.

21) Which of the following statements about the balance of payments accounts is correct?
   A) The official settlements account is typically larger than both the capital and current accounts.
   B) The sum of all three accounts is always zero.
   C) The current account must be greater than the capital account.
   D) Typically the capital account is near zero because it equals the difference between the current account and the official settlements account.

22) Over the last two decades, according to the United States balance of payments,
   A) the official settlements balance fluctuates greatly from year to year.
   B) there is no clear relationship between the current account balance and the capital account balance.
   C) the current account and the capital account balances tend to move in opposite directions.
   D) the current account and the capital account balances tend to move in the same direction.

23) During most of the 1980s and 1990s, the U.S. has had
   A) a negative current account and a positive capital account.
   B) a positive current account and a positive capital account.
   C) a positive current account and a negative capital account.
   D) a negative current account and a negative capital account.

24) If a nation during its entire history has borrowed more from the rest of the world than it has lent to the rest of the world, the country is a

25) If a country is currently lending more to the rest of the world than it is borrowing from the rest of the world, the country is a

26) A net borrower is a country that ________, while a net lender is a country that ________.
   A) decreases its stock of outstanding foreign debt; lends more than it borrows
   B) borrows more than it lends; lends more than it borrows
   C) borrows more than it lends; owes more to foreigners than foreigners owe to it
   D) lends more than it borrows; borrows more than it lends

27) If a country during its entire history has invested more in the rest of the world than the rest of the world has invested in it, the country is a

28) If a country is currently borrowing more from the rest of the world than it is lending to the rest of the world, the country is a
29) A creditor nation is a country that ________ and a debtor nation is a country that ________.
   A) currently lends more than it borrows; currently borrows more than it lends
   B) through its history has lent more than it has borrowed; through its history has borrowed more than it has lent
   C) currently borrows more than it lends; currently lends more than it borrows
   D) through its history has borrowed more than it has lent; through its history has lent more than it has borrowed

30) A creditor nation means a nation whose
   A) total investments in the rest of the world exceeds the rest of the world’s investments in that country.
   B) exports exceed its imports.
   C) current account is larger than its capital account.
   D) lending to the rest of the world exceeds its borrowing from the rest of the world.

31) A debtor nation means a nation whose
   A) total investments in the rest of the world are less than the rest of the world’s investments in that country.
   B) lending to the rest of the world exceeds its borrowing from the rest of the world.
   C) current account is less than its capital account.
   D) imports exceeds its exports.

32) Today, the United States is a
   I. net borrower
   II. net lender
   III. debtor nation
   IV. creditor nation
   A) II and III  B) II and IV  C) I and III  D) I and IV

33) If a country has a capital account surplus, that country’s stock of international indebtedness is
   A) increasing.  B) decreasing.  C) zero.  D) constant.

34) If a country has a capital account deficit, that country’s stock of international indebtedness is
   A) zero.  B) decreasing.  C) increasing.  D) constant.

35) Since 1983, the United States has been a net ________ and since 1989 has been a ________ nation.
    A) lender; debtor  B) borrower; creditor
    C) borrower; debtor  D) lender; creditor

36) Currently, the United States is a net ________ and a ________ nation.
    A) lender; creditor  B) borrower; creditor
    C) borrower; debtor  D) lender; debtor

37) The main source of fluctuations in the current account balance is
    A) net interest income.  B) net exports.
    C) net taxes.  D) net transfers.

38) The private sector surplus or deficit equals
    A) net taxes minus government purchases.  B) investment minus saving.
    C) government purchases minus net taxes.  D) saving minus investment.
39) Net exports equals
   A) government saving plus private saving.
   B) imports of goods and services minus exports of goods and services.
   C) exports of goods and services minus imports of goods and services.
   D) Both answers A and C are correct.

40) A net exports deficit or surplus equals
   A) taxes minus savings plus public and private investment.
   B) net worth plus the government sector surplus or deficit minus the private sector surplus or deficit.
   C) the government sector surplus or deficit plus the private sector surplus or deficit.
   D) net lending by both the private and public sector plus savings minus investment.

41) Which of the following is correct?
   A) The public sector surplus or deficit equals net exports plus the private sector surplus or deficit.
   B) Net exports equals the government sector surplus or deficit plus the private sector surplus or deficit.
   C) Net exports equals the current account plus the capital account plus the official settlements account.
   D) The private sector surplus or deficit equals net exports plus the public sector surplus or deficit.

42) Which of the following statements is true?
   A) If (private) investment is greater than (private) saving then the private sector has a deficit.
   B) If (private) saving is greater than (private) investment then the private sector has a surplus.
   C) If (private) investment is greater than (private) saving then either the government or net export sector must have a surplus.
   D) All of the above answers are correct.

43) $X$ is exports, $M$ is imports, $T$ is net taxes, $G$ is government purchases, $C$ is consumption expenditure, $S$ is saving, and $I$ is investment. Which of the following equations represents the private sector surplus or deficit?
   A) $S - I$
   B) $T - G$
   C) $X - M$
   D) $C + S + T$

44) Suppose $X - M =$ net exports; $T - G =$ government sector surplus or deficit; and $S - I =$ private sector surplus or deficit. Which of the following relationships is correct?
   A) $T - G = X - M + S - I$
   B) $S - I = X - M + T - G$
   C) $X - M = T - G + S - I$
   D) None of the above answers are correct.

45) Which of the following statements about net exports, the government sector, and the private sector is INCORRECT?
   A) Net exports equals exports minus imports.
   B) The government sector balance equals net taxes minus government purchase of goods and services.
   C) The sum of government sector and private sector balances equals net exports.
   D) Private sector balance equal private investment minus private saving.

46) If net exports is 100 and the private sector balance is 150, then the government sector balance is
   A) $-50$.
   B) 0.
   C) 50.
   D) 250.
47) Suppose U.S. net exports are -$400 billion and the U.S. government sector surplus is $200 billion. Then in the private sector, saving minus investment equals

A) -$600 billion.    B) +$200 billion.  C) -$200 billion.    D) +$600 billion.

48) Hong Kong has imports of $1,130 billion and exports of $1,255 billion. Hong Kong definitely has _______ in 2000.

A) negative net exports of $125 billion    B) a government budget surplus
C) positive net exports of $125 billion    D) Both answers B and C are correct.

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<th>Component</th>
<th>Amount (billions of dollars)</th>
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<td>Investment, I</td>
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<tr>
<td>Net taxes, T</td>
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<tr>
<td>Government purchases, G</td>
<td>1,200</td>
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<tr>
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<tr>
<td>Imports, M</td>
<td>1,700</td>
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</table>

49) In the above table, the government sector surplus or deficit (its budget balance) is a

A) surplus of $100 billion.    B) surplus of $200 billion.
C) deficit of $200 billion.    D) deficit of $100 billion.

50) In the above table, the net exports is a

A) surplus of $100 billion.    B) deficit of $100 billion.
C) surplus of $200 billion.    D) deficit of $200 billion.

51) In the above table, the government sector surplus or deficit is a _______ and net exports is a _______.

A) deficit of $100 billion; surplus of $200 billion
B) surplus of $100 billion; surplus of $200 billion
C) surplus of $100 billion; deficit of $200 billion
D) deficit of $100 billion; deficit of $200 billion

52) In the above table, the private sector has a

A) deficit of $400 billion.    B) deficit of $200 billion.
C) surplus of $300 billion.    D) deficit of $300 billion.

53) In the above table, saving must be

A) -$400 billion.    B) $400 billion.    C) -$300 billion.    D) $300 billion.

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<td>Imports</td>
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<td>Government purchases</td>
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<td>Saving</td>
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54) The above table gives data for the nation of Sueland. What is the value of net exports?

A) $234 billion    B) -$43 billion    C) $43 billion    D) $511 billion
55) The above table gives data for the nation of Sueland. What is the government sector surplus or deficit?
A) -$43 billion  B) $1,772 billion  C) -$32 billion  D) $32 billion

56) The above table gives data for the nation of Sueland. What is the private sector surplus or deficit?
A) -$11 billion  B) -$43 billion  C) $11 billion  D) $43 billion

<table>
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<th>Item</th>
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<td>Imports</td>
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<td>Government sector surplus</td>
<td>250</td>
</tr>
<tr>
<td>Private sector deficit</td>
<td>-150</td>
</tr>
</tbody>
</table>

57) The above table describes accounts for the country of Pacifica. Using this information, net exports for Pacifica equals
A) -$100.  B) $650.  C) $900.  D) $100.

58) In the foreign exchange market, the ________ of one country is traded for the ________ of another country.
A) currency; currency  B) currency; financial instruments  C) currency; goods  D) goods; goods

59) Which of the following apply to exchange rates?
I. The exchange rate is a price.
II. The exchange rate for a currency depends on which foreign exchange market you use.
III. The foreign exchange rate is different from other prices because it is NOT determined by supply and demand.
A) I  B) II and III  C) I, II, and III  D) I and II

60) The foreign exchange rate is the price at which the ________ of one country exchanges for the ________ of another country.
A) currency; goods  B) currency; financial instruments  C) currency; currency  D) goods; goods

61) By definition, currency depreciation occurs when the value of
A) one currency falls relative to another currency.
B) one currency rises relative to another currency.
C) all currencies fall relative to gold.
D) gold falls relative to the value of currencies.

62) Which of the following examples definitely illustrates a depreciation of the U.S. dollar?
A) The dollar exchanges for 1 pound and then exchanges for 1.2 pounds.
B) The dollar exchanges for 250 yen and then exchanges for 275 francs.
C) The dollar exchanges for 100 francs and then exchanges for 120 yen.
D) The dollar exchanges for 120 francs and then exchanges for 100 francs.
63) Which of the following examples definitely illustrates a depreciation of the U.S. dollar?
   A) The dollar exchanges for 200 yen and then exchanges for 250 yen.
   B) The dollar exchanges for 2,000 pesos and then exchanges for 3,400 pesos.
   C) The dollar exchanges for 250 yen and then exchanges for 200 francs.
   D) The dollar exchanges for 120 yen and then exchanges for 100 yen.

64) When the U.S. dollar depreciates against the yen, the yen becomes _______ expensive and the exchange rate _______.
   A) more; rises  B) less; falls  C) more; falls  D) less; rises

65) When the U.S. dollar depreciates against the yen, the yen _______ and the exchange rate _______.
   A) appreciates; rises  B) depreciates; rises  C) depreciates; falls  D) appreciates; falls

66) Suppose the exchange rate of the U.S. dollar was 1.50 British pounds = $1.00 (U.S.) on Wednesday, and on Monday the exchange rate was $.75 (U.S.) = 1.00 British pound. Which of the following best describes what happened between Wednesday and Monday?
   A) The U.S. dollar appreciated against the British pound.
   B) The U.S. dollar depreciated against the British pound.
   C) The British pound appreciated against the U.S. dollar.
   D) Both answers B and C are correct.

67) By definition, currency appreciation occurs when
   A) the value of all currencies fall relative to gold.
   B) the value of all currencies rise relative to gold.
   C) the value of one currency rises relative to another currency.
   D) the value of one currency falls relative to another currency.

68) Which of the following examples definitely illustrates an appreciation of the U.S. dollar?
   A) The dollar exchanges for 1 pound and then exchanges for 1.2 pounds.
   B) The dollar exchanges for 120 francs and then exchanges for 100 francs.
   C) The dollar exchanges for 200 yen and then exchanges for 250 francs.
   D) none of the above

69) Which of the following examples definitely illustrates an appreciation of the U.S. dollar?
   A) The dollar exchanges for 200 yen and then exchanges for 250 yen.
   B) The dollar exchanges for 1.2 pounds and then exchanges for 200 yen.
   C) The dollar exchanges for 120 francs and then exchanges for 100 francs.
   D) none of the above

70) Suppose the exchange rate of the U.S. dollar was 1.00 German mark = $0.50 (U.S.) on Thursday, and on Friday the exchange rate was $1.00 (U.S.) = 2.10 German marks. Which of the following best describes what happened between Thursday and Friday?
   A) The U.S. dollar appreciated against the German mark.
   B) The U.S. dollar depreciated against the German mark.
   C) The German mark appreciated against the dollar.
   D) Both answers B and C are correct.
71) The law of demand for dollars means that
   A) the lower the exchange rate, the greater the quantity of dollars demanded.
   B) the higher the exchange rate, the smaller the quantity of dollars demanded.
   C) the lower the exchange rate, the smaller the quantity of U.S. exports demanded.
   D) Both answers A and B are correct.

72) A rise in the U.S. exchange rate will
   A) decrease the demand for dollars.
   B) increase the demand for dollars.
   C) decrease the quantity of dollars demanded.
   D) increase the quantity of dollars demanded.

73) A fall in the U.S. exchange rate will
   A) increase the quantity of dollars demanded.
   B) increase the demand for dollars.
   C) decrease the quantity of dollars demanded.
   D) decrease the demand for dollars.

74) The demand curve for U.S. dollars slopes downward because,
   A) as the dollar appreciates, U.S. goods become less expensive to foreign residents, they purchase fewer U.S. goods, and the quantity of dollars demanded decreases.
   B) as the dollar appreciates, U.S. goods become more expensive to foreign residents, they purchase fewer U.S. goods, and the quantity of dollars demanded decreases.
   C) as the dollar depreciates, U.S. goods become more expensive to foreign residents, they purchase fewer U.S. goods, and the quantity of dollars demanded decreases.
   D) as the dollar depreciates, U.S. goods become less expensive to foreign residents, they purchase fewer U.S. goods, and the quantity of dollars demanded decreases.

75) As the exchange rate ________, the ________ is the value of U.S. ________.
   A) rises; smaller; imports
   B) falls; greater; imports
   C) rises; greater; exports
   D) falls; greater; exports

76) The greater the demand for U.S. exports, the
   A) smaller is the demand for U.S. dollars.
   B) larger is the demand for U.S. dollars.
   C) larger is the demand for non-U.S. currencies.
   D) larger is the current account deficit.

77) The ________ the current exchange rate, the ________ is the expected profit from holding dollars, all other things remaining the same.
   A) lower; larger
   B) lower; smaller
   C) higher; larger
   D) The premise of the question is wrong because the exchange rate has nothing to do with expected profit from holding dollars.
**Investor** | **Expected future value of a dollar (francs per dollar)**
---|---
Investor A | 120
Investor B | 100
Investor C | 85

78) Using the table above, if the current market value of the dollar is 125 francs per dollar,
A) investor A expects dollar depreciation, but B and C expect appreciation.
B) investor A expects dollar appreciation, but B and C expect depreciation.
C) all three investors expect the dollar to appreciate.
D) all three investors expect the dollar to depreciate.

79) Using the table above, if the current market value of the dollar is 125 francs,
A) investor A holds francs, but B and C hold dollars.
B) investor A holds dollars, but B and C hold francs.
C) all three investors hold francs.
D) all three investors hold dollars.

80) Using the table above, if the current market value of the dollar is 70 francs,
A) all three investors expect the dollar to depreciate.
B) all three investors expect the dollar to appreciate.
C) investor A expects dollar appreciation, but B and C expect depreciation.
D) investor A expects dollar depreciation, but B and C expect appreciation.

81) Using the table above, if the current market value of the dollar is 70 francs,
A) investor A holds francs, but B and C hold dollars.
B) all three investors hold dollars.
C) investor A holds dollars, but B and C hold francs.
D) all three investors hold francs.

82) Using the table above, if the current market value of the dollar is 90 francs,
A) investor A expects dollar appreciation, but B and C expect depreciation.
B) all three investors expect the dollar to appreciate.
C) investor C expects dollar depreciation, but A and B expect appreciation.
D) all three investors expect the dollar to depreciate.

83) Using the table above, if the current market value of the dollar is 110 francs,
A) all three investors expect the dollar to depreciate.
B) investor C expects dollar depreciation, but A and B expect appreciation.
C) investor A expects dollar appreciation, but B and C expect depreciation.
D) all three investors expect the dollar to appreciate.

84) Important factors that change the demand for dollars and shift the demand curve for dollars include which of the following?
I. Interest rates around the world.
II. The current exchange rate.
III. The expected future exchange rate.
A) I and III  
B) I, II, and III  
C) II  
D) I and II
85) If the interest rate on Japanese yen assets falls, the
   A) quantity of dollars demanded will increase.
   B) demand for dollars will decrease.
   C) demand for dollars will increase.
   D) quantity of dollars demanded will decrease.

86) If the interest rate on Swiss franc assets increases, the
   A) quantity of dollars demanded will increase.
   B) quantity of dollars demanded will decrease.
   C) demand for dollars will increase.
   D) demand for dollars will decrease.

87) If the interest rate on U.S. dollar assets increases, the
   A) quantity of dollars demanded will decrease.
   B) quantity of dollars demanded will increase.
   C) demand for dollars will increase.
   D) demand for dollars will decrease.

88) If the U.S. interest rate rises, the
   A) there is a movement downward along the demand curve for dollars.
   B) demand curve for dollars shifts leftward.
   C) demand curve for dollars shifts rightward.
   D) None of the above answers are correct.

89) If U.S. interest rates fall, the
   A) demand curve for dollars shifts rightward.
   B) there is a movement upward along the demand curve for dollars.
   C) demand curve for dollars shifts leftward.
   D) None of the above answers are correct.

90) If Japanese interest rates rise, the
   A) demand curve for dollars shifts rightward.
   B) there is a movement upward along the demand curve for dollars.
   C) demand curve for dollars shifts leftward.
   D) None of the above answers are correct.

91) If Japanese interest rates fall, the
   A) demand curve for dollars shifts leftward.
   B) demand curve for dollars shifts rightward.
   C) there is a movement downward along the demand curve for dollars.
   D) None of the above answers are correct.

92) U.S. residents come to believe that the dollar will depreciate in the future, that is, the exchange rate in the future will be lower than the current exchange rate. As a result,
   A) there is a movement upward along the demand curve for dollars.
   B) the demand curve for dollars shifts rightward.
   C) the demand curve for dollars shifts leftward.
   D) None of the above answers are correct.
93) U.S. residents come to believe that the dollar will appreciate in the future, that is, the exchange rate in the future will be higher than the current exchange rate. As a result, 
A) the demand curve for dollars shifts leftward.
B) the demand curve for dollars shifts rightward.
C) there is a movement downward along the demand curve for dollars.
D) None of the above answers are correct.

94) In the figure above, the shift in the demand curve for U.S. dollars from \( D_0 \) to \( D_1 \) could occur when 
A) the U.S. interest rate rises.
B) the expected future exchange rate decreases.
C) people expect that the dollar will depreciate.
D) foreign interest rates increase.

95) In the figure above, the shift in the demand curve for U.S. dollars from \( D_0 \) to \( D_1 \) could occur when 
A) foreign interest rates drop.
B) the expected future exchange rate falls.
C) people expect that the dollar will depreciate.
D) the U.S. interest rate drops.

96) In the figure above, the shift in the demand curve for U.S. dollars from \( D_0 \) to \( D_2 \) could occur when 
A) people expect that the dollar will appreciate.
B) the U.S. interest rate rises.
C) foreign interest rates fall.
D) the U.S. interest rate falls.
97) In the figure above, the shift in the demand curve for U.S. dollars from \( D_0 \) to \( D_2 \) could occur when
   A) people expect that the dollar will appreciate.
   B) foreign interest rates fall.
   C) the U.S. interest rate falls.
   D) the expected future exchange rate increases.

98) In the figure above, the shift in the demand curve for U.S. dollars from \( D_0 \) to \( D_2 \) could occur when
   A) people expect that the dollar will appreciate.
   B) foreign interest rates rise.
   C) the expected future exchange rate increases.
   D) the U.S. interest rate rises.

99) In the figure above, the shift in the demand curve for U.S. dollars from \( D_0 \) to \( D_1 \) could occur when
   A) the expected future exchange rate increases.
   B) people expect that the dollar will depreciate.
   C) foreign interest rates increase.
   D) the U.S. interest rate falls.

100) In the figure above, the shift in the demand curve for U.S. dollars from \( D_0 \) to \( D_1 \) could occur when
    A) the expected future exchange rate falls.
    B) people expect that the dollar will appreciate.
    C) the U.S. interest rate decreases.
    D) foreign interest rates increase.

101) In the figure above, the shift in the demand curve for U.S. dollars from \( D_0 \) to \( D_2 \) could occur when
    A) foreign interest rates fall.
    B) the expected future exchange rate increases.
    C) people expect that the dollar will depreciate.
    D) the U.S. interest rate rises.

102) Other things remaining the same, the ________ the exchange rate for dollars, the greater the ________ in the foreign exchange market.
    A) lower; value of U.S. imports
    B) higher; quantity of dollars supplied
    C) higher; expected profits from holding dollars
    D) higher; quantity of dollars demanded

103) As the exchange rate ________, the quantity of dollars ________ on the foreign exchange market
    A) falls; supplied; increases
    B) falls; demanded; decreases
    C) rises; demanded; increases
    D) rises; supplied; increases
104) In the foreign exchange market, the supply curve for dollars slopes upwards because
   A) as the exchange rate rises, imports become more expensive, and more dollars are supplied
      to pay for the imports.
   B) as the exchange rate rises, imports become cheaper, and more dollars are supplied to pay
      for the increase in the quantity of imports.
   C) supply curves always slope upwards.
   D) as the exchange rate rises, more dollars are supplied because the profit from selling dollars
      falls.

105) In the foreign exchange market, which of the following results in a movement along the supply
    curve of dollars?
   A) a change in the U.S. interest rate
   B) a change in the expected future exchange rate
   C) a change in the current exchange rate
   D) None of the above answers are correct.

106) Which of the following is a factor that determines the amount of dollars supplied in the foreign
    exchange market?
   A) the exchange rate
   B) interest rates in foreign countries
   C) U.S. interest rate
   D) All of the above affect the number of dollars supplied in the foreign exchange market.

107) Other things remaining the same, the
   A) larger the value of U.S. imports, the smaller is the quantity of foreign currency demanded.
   B) higher the exchange rate, the smaller is the expected profit from selling dollars.
   C) lower the exchange rate, the cheaper are foreign-produced goods and services.
   D) larger the value of U.S. imports, the greater is the quantity of U.S. dollars supplied to the
      foreign exchange market.

108) One of the main reasons the supply curve for dollars slopes ______ includes the ______.
    A) upward; exports effect
    B) downward; imports effect
    C) downward; expected profit effect
    D) upward; imports effect

109) The larger the value of U.S. imports, the greater the quantity of ______ causing the quantity
    supplied of dollars to ______.
    A) U.S. dollars demanded; decrease
    B) U.S. dollars demanded; increase
    C) foreign currency demanded; increase
    D) foreign currency demanded; decrease

110) The ______ the exchange rate, the ______ are foreign-produced goods and hence the
     greater the quantity of dollars supplied.
     A) higher; more expensive
     B) lower; cheaper
     C) lower; more expensive
     D) higher; cheaper

111) The ______ the exchange rate, the ______ are foreign-produced goods and hence the
     smaller the quantity of dollars supplied.
     A) greater; cheaper
     B) lower; cheaper
     C) lower; more expensive
     D) greater; more expensive
112) The quantity of dollars supplied will increase if
A) U.S. imports increase.
B) foreign demand for U.S. exports increases.
C) U.S. interest rates are high.
D) tourism to the United States increases.

113) The quantity of dollars supplied will decrease if
A) the interest rate in the United States falls.
B) imports into the United States increase.
C) fewer U.S. residents travel abroad.
D) the expected future exchange rate falls.

114) One of the main reasons the supply curve for dollars slopes ________ includes the ________.
A) upward; expected profits effect
B) downward; expected profit effect
C) upward; exports effect
D) downward; imports effect

115) The ________ the expected profit from holding a foreign currency, the greater is the ________ in the foreign exchange market.
A) larger; quantity demanded of dollars
B) larger; quantity supplied of dollars
C) smaller; quantity demanded of foreign currency
D) None of the above is correct because the expected profit has nothing to do with the supply and demand for dollars or foreign currency.

116) Which of the following statements is correct?
A) The higher the exchange rate, the larger is the expected profit from demanding dollars in the foreign exchange market.
B) The higher the exchange rate, the larger is the expected profit from selling dollars in the foreign exchange market.
C) The lower the exchange rate, the larger is the expected profit from selling dollars in the foreign exchange market.
D) None of the above because the exchange rate has nothing to do with the expected profit from buying or selling dollars in the foreign exchange market.

117) A change in which of the following will cause a change in the supply of dollars and shift the supply curve of dollars?
I. An increase in the exchange rate.
II. A change in interest rates.
III. A decrease in the expected future exchange rate.
A) I, II, and III
B) I
C) II and III
D) I and II

118) The larger the U.S. interest rate differential, the
A) smaller the supply of dollars on the foreign exchange market.
B) larger the demand for foreign assets.
C) larger the supply of dollars on the foreign exchange market.
D) smaller the supply of yen on the foreign exchange market.

119) As the expected future exchange rate for dollars increases,
A) the supply of U.S. dollars decreases.
B) the expected profit from selling U.S. dollars today falls.
C) the U.S. interest rate will fall.
D) Both answers A and B are correct.
120) In the figure above, the shift in the supply curve for U.S. dollars from $S_0$ to $S_1$ could occur when
   A) the U.S. interest rate differential decreases.
   B) the expected future exchange rate falls.
   C) the U.S. interest rate differential increases.
   D) the current exchange rate falls.

121) In the figure above, the shift in the supply curve for U.S. dollars from $S_0$ to $S_1$ could occur when
   A) foreign interest rates fall.
   B) the current exchange rate falls.
   C) the expected future exchange rate falls.
   D) the U.S. interest rate falls.

122) In the figure above, the shift in the supply curve for U.S. dollars from $S_0$ to $S_1$ could occur when
   A) the expected future exchange rate falls.
   B) the U.S. interest rate rises.
   C) the current exchange rate rises.
   D) foreign interest rates rise.

123) In the figure above, the shift in the supply curve for U.S. dollars from $S_0$ to $S_2$ could occur when
   A) the U.S. interest rate falls.
   B) the current exchange rate falls.
   C) the U.S. interest rate differential increases.
   D) the expected future exchange rate rises.

124) In the figure above, the shift in the supply curve for U.S. dollars from $S_0$ to $S_2$ could occur when
   A) the U.S. interest rate rises.
   B) the expected future exchange rate rises.
   C) the current exchange rate falls.
   D) foreign interest rates rise.
125) In the figure above, the shift in the supply curve for U.S. dollars from $S_0$ to $S_1$ could occur when
A) the current exchange rate falls.
B) the U.S. interest rate differential decreases.
C) the expected future exchange rate rises.
D) the expected future exchange rate falls.

126) In the figure above, the shift in the supply curve for U.S. dollars from $S_0$ to $S_2$ could occur when
A) the expected future exchange rate rises.
B) the current exchange rate falls.
C) the current exchange rate rises.
D) the expected future exchange rate falls.

127) In the figure above, the shift in the supply curve for U.S. dollars from $S_0$ to $S_2$ could occur when
A) the expected future exchange rate falls.
B) the U.S. interest rate differential increases.
C) the current exchange rate falls.
D) the expected future exchange rate rises.

128) An increase in the U.S. demand for imports will _______ the supply of dollars and lead the dollar to _______.
A) increase; depreciate
B) decrease; appreciate
C) increase; appreciate
D) decrease; depreciate

129) An increase in U.S. exports will _______ the demand for dollars and lead the dollar to _______.
A) decrease; depreciate
B) decrease; appreciate
C) increase; appreciate
D) increase; depreciate

130) The U.S. dollar will appreciate in value if
A) the supply curve of U.S. dollars shifts rightward.
B) Americans choose to buy more foreign goods.
C) the demand curve for U.S. dollars shifts leftward.
D) the demand curve for U.S. dollars shifts rightward.

131) The U.S. dollar will depreciate in value if
A) the demand curve for U.S. dollars shifts rightward.
B) the demand curve for U.S. dollars shifts leftward.
C) the supply curve of U.S. dollars shifts rightward.
D) Both answers B and C are correct.

132) An increase in the Japanese interest rate will _______ the demand for dollars and lead the dollar to _______.
A) increase; appreciate
B) decrease; depreciate
C) decrease; appreciate
D) increase; depreciate

133) An increase in the Japanese interest rate will _______ the supply of dollars and lead the dollar to _______.
A) increase; depreciate
B) increase; appreciate
C) decrease; appreciate
D) decrease; depreciate
134) In the figure above, the equilibrium exchange rate is: $1 U.S. equals 
   A) $0.50 Canadian.  
   B) $1.50 Canadian.  
   C) $2.00 Canadian.  
   D) none of the above

135) In the figure above, an increase in the U.S. interest rate relative to that in Canada shifts the 
   demand curve for U.S. dollars _______ and shifts the supply curve of U.S. dollars _______. 
   A) leftward; rightward  
   B) leftward; leftward
   C) rightward; rightward
   D) rightward; leftward

136) In the figure above, the demand curve for U.S. dollars is represented in the diagram by 
   A) curve A.  
   B) curve B.  
   C) point C.  
   D) none of the above
137) The idea that the value of money is equal across countries is known as
A) exchange rate parity.  B) the expected profit parity effect.
C) interest rate parity.  D) purchasing power parity.

138) If the prices in the United States rise faster than those in other countries,
A) then interest rate parity must not hold.  B) the exchange rate falls.
C) the interest rate in the United States falls.  D) the exchange rate rises.

139) If prices in Japan have increased more than in the United States, then
A) the demand for dollars increases.  B) the U.S. exchange rate is expected to rise.
C) the supply of dollars increases.  D) Both answers A and B are correct.

140) If prices increase in Mexico, but remain constant in the United States, then
A) people expect the current value of the dollar is too high.
B) the demand for dollars will decrease.
C) interest rate parity will not occur.
D) people expect the value of the dollar will rise in the future.

141) Adjusted for risk, interest rate parity
A) holds only for larger countries.
B) holds only between the U.S. and Canada.
C) always holds.
D) holds only when purchasing parity holds.

142) Suppose a British bank offers a 3 percent interest rate while a U.S. bank offers a 7 percent interest rate. People must expect the U.S. dollar will
A) depreciate 10 percent.  B) depreciate 4 percent.
C) appreciate 10 percent.  D) appreciate 4 percent.

143) Suppose a Japanese bank offers a 4 percent interest rate and U.S. banks offer a 2 percent interest rate. People must expect the yen to
A) depreciate by 2 percent.  B) appreciate by 2 percent.
C) appreciate by 6 percent.  D) depreciate by 6 percent.

144) Suppose the target exchange rate set by the Fed is 100 yen per dollar. If the demand for dollars temporarily increases, to maintain the target exchange rate, the Fed can
A) violate interest rate parity.  B) sell dollars.
C) buy dollars.  D) violate purchasing power parity.

145) Suppose the target exchange rate set by the Fed is 100 guilders per dollar. If the demand for dollars temporarily decreases, to maintain the target exchange rate, the Fed can
A) sell dollars.  B) increase U.S. exports.
C) buy dollars.  D) increase U.S. imports.

146) The target exchange rate set by the Fed is 100 pesos per dollar. If the demand for dollars temporarily increases
A) the Fed must sell pesos.
B) the Fed can meet the target by selling dollars.
C) the Fed cannot maintain the target rate.
D) the Fed can meet the target by buying dollars.
147) Suppose the target exchange rate set by the Fed is 150 yen per dollar. If the demand for dollars permanently decreases the Fed
   A) cannot permanently maintain the target rate.
   B) must violate both interest rate parity and purchasing power parity to permanently meet the target.
   C) can permanently meet the target by selling dollars.
   D) can permanently meet the target by buying dollars.

148) In the above figure, suppose the demand for dollars temporarily increases so that the demand curve shifts to \( D_1 \). To maintain the target exchange rate, the Fed
   A) can buy dollars.
   B) cannot maintain the target exchange rate.
   C) must violate interest rate parity but not purchasing power parity.
   D) can sell dollars.

149) In the figure above, suppose the demand for dollars temporarily decreases so that the demand curve shifts to \( D_2 \). To maintain the target exchange rate, the Fed
   A) cannot maintain the target exchange rate.
   B) can buy dollars.
   C) must violate both interest rate parity and purchasing power parity.
   D) can sell dollars.

150) In the above figure, suppose the demand for dollars permanently decreases to \( D_2 \). To maintain the target, the Fed
   A) cannot permanently maintain the exchange rate target of 150 yen per dollar.
   B) can buy dollars.
   C) must decrease the nation's net exports.
   D) can sell dollars.
151) Which of the following is one of the balance of payments accounts?  
A) government spending account  B) capital account  
C) net borrowing account  D) reserve account

152) Suppose the United States initially has a trade deficit. Then U.S. firms increase their imports from Canada, financing that increase by borrowing from Canada. The current account deficit is now ________ and the capital account surplus is now ________.
A) larger; larger  B) smaller; smaller  C) larger; smaller  D) smaller; larger

<table>
<thead>
<tr>
<th>Component</th>
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</tr>
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<tbody>
<tr>
<td>Government purchases, G</td>
<td>700</td>
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<tr>
<td>Net taxes, T</td>
<td>600</td>
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<tr>
<td>Investment, I</td>
<td>350</td>
</tr>
<tr>
<td>Savings, S</td>
<td>500</td>
</tr>
</tbody>
</table>

153) In the table above, what is the government's sector balance?  
A) $0  B) a surplus of $600 billion  
C) a deficit of $100 billion  D) a deficit of $700 billion

154) In the table above, what does the private sector surplus equal?  
A) $150 billion  B) $0  C) $500 billion  D) $350 billion

155) In the table above, what do net exports equal?  
A) a surplus of $1,750 billion  B) a surplus of $50 billion  
C) a deficit of $350 billion  D) a deficit of $700 billion

156) Suppose the exchange rate between the U.S. dollar and the French franc is 0.25 francs per dollar. If a television sells for 100 francs in France, what is the dollar price of the television set?  
A) $200  B) $25  C) $50  D) $400

157) Suppose that the yen-dollar foreign exchange rate changes from 130 yen per dollar to 140 yen per dollar. Then the yen has  
A) depreciated against the dollar, and the dollar has appreciated against the yen.  B) appreciated against the dollar, and the dollar has depreciated against the yen.
C) depreciated against the dollar, and the dollar has depreciated against the yen.  D) appreciated against the dollar, and the dollar has appreciated against the yen.

158) Suppose the peso-dollar foreign exchange rate changes from 50 pesos per dollar to 30 pesos per dollar. Then the peso has ________ against the dollar and the dollar has ________ against the peso.
A) depreciated; appreciated  B) depreciated; depreciated  
C) appreciated; depreciated  D) appreciated; appreciated
159) If the Fed sells U.S. dollars, the exchange rate
A) does not change.
B) rises.
C) falls.
D) changes, but the direction depends on whether the Fed affected the demand for dollars or the supply of dollars.

160) A country’s balance of payments accounts records all of the following items except ________.
A) international trading
B) international lending
C) international taxes
D) international borrowing

161) The account that records the receipts from the exports of goods and services sold abroad, the payments for imports of goods and services from abroad, net interest income paid abroad, and net transfers is the ________.
A) capital account
B) current account
C) international capital account
D) official settlements account

162) The capital account measures ________.
A) capital used outside the United States but manufactured inside the United States
B) capital produced outside of the United States minus capital produced inside the United States
C) capital used inside the United States but manufactured outside the United States
D) foreign investment in the United States minus U.S. investment abroad

163) The official settlements account records the change in ________.
A) foreign investment and domestic investment
B) international trade
C) U.S. official reserves
D) the reserves held by banks and the Fed

164) U.S. official reserves are the ________.
A) reserves of U.S. dollars held by the World Bank
B) holdings of foreign currency by the public and the banks
C) government’s holdings of foreign currency
D) reserves of U.S. dollars held by foreign banks

165) The value of net exports increases when the value of ________.
A) imports of goods and services increase
B) imports of goods and services decrease
C) exports of goods and services minus imports of goods and services decreases
D) exports of goods and services decrease

166) A country that borrows more from the rest of the world than it lends to it in a year is called a ________, and a country that lends more to the rest of the world than it borrows from it in a year is called a ________.
A) borrower; lender
B) gross borrower; gross lender
C) net borrower; net lender
D) importer; exporter
167) A country that during its entire history has borrowed more from the rest of the world than it has lent to it is a ________, and a country that during its entire history has invested more in the rest of the world than other countries have invested in it is a ________.

A) debtor nation; creditor nation  
B) borrower nation; creditor nation  
C) net borrower nation; net lender nation  
D) debtor nation; investor nation

168) The government sector surplus or deficit is equal to ________.
A) tariffs minus imports  
B) net taxes minus government purchases of goods and services  
C) exports minus imports  
D) saving minus investment

169) The private sector surplus or deficit is equal to ________.
A) saving minus investment  
B) income minus consumption  
C) income minus consumption minus net taxes  
D) income minus consumption minus investment

170) International borrowing in the United States is financing ________.
A) private and public investment  
B) consumption  
C) net exports  
D) government purchases of goods and services

171) The market in which the currency of one country is exchanged for the currency of another country is the ________.
A) foreign currency market  
B) foreign exchange market  
C) Chicago Money Exchange  
D) G8

172) Suppose that $1 Canadian can buy $0.65 U.S. and $1 U.S. can buy $1.54 Canadian. These are examples of ________.
A) foreign exchange rates  
B) purchasing power of parity  
C) currency appreciation  
D) changes in the prices of net exports

173) Between 1998 and 2000, the U.S. dollar ________ against the Japanese yen, and in 2001 and 2002, the U.S. dollar ________ against the Japanese yen.
A) value changed little; value changed a lot  
B) appreciated; depreciated  
C) trended upward; trended downward  
D) depreciated; appreciated

174) The U.S. interest rate minus the foreign interest rate is called the ________.
A) U.S. stock yield differential  
B) U.S. interest rate differential  
C) foreign interest rate differential  
D) U.S. bond rate differential

175) If the exchange rate rises, there is a ________ the demand curve for U.S. dollars, and if the expected future exchange rate rises, there is a ________ the demand curve for U.S. dollars.
A) movement up along; leftward shift of  
B) leftward shift of; leftward shift of  
C) movement up along; rightward shift of  
D) movement down along; rightward shift of
176) The supply curve of U.S. dollars shifts leftward. This could have been influenced by ________.  
   A) a decrease in the U.S. exchange rate  
   B) a rise in the U.S. interest rate differential  
   C) an increase in the U.S. exchange rate  
   D) a fall in the expected future exchange rate

177) Suppose that $1 U.S. costs $1.50 Canadian. If in St. Louis a CD costs $10 U.S. and in Montreal it costs $15 Canadian, then ________.  
   A) purchasing power parity exists  
   B) Americans will buy CDs in Montreal  
   C) Virgin Records will have an incentive to build more stores in North America  
   D) Canadians will buy CDs in St. Louis

178) If in Chicago the interest rate is 5 percent a year and in Vancouver it is 4 percent a year, ________.  
   A) the quantity of Canadian dollars purchased will increase  
   B) the Canadian dollar is expected to depreciate  
   C) the U.S. dollar is expected to depreciate  
   D) interest rate parity does not exist

179) If the Fed wants to depreciate the U.S. dollar against the British pound, it will ________.  
   A) sell U.S. dollars  
   B) sell British pounds  
   C) sell foreign exchange  
   D) decrease the money supply

180) The country of Pimm exports $500 billion worth of goods and services and imports $400 billion worth of goods and services. Net interest income paid abroad is $50 billion and net transfers are $0. The current account balance is ________.  
   A) $25 billion  
   B) $50 billion  
   C) $175 billion  
   D) $975 billion

181) If the current account balance is $30 billion, and the capital account balance is $35 billion, then the official settlements account balance is ________ billion, and the official reserves ________.  
   A) $-5 billion; increase  
   B) $5 billion; increase  
   C) $-5 billion; decrease  
   D) $5 billion; decrease

182) If, this year, a country has loaned more to the rest of the world than it borrowed from the rest of the world and has loaned more to the rest of the world than it has borrowed from the rest of the world during its entire history, then the country is currently a ________ and also a ________.  
   A) net lender; creditor nation  
   B) debtor nation; net lender  
   C) net borrower; creditor nation  
   D) net borrower; debtor nation

183) A country has a government sector deficit and a private sector surplus. If the government sector deficit increases, and the private sector surplus decreases, ________.  
   A) net exports increase  
   B) net exports decrease or remain constant  
   C) net exports increase, decrease, or remain constant  
   D) net exports decrease
<table>
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<th>Item</th>
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<tbody>
<tr>
<td>Imports of goods and services, $M$</td>
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<td>Net taxes, $T$</td>
<td>300</td>
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<td>Government purchases, $G$</td>
<td>250</td>
</tr>
<tr>
<td>Savings, $S$</td>
<td>125</td>
</tr>
<tr>
<td>Investment, $I$</td>
<td>100</td>
</tr>
</tbody>
</table>

184) The table above gives some of the entries in the national income and product accounts. The government sector has a _______, and the private sector has a ________.
A) surplus of $50 billion; deficit of $25 billion  
B) deficit of $50 billion; deficit of $25 billion  
C) deficit of $50 billion; surplus of $25 billion  
D) surplus of $50 billion; surplus of $25 billion

185) The table above gives some of the entries in the national income and product accounts. What is the value of exports?
A) $300 billion  
B) -$25 billion  
C) $25 billion  
D) $350 billion

186) If the pound-dollar exchange rate changes from £0.60 per dollar to £0.65 per dollar, then the pound has ________ against the dollar and the dollar has ________ against the pound.
A) depreciated; depreciated  
B) depreciated; appreciated  
C) appreciated; appreciated  
D) appreciated; depreciated

187) Suppose that a dollar buys 120 yen. If a VCR sells for 18,600 yen in Japan, the price of the VCR in dollars is ________.
A) $120.00  
B) $186.00  
C) $223.20  
D) $155.00

188) If the exchange rate between the dollar and Japanese yen is below the equilibrium exchange rate, there will be a ________ of dollars, and the exchange rate will ________.
A) surplus; fall to the equilibrium level  
B) shortage; rise to the equilibrium level  
C) shortage; change only when the supply curve shifts leftward  
D) surplus; rise to the equilibrium level

189) If the expected future exchange rate falls, the exchange rate ________, and the equilibrium quantity of dollars ________.
A) remains constant; barely changes  
B) remains constant; increases  
C) falls; increases  
D) falls; barely changes
<table>
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<th>Item</th>
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<td>Imports of goods and services</td>
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<tr>
<td>Exports of goods and services</td>
<td>3,000</td>
</tr>
<tr>
<td>Borrowing from the rest of the world</td>
<td>1,500</td>
</tr>
<tr>
<td>Net investment income paid to foreigners</td>
<td>60</td>
</tr>
<tr>
<td>Net transfers paid to foreigners</td>
<td>60</td>
</tr>
</tbody>
</table>

190) The table above shows the transactions made during 2003 by the citizens of Biscuit, whose currency is the crumb. During 2003, the official reserves increased by 380 million crumbs. Calculate the current account balance.
   A) -1,000 million crumbs
   B) -880 million crumbs
   C) 880 million crumbs
   D) 1,000 million crumbs

191) The table above shows the transactions made during 2003 by the citizens of Biscuit, whose currency is the crumb. During 2003, the official reserves increased by 380 million crumbs. How many million crumbs did Biscuit lend to the rest of the world in 2003?
   A) -500
   B) 2,000
   C) 240
   D) 500

192) On the island country of Sunshine where the unit of currency is fish, net exports are 50 fish, saving is 250 fish, net taxes are 100 fish, and the government budget deficit is 175 fish. What is the value of investment?
   A) -25 fish
   B) -375 fish
   C) 25 fish
   D) 375 fish

193) On the island country of Sunshine where the unit of currency is fish, net exports are 50 fish, saving is 250 fish, net taxes are 100 fish, and the government budget deficit is 175 fish. The private sector has a ________.
   A) surplus of 225 fish
   B) deficit of 125 fish
   C) deficit of 225 fish
   D) surplus of 125 fish

<table>
<thead>
<tr>
<th>Currency</th>
<th>1999 exchange rate (per U.S. dollar)</th>
<th>2000 exchange rate (per U.S. dollar)</th>
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<tbody>
<tr>
<td>Euro</td>
<td>0.9954</td>
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<td>Japanese yen</td>
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<tr>
<td>Canadian dollar</td>
<td>1.44</td>
<td>1.50</td>
</tr>
</tbody>
</table>

194) The table above shows the exchange rates between various currencies and the U.S. dollar. Between 1999 and 2000, the U.S. dollar ________ against the euro and ________ against the Japanese yen.
   A) depreciated; appreciated
   B) appreciated; appreciated
   C) appreciated; depreciated
   D) depreciated; depreciated
195) The table above shows the exchange rates between various currencies and the U.S. dollar. Between 1999 and 2000, the Japanese yen ________ against the U.S. dollar and the euro ________ against the U.S. dollar.

A) depreciated; depreciated  
B) appreciated; depreciated  
C) appreciated; appreciated  
D) depreciated; appreciated

196) Epsilon is a country whose unit of currency is the omega. New information leads people to expect that the omega will appreciate next year. The demand curve for omegas shifts ________, the supply curve of omegas shifts ________, and the omega ________.

A) leftward; rightward; depreciates  
B) rightward; leftward; appreciates  
C) rightward; rightward; neither depreciates nor appreciates  
D) leftward; leftward; neither depreciates nor appreciates

197) Epsilon is a country whose unit of currency is the omega. New information leads people to expect that the omega will appreciate next year. To keep the foreign exchange value of the omega fairly steady, the Bank of Epsilon will ________ enough omegas on the foreign exchange market so that the ________ omegas will ________.

A) sell; supply of; increase  
B) buy; demand for; decrease  
C) buy; demand for; increase  
D) buy; supply of; decrease

198) In France, the price of a computer is 1,227.6 euros. In Japan, the price of the same computer is 137,920 yen. If a U.S. dollar can buy 1.023 euros or 119.93 yen, then purchasing power parity ________.

A) does not hold and the computer is cheaper in France  
B) is equal to interest rate parity and the computer is cheaper in North America  
C) holds and the computer is the same price everywhere  
D) does not hold and the computer is cheaper in Japan

<table>
<thead>
<tr>
<th>Exchange rate (yen per dollar)</th>
<th>Quantity of dollars demanded (billions)</th>
<th>Quantity of dollars demanded (billions)</th>
</tr>
</thead>
<tbody>
<tr>
<td>180</td>
<td>200</td>
<td>230</td>
</tr>
<tr>
<td>160</td>
<td>220</td>
<td>220</td>
</tr>
<tr>
<td>140</td>
<td>240</td>
<td>210</td>
</tr>
<tr>
<td>120</td>
<td>260</td>
<td>200</td>
</tr>
<tr>
<td>100</td>
<td>280</td>
<td>190</td>
</tr>
</tbody>
</table>

199) The table above gives the supply and demand schedules of U.S. dollars. Suppose that the Fed spends $30 billion and buys foreign securities. As a result, the U.S. dollar will ________.

A) appreciate by 20 yen per dollar  
B) appreciate by 180 yen per dollar  
C) depreciate by 20 yen per dollar  
D) depreciate by 140 yen per dollar
Answer Key
Testname: UNTITLED1

1) B
2) C
3) B
4) C
5) A
6) A
7) A
8) C
9) B
10) B
11) C
12) A
13) A
14) A
15) D
16) C
17) D
18) C
19) D
20) B
21) B
22) C
23) A
24) C
25) C
26) B
27) C
28) D
29) B
30) A
31) A
32) C
33) A
34) B
35) C
36) C
37) B
38) D
39) D
40) C
41) B
42) D
43) A
44) C
45) D
46) A
47) A
48) C
Answer Key
Testname: UNTITLED1

49) A
50) D
51) C
52) D
53) B
54) B
55) C
56) A
57) D
58) A
59) A
60) C
61) A
62) D
63) D
64) C
65) D
66) D
67) C
68) A
69) A
70) A
71) D
72) C
73) A
74) B
75) D
76) B
77) A
78) D
79) C
80) B
81) B
82) C
83) C
84) A
85) C
86) D
87) C
88) C
89) C
90) C
91) B
92) C
93) B
94) A
95) A
96) D
Answer Key
Testname: UNTITLED1

97) C
98) B
99) A
100) B
101) C
102) B
103) D
104) B
105) C
106) D
107) D
108) D
109) C
110) D
111) C
112) A
113) C
114) A
115) B
116) B
117) C
118) A
119) D
120) C
121) A
122) B
123) A
124) D
125) C
126) D
127) A
128) A
129) C
130) D
131) D
132) B
133) A
134) B
135) D
136) B
137) D
138) B
139) D
140) D
141) C
142) B
143) A
144) B
Answer Key
Testname: UNTITLED1

145) C
146) B
147) A
148) D
149) B
150) A
151) B
152) A
153) C
154) A
155) B
156) D
157) A
158) C
159) C
160) C
161) B
162) D
163) C
164) C
165) B
166) C
167) A
168) B
169) A
170) A
171) B
172) A
173) D
174) B
175) C
176) B
177) A
178) C
179) A
180) B
181) A
182) A
183) D
184) D
185) D
186) B
187) D
188) B
189) D
190) C
191) B
192) C
Answer Key
Testname: UNTITLED1

193) A
194) B
195) A
196) B
197) A
198) D
199) C