Macroeconomics 1 - Seminar 7

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- Advantages of international trade
- Describe the difference between foreign portfolio investment and foreign direct investment.
- Who is more likely to engage in foreign direct investment – a corporation or an individual investor?
- Who is more likely to engage in foreign portfolio investment?

Another name given to Net Exports is:

a. trade value.

b. trade deficit.

c. trade balance.

d. balanced trade.

Net Exports are affected by which of the following?

i. Tastes of consumers.

ii. Prices of goods at home and abroad.
iii. The incomes of consumers at home and abroad.
iv. Government policies toward international trade.

By all.

Other things remaining equal, when domestic incomes rise, Net Exports:

a. will decrease.

b. will increase.

c. will remain unaffected.

d. might increase or decrease.

When Net Capital Outflow is positive, it means:

a. imports are bigger than exports.
b. domestic residents are spending more on foreign assets than foreigners are spending on domestic assets.
c. foreigners are spending more on domestic assets than domestic residents are spending on foreign assets.
d. none of the above.

Other things remaining equal, if real interest rates increase abroad, our:

a. net exports will decrease.

b. net capital outflow will increase.

c. net capital outflow will decrease.

d. none of the above.

Other things remaining equal, if there is political or economic turmoil in the U.S., we can expect our:

a. net exports will decrease.

b. net capital outflow will increase.

c. net capital outflow will decrease.

d. none of the above.

If the U.S. has a trade deficit, it means that:

a. saving in the U.S. is less than investment.
b. saving in the U.S. is grater than investment.
c. foreign incomes are greater than U.S. incomes.
d. foreign incomes are less than U.S. incomes.

If purchasing-power parity holds, and if prices in country A are the same as prices in country B, it means that the *real/nominal* exchange rate between these countries is equal to *zero/one*.

According to the Purchasing Power Parity Theory, if a dollar will buy more in the U.S. than abroad, traders will __________, which will cause the dollar to __________.

a. buy abroad and sell in the U.S., depreciate

b. buy abroad and sell in the U.S., appreciate

c. buy in the U.S. and sell abroad, appreciate

d. buy in the U.S. and sell abroad, depreciate

Would each of the following transactions be included in net exports or net capital outflow? Be sure to say whether it would represent an increase or a decrease in that variable.

a. An American buys a Sony TV. Decrease in NX
b. An American buys a share of Sony stock. Increase in NCO
c. The Sony pension fund buys a bond from the U.S. Treasury. Decrease in NCO
d. A worker at a Sony plant in Japan buys some Georgia peaches from an American farmer. Increase in NX

Would each of the following groups be happy or unhappy if the U.S. dollar appreciated? Explain.

a. Dutch pension funds holding U.S. government bonds. Happy
b. U.S. manufacturing industries Unhappy
c. Australian tourists planning a trip to the U.S. Unhappy
d. An American firm trying to purchase property overseas. Happy

A can of soda costs \$0.75 in the United States and 12 pesos in Mexico.

What would the peso-dollar exchange rate be if purchasing-power parity holds? 16 pesos for \$1

If a monetary expansion caused all prices in Mexico to double, so that soda rose to 24 pesos, what would happen to the peso-dollar exchange rate? 32 pesos for \$1

Purchasing-power parity holds between the nations of Ectenia and Wiknam, where the only commodity is Spam.

a. In 2000 a can of Spam costs 2 dollars in Ectenia and 6 pesos in Wiknam. What is the exchange rate between Ectenian dollars and Wiknamian pesos? 3 pesos for $1
b. Over the next 20 years, inflation is 3.5 percent per year in Ectenia and 7 percent per year in Wiknam. What will happen over this period to the price of Spam and the exchange rate? In Ectenia, the price of Spam will be $4 and in Wiknam, 23.2 pesos. Exchange rate will be 5.8 pesos for $1.
c. Which of these two nations will likely have a higher nominal interest rate? Why? Wiknam
d. A friend of yours suggests a get-rich-quick scheme: Borrow from the nation with the lower interest rate, invest in the nation with the higher interest rate, and profit from the interest-rate differential. Do you see any potential problems with this idea? Explain.