

BPE MAC1 Macroeconomics 1 – Spring Semester 2011

Tutorial session 6 - 01.04.2011, 10:15-11:00 a.m.

Multiple Choice

Identify the choice that best completes the statement or answers the question.

- _____ 1. Which of the following would be recorded as an UK merchandise export?
- A UK tourist spends 10,000 euros on vacation in the south of France.
 - A machine shop in Nottingham purchases a grinder made in Italy.
 - A UK resident receives a £50 dividend on shares she owns in a business in Germany.
 - The French government purchases a fleet of new Peugeot cars built at Peugeot's factory in the UK.
- _____ 2. It must always be true that net capital outflow
- is greater than net exports.
 - is less than net exports.
 - is equal to net exports.
 - equals 0.
- _____ 3. If interest rates in Canada rise above those in the rest of the world, then
- the demand for Canadian dollars decreases.
 - exports from Canada to other countries increases.
 - imports into Canada from other countries decreases.
 - it raises Canada's exchange rate and this may result in a deficit on Canada's current account.
- _____ 4. Net capital outflow measures
- the flow of goods and services between countries.
 - the flow of assets between countries.
 - government budget surpluses and deficits relative to those experienced in other countries.
 - the amount of physical capital built in foreign countries.
- _____ 5. The exchange rate is the
- value of money.
 - quantity of euros, dollars, yen, etc., that are traded on currency markets.
 - amount of foreign currency that is used to buy goods made in your country.
 - number of units of a foreign currency that can be bought with one unit of your own currency.
- _____ 6. A tariff is a
- tax on goods produced domestically.
 - tax on exported goods.
 - tax on imported goods.
 - limit placed on the quantity of goods that a country can import.
- _____ 7. The supply of funds curve is upward sloping because a rise in the interest rate
- decreases the opportunity cost of firms' investment spending.
 - increases the opportunity cost of firms' investment spending.
 - decreases the opportunity cost to households of consuming.
 - increases the opportunity cost to households of consuming.

- _____ 8. The supply of foreign exchange is
- determined by the real exchange rate.
 - independent of the real exchange rate.
 - determined by central bankers.
 - determined by the government of the country concerned.
- _____ 9. The link between the loanable funds market and the foreign exchange market is
- the governments of the countries involved.
 - the International Monetary Fund.
 - net capital outflow.
 - purchasing power parity.
- _____ 10. Equilibrium in an open economy is characterized by
- net exports = net capital outflow.
 - net exports + net capital outflow = savings.
 - domestic investment + net capital outflow = savings.
 - Both a and c are correct.
- _____ 11. Increased foreign investment in the UK causes the
- balance on current account to become positive.
 - sum of the capital and current accounts to be positive.
 - balance of trade to become negative.
 - foreign exchange value of the pound to increase.
- _____ 12. Government trade policies, such as tariffs and quota restrictions on imports,
- can eliminate a trade imbalance.
 - often increase a trade deficit.
 - have no real affect on the trade balance.
 - can lower a deficit on current account but not on the capital account.
- _____ 13. In response to an import quota
- exports increase by more than imports.
 - imports increase by more than exports.
 - imports and exports are unaffected, but the government collects revenues.
 - imports and exports are both reduced but net exports are unchanged.
- _____ 14. A large and sudden movement of capital out of a country is called
- a capital inflow.
 - capital flight.
 - a trade deficit.
 - a trade surplus.
- _____ 15. Capital flight is often caused by
- political stability.
 - shifts away from the industrial sector and towards the service sector.
 - political instability.
 - policies of the International Monetary Fund.

Tutorial session 6 - 01.04.2011, 10:15-11:00 a.m.**Answer Section****MULTIPLE CHOICE**

1. ANS: D
The French government purchases a fleet of new Peugeot cars built at Peugeot's factory in the UK.

PTS: 1

2. ANS: C
is equal to net exports.

PTS: 1

3. ANS: D
it raises Canada's exchange rate and this may result in a deficit on Canada's current account.

PTS: 1

4. ANS: B
the flow of assets between countries.

PTS: 1

5. ANS: D
number of units of a foreign currency that can be bought with one unit of your own currency.

PTS: 1

6. ANS: C
tax on imported goods.

PTS: 1

7. ANS: D
increases the opportunity cost to households of consuming.

PTS: 1

8. ANS: B
independent of the real exchange rate.

PTS: 1

9. ANS: C
net capital outflow.

PTS: 1

10. ANS: D
Both a and c are correct.

PTS: 1

11. ANS: D
foreign exchange value of the pound to increase.

PTS: 1

12. ANS: C
have no real affect on the trade balance.

PTS: 1

13. ANS: D
imports and exports are both reduced but net exports are unchanged.

PTS: 1

14. ANS: B
capital flight.

PTS: 1

15. ANS: C
political instability.

PTS: 1