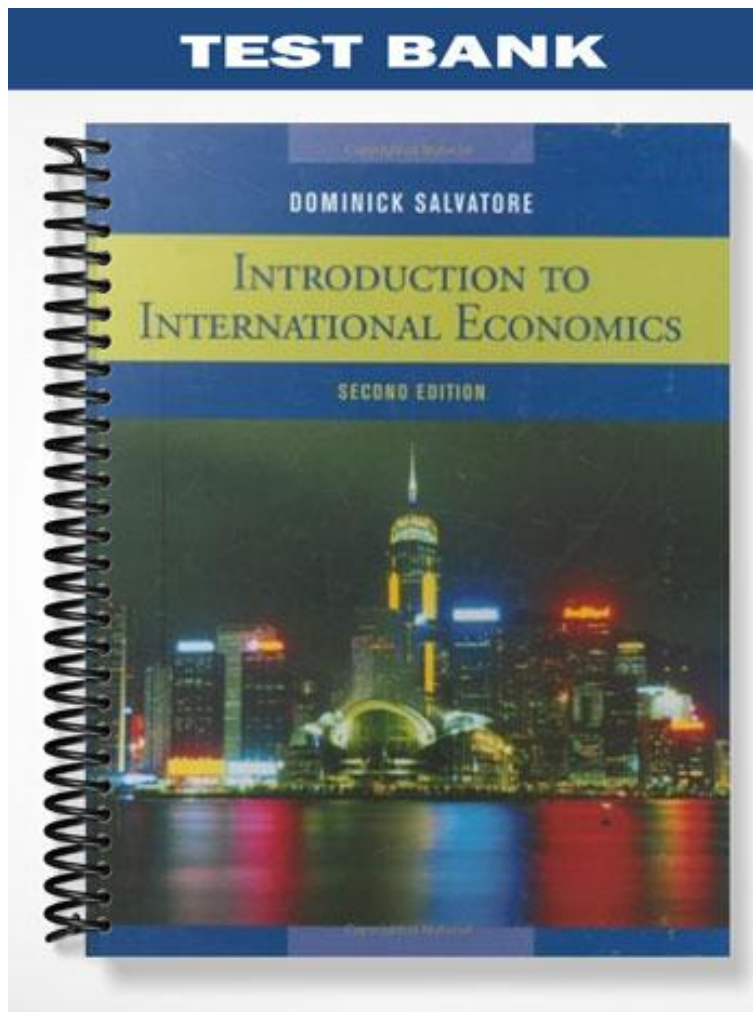


# TEST BANK



# Test Bank

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# INTRODUCTION TO INTERNATIONAL ECONOMICS

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**Second Edition**

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## Chapter 1 - Introduction

### Multiple Choice

1. In many developing nations, \_\_\_\_\_ provide employment opportunities and \_\_\_\_\_ to pay for the many products that cannot be produced in the home country.
- A) imports, earnings
  - B) exports, earnings
  - C) exports, outputs
  - D) imports, outputs

Answer: B Page: 5

2. The economic relationship and integration among nations is defined as:
- A) microeconomics
  - B) economic interdependence
  - C) macroeconomics
  - D) open economies

Answer: B Page: 5

3. The ratio between a country's imports and exports of goods or services to their gross domestic product (GDP) is a measure of that country's:
- A) microeconomics
  - B) openness as an economy
  - C) macroeconomics
  - D) economic interdependence

Answer: D Page: 5

4. The total value of all goods and services produced within a nation's borders is called:
- A) GDP
  - B) net exports
  - C) current account balance
  - D) GNP

Answer: A Page: 5

5. The economic interdependence among nations has \_\_\_\_\_ over recent history.
- A) decreased
  - B) remained the same
  - C) increased
  - D) none of the above

Answer: C Page:6

6. In 2001, the world GDP \_\_\_\_\_, while the world trade level \_\_\_\_\_ by 1 percent.
- A) decreased, increased
  - B) increased, decreased
  - C) decreased, decreased
  - D) increased, increased

Answer: B Page: 6

7. When interest rates increase in the United States, capital flows from abroad will:
- A) increase
  - B) decrease
  - C) no change
  - D) none of the above

Answer: A Page: 7

8. Which of the following analyzes the basis for and gains from trade?
- A) Balance of payments
  - B) Foreign exchange market
  - C) International trade policy
  - D) International trade theory

Answer: D Page: 9

9. Which of the following examines the reasons for and effects of trade restrictions?
- A) Balance of payments
  - B) Foreign exchange market
  - C) International trade policy

D) International trade theory

Answer: C Page: 9

10. A summary statement of all the international transactions of the residents of a nation with the rest of the world during a particular period of time is called:

- A) Balance of payments
- B) Net exports
- C) GNP
- D) GDP

Answer: A Page: 9

11. The framework for the exchange of one national currency for another is:

- A) the central bank
- B) the foreign exchange market
- C) the bond market
- D) the World Trade Organization

Answer: B Page: 9

12. The open-economy macroeconomic processes for correcting balance-of-payments disequilibria are collectively called :

- A) discretionary fiscal policy
- B) foreign exchange market
- C) monetary policy
- D) adjustment in the balance of payments

Answer: D Page: 9

13. International trade theory and policies as they relate to individual nations are the \_\_\_\_\_ aspects of international economics.

- A) International finance
- B) microeconomic
- C) national income accounting
- D) macroeconomic

Answer: B Page: 9

14. \_\_\_\_\_ has grown at a faster rate than \_\_\_\_\_, indicating an increase in economic interdependence among nations.
- A) World trade, world production
  - B) US GDP, world GDP
  - C) World production, world trade
  - D) Output in the US, incomes in the US

Answer: A Page: 6

15. What are the microeconomic aspects of international economies?
- A) Balance of payments issues
  - B) International trade theory and policies
  - C) Adjustments in the balance of payments
  - D) GDP

Answer: B Page: 9

16. An inflow of capital funds to the United States tends to increase the international value of the dollar, stimulating \_\_\_\_\_ and discouraging \_\_\_\_\_.
- A) US exports, US imports
  - B) US imports, economic activity abroad
  - C) US economic activity, economic activity abroad
  - D) US imports, US exports

Answer: D Page: 7

17. The study of the whole economy, such as the total receipts and payments of a nation and the general price index, is considered to be a:
- A) microeconomic application
  - B) macroeconomic application
  - C) both micro and macroeconomic application
  - D) foreign exchange application

Answer: B Page: 10

18. The study of foreign exchange markets, the balance of payments, and adjustment to balance-of-payments disequilibria is:

- A) Open-economy macroeconomics
- B) International finance
- C) Both A and B
- D) none of the above

Answer: C Page: 10

19. A nation that has an open economy:

- A) allows private ownership of capital
- B) has flexible exchange rates
- C) has fixed exchange rates
- D) trades with other nations

Answer: D Page: 10

20. The most effective trade policy would be \_\_\_\_\_, which allows each nation to specialize in efficient production of commodities.

- A) free trade
- B) protectionism
- C) a closed economy
- D) none of the above

Answer: A Page:10

21. Trade restrictions usually benefit a large majority of the \_\_\_\_\_ in the nation at the expense of a silent majority of \_\_\_\_\_.

- A) consumers, producers
- B) producers, consumers
- C) importers, exporters
- D) exporters, importers

Answer: B Page: 11

22. The world usually breaks up into which three primary trading blocs?

- A) NAFTA, EU, and EFTA
- B) North American, European, and Asian
- C) NAFTA, EU and Benelux

D) North American, European, and South American

Answer: B Page: 11

23. Which of the following countries are members of the North American trading bloc?
- A) United States, Mexico, and Brazil
  - B) United States, Canada, and Greenland
  - C) United States, Canada, and Mexico
  - D) United States, Mexico, and Central America

Answer: C Page: 11

24. The persistence of \_\_\_\_\_ in exchange rates has led the international community to call for reforms of the current international monetary system.
- A) excessive volatility and disequilibria
  - B) long run stability
  - C) arbitrage opportunities
  - D) equilibria

Answer: A Page: 11

25. The field of international economics:
- A) is a relatively new branch of economic study
  - B) includes contributions from distinguished economists like Adam Smith, David Ricardo and Alfred Marshall
  - C) includes macroeconomics, but not microeconomics, issues.
  - D) includes microeconomics, but not macroeconomics, issues.

Answer: B Page: 10

26. With respect to international trade in the real world:
- A) most nations impose some restrictions limiting the free flow of goods.
  - B) most nations have eliminated all barriers to free trade.
  - C) most nations have a completely closed economy.
  - D) None of the above

Answer: A Page: 11



27. \_\_\_\_\_ in the United States attracts funds from other nations.
- A) An increase in net exports
  - B) A decrease in interest rates
  - C) An increase in the inflation rate
  - D) An increase in interest rates

Answer: D Page: 7

28. Though each nation's economic collapse in the 1990's was different, most were precipitated by a massive and sudden \_\_\_\_\_.
- A) inflow of short-term capital
  - B) withdrawal of short-term capital
  - C) inflow of illegal immigrants
  - D) volatility of short-term interest rates

Answer: B Page: 11

29. In the last decade, Western Europe averaged a \_\_\_\_\_ percent unemployment rate.
- A) 15
  - B) 20
  - C) 5
  - D) 10

Answer: D Page: 12

30. In the last decade, the United States averaged a \_\_\_\_\_ percent unemployment rate
- A) 15
  - B) 20
  - C) Less than 5
  - D) 10

Answer: C Page: 12

31. During the last decade, almost \_\_\_\_\_ of Europe's unemployed were jobless longer than one year.

- A) one out of ten
- B) all
- C) none
- D) half

Answer: D Page: 12

32. During the last decade, almost \_\_\_\_\_ of United States' unemployed were jobless longer than one year.

- A) 11%
- B) 30%
- C) 45%
- D) 55%

Answer: A Page: 12

33. Structural unemployment in Europe is most likely due to:

- A) Trade protectionism
- B) rigidities and inflexibility in the labor markets
- C) excessive fluctuations in exchange rates
- D) the national minimum wage

Answer: B Page: 12

34. \_\_\_\_\_ has/have led to sluggish growth in Europe.

- A) Free trade
- B) Overregulation
- C) Job insecurity
- D) Excessive fluctuations in exchange rates

Answer: B Page: 12

35. Slow growth in what two regions has led to calls for trade protectionism and dampened the growth of the entire world economy?

- A) US and South America
- B) Japan and Europe
- C) US and Europe
- D) Japan and South America

Answer: B Page: 12

36. Rapid technological changes and increase competition from the manufactured exports of emerging market economies are causing \_\_\_\_\_ in the United States.
- A) downsizing and job insecurity
  - B) industrial growth and job security
  - C) increased wages in competing industries
  - D) exchange rate fluctuations

Answer: A Page: 13

37. The increasing integration of economies around the world, particularly through trade and financial flows, is:
- A) outsourcing
  - B) macroeconomics
  - C) globalization
  - D) autarky

Answer: C Page: 13

38. The loose organization that blames globalization for many human and environmental problems throughout the world is:
- A) the World Trade Organization
  - B) The World Bank
  - C) the protectionist movement
  - D) the anti-globalization movement

Answer: D Page: 13

39. Globalization \_\_\_\_\_:
- A) Is inevitable in a world with converging tastes for consumer goods.
  - B) increases efficiency
  - C) is often blamed for increasing inequalities in income distribution in the world.
  - D) All of the above

Answer: D Page: 13

## **True or False**

40. True or False? National and regional problems can quickly become global problems in an interdependent world.

Answer: True      Page: 12

41. True or False? Japan's economy in the 1990's can be characterized as one of rapid, steady growth and low unemployment.

Answer: False      Page: 12

42. True or False? Reform policies are being developed in struggling economies to prevent further economic collapses.

Answer: True      Page: 11

43. True or False? International economic relationships are similar enough to interregional economic relations that the same tools of economic analysis can be used for both.

Answer: False      Page: 9

44. True or False? Free trade restricts a nation's ability to specialize in specific commodities that may allow for more efficient use of resources.

Answer: False      Page: 10

45. True or False? Exchange rates can remain in disequilibria for long periods of time.

Answer: True      Page: 10

46. True or False? Roughly one-sixth of the world's population lives on less than \$1 a day

Answer: True      Page: 13

47. True or False? Globalization is the study of the aggregate economy.

Answer: False      Page: 10, 13

48. True or False? The anti-globalization movement believes globalization benefits corporations and multinationals at the expense of human and environmental well-being.

Answer: True      Page: 13

49. True or False? Globalization is inevitable because consumers around the world are demanding different types of commodities.

Answer: False      Page: 13

### **Essay**

50. Trade protectionism in industrial countries is one of the primary problems/issues faced by international economists and policymakers in today's economically interdependent world. Explain.

Page: 10-13