


Pool Canvas

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Name TestBanks Chapter 6 Multiple-Choice Questions

Description Question pool for TestBanks Chapter 6 Multiple-Choice Questions

Instructions

[Modify](#)

[◀ Add Question Here](#)

Question 1 **Multiple Choice** **0 points**

[Modify](#) [Remove](#)

Question

The nominal exchange rate can be defined as the:

- Answer**
- relative price of a basket of U.S. goods in terms of a foreign basket of goods.
 - number of units of foreign currency you can buy with one dollar.
 - number of foreign goods you can buy with one dollar.
 - purchasing power of a dollar.

[◀ Add Question Here](#)

Question 2 **Multiple Choice** **0 points**

[Modify](#) [Remove](#)

Question

Every day _____ of dollars worth of currencies are traded in exchange rate markets.

- Answer**
- trillions.
 - billions.
 - millions.
 - thousands.

[◀ Add Question Here](#)

Question 3 **Multiple Choice** **0 points**

[Modify](#) [Remove](#)

Question

Foreign currencies are traded for which purpose?

- Answer**
- trade in goods and services
 - trade in foreign assets
 - currency speculation
 - All of the answers are correct.

[◀ Add Question Here](#)

Question 4 **Multiple Choice** **0 points**

[Modify](#) [Remove](#)

Question

Currency exchange in the interbank market requires a minimum trade of _____ dollars worth of currency.

- Answer**
- \$1 million
 - \$100,000
 - \$1 billion
 - \$1

[◀ Add Question Here](#)

Question 5 **Multiple Choice** **0 points**

[Modify](#) [Remove](#)

Question

The interbank currency market is a(n) _____ market.

- Answer**
- physical
 - exchange
 - over-the-counter
 - electronic communications

[◀ Add Question Here](#)

Question 6 **Multiple Choice** **0 points**

[Modify](#) [Remove](#)

Question

In the interbank currency market, the majority of trades are done in:

- Answer**
- euros.
 - yen.
 - dollars.
 - pesos.

[◀ Add Question Here](#)

Question 7 **Multiple Choice** **0 points**

[Modify](#) [Remove](#)

Question

Often the easiest way to exchange Bulgarian levs to Danish kroner would be to:

- Answer**
- directly exchange the levs for kroner.
 - exchange the levs for dollars then buy kroner.
 - exchange the levs for euros then buy kroner.
 - the exchange cannot be made.

[◀ Add Question Here](#)

Question 8 **Multiple Choice** **0 points** [Modify](#) [Remove](#)

Question

Because of large _____, it is often best to use _____ when traveling abroad.

- Answer** ✓ bid–ask spreads; your ATM card
 amounts of currency required to make an exchange; traveler's cheques
 amounts of currency required to make an exchange; dollars
 fees; traveler's cheques

◀ [Add Question Here](#)

Question 9 **Multiple Choice** **0 points** [Modify](#) [Remove](#)

Question

When using your ATM card to buy foreign currency,

- Answer** your bank offers you the retail rate of exchange.
 you get an unfavorable rate of exchange.
 ✓ a bank adds a small fee to the purchase.
 you cannot use your ATM to buy foreign currency.

◀ [Add Question Here](#)

Question 10 **Multiple Choice** **0 points** [Modify](#) [Remove](#)

Question

In the text, when discussing the economy, the exchange rate is defined as the:

- Answer** amount of foreign currency required to buy one unit of local currency.
 amount of local currency required to buy one unit of foreign currency.
 ✓ amount of dollars currency required to buy one unit of local currency.
 purchasing power of one currency when converted to another currency.

◀ [Add Question Here](#)

Question 11 **Multiple Choice** **0 points** [Modify](#) [Remove](#)

Question**Table 6.1**

	U.S. \$	Yen	Euro	Can \$	U.K.£	AU \$	Swiss franc
1 U.S. \$	1.00	109.68	0.68	1.06	0.54	1.15	1.09
1 yen	0.01	1.00	0.01	0.01	0.00	0.01	0.01
1 euro	1.48	161.95	1.00	1.57	0.79	1.70	1.61
1 Can \$	0.94	103.30	0.64	1.00	0.50	1.08	1.03
1 U.K. £	1.87	204.57	1.26	1.98	1.00	2.14	2.04
1 AU \$	0.87	95.54	0.59	0.92	0.47	1.00	0.95
1 Swiss franc	0.92	100.41	0.62	0.97	0.49	1.05	1.00

Reference: Ref 6-1

(Table 6.1) The numbers represent:

- Answer** purchasing power parity.
 the real exchange rate.
 ✓ the nominal exchange rate.
 the forward exchange rate.

◀ [Add Question Here](#)

Question 12 **Multiple Choice** **0 points** [Modify](#) [Remove](#)

Question**Table 6.1**

	U.S. \$	Yen	Euro	Can \$	U.K.£	AU \$	Swiss franc
1 U.S. \$	1.00	109.68	0.68	1.06	0.54	1.15	1.09
1 yen	0.01	1.00	0.01	0.01	0.00	0.01	0.01
1 euro	1.48	161.95	1.00	1.57	0.79	1.70	1.61
1 Can \$	0.94	103.30	0.64	1.00	0.50	1.08	1.03
1 U.K. £	1.87	204.57	1.26	1.98	1.00	2.14	2.04
1 AU \$	0.87	95.54	0.59	0.92	0.47	1.00	0.95
1 Swiss franc	0.92	100.41	0.62	0.97	0.49	1.05	1.00

Reference: Ref 6-1

(Table 6.1) One U.S. dollar buys:

- Answer** £1.87.
 ✓ 109.68 yen.
 0.87 AU \$.
 1.48 euro.

◀ [Add Question Here](#)

Question 13 **Multiple Choice** **0 points** [Modify](#) [Remove](#)

Question**Table 6.1**

	U.S. \$	Yen	Euro	Can \$	U.K.£	AU \$	Swiss franc
1 U.S. \$	1.00	109.68	0.68	1.06	0.54	1.15	1.09
1 yen	0.01	1.00	0.01	0.01	0.00	0.01	0.01
1 euro	1.48	161.95	1.00	1.57	0.79	1.70	1.61

1 Can \$	0.94	103.30	0.64	1.00	0.50	1.08	1.03
1 U.K. £	1.87	204.57	1.26	1.98	1.00	2.14	2.04
1 AU \$	0.87	95.54	0.59	0.92	0.47	1.00	0.95
1 Swiss franc	0.92	100.41	0.62	0.97	0.49	1.05	1.00

Reference: Ref 6-1

(Table 6.1) One euro buys:

- Answer**
- U.S. \$0.68.
 - AU \$0.59.
 - CAN \$1.26.
 - None of the answers are correct.

[Add Question Here](#)

[Modify](#) [Remove](#)

Question 14 **Multiple Choice** **0 points**

Question
Table 6.1

	U.S. \$	Yen	Euro	Can \$	U.K.£	AU \$	Swiss franc
1 U.S. \$	1.00	109.68	0.68	1.06	0.54	1.15	1.09
1 yen	0.01	1.00	0.01	0.01	0.00	0.01	0.01
1 euro	1.48	161.95	1.00	1.57	0.79	1.70	1.61
1 Can \$	0.94	103.30	0.64	1.00	0.50	1.08	1.03
1 U.K. £	1.87	204.57	1.26	1.98	1.00	2.14	2.04
1 AU \$	0.87	95.54	0.59	0.92	0.47	1.00	0.95
1 Swiss franc	0.92	100.41	0.62	0.97	0.49	1.05	1.00

Reference: Ref 6-1

(Table 6.1) One U.K. £ buys:

- Answer**
- U.S. \$1.87.
 - 0.79 euro.
 - 130.30 yen.
 - U.K. £1.26.

[Add Question Here](#)

[Modify](#) [Remove](#)

Question 15 **Multiple Choice** **0 points**

Question

If it takes fewer dollars to buy one British pound, the dollar:

- Answer**
- is undervalued.
 - depreciates.
 - appreciates.
 - must strengthen.

[Add Question Here](#)

[Modify](#) [Remove](#)

Question 16 **Multiple Choice** **0 points**

Question

When it takes more dollars to buy a Croatian kuna, the dollar _____ and the kuna _____.

- Answer**
- appreciates; depreciates
 - depreciates; appreciates
 - is undervalued; weakens
 - must be stronger; must weaken

[Add Question Here](#)

[Modify](#) [Remove](#)

Question 17 **Multiple Choice** **0 points**

Question

When currency A appreciates compared to currency B,

- Answer** it requires less of currency A to buy one unit of currency B.
 it requires more of currency A to buy one unit of currency B.
 it requires less of currency B to buy one unit of currency A.
 central banks must intervene to buy more of currency B.

[Add Question Here](#)

[Modify](#) [Remove](#)

Question 18 **Multiple Choice** **0 points**

Question

When the Indian rupee depreciates to the Saudi dinar,

- Answer** it requires more rupees to buy one dinar.
 it requires more dinars to buy one rupee.
 it requires fewer rupees to buy one dinar.
 Indian goods become more expensive to people who hold dinars.

[Add Question Here](#)

[Modify](#) [Remove](#)

Question 19 **Multiple Choice** **0 points**

Question

When the Korean won appreciates to the Malaysian ringgit,

- Answer**
- it requires more won to buy one ringgit.
 - it requires fewer ringgit to buy one won.
 - it requires one ringgit to buy five won.
 - ✓ None of the answers are correct.

[Add Question Here](#)

Question 20 **Multiple Choice** **0 points**

[Modify](#) [Remove](#)

Question
Table 6.2

Date	January 2007	April 2007	July 2007	October 2007	January 2008	April 2008	July 2008
Pesos/\$	10.956	10.980	10.815	10.821	10.906	10.515	10.216

Reference: Ref 6-2

(Table 6.2) Consider the peso–dollar exchange rate. Between January 2007 and April 2007, the dollar

- Answer**
- depreciated.
 - ✓ appreciated.
 - weakened.
 - There is not enough information provided to answer this question.

[Add Question Here](#)

Question 21 **Multiple Choice** **0 points**

[Modify](#) [Remove](#)

Question
Table 6.2

Date	January 2007	April 2007	July 2007	October 2007	January 2008	April 2008	July 2008
Pesos/\$	10.956	10.980	10.815	10.821	10.906	10.515	10.216

Reference: Ref 6-2

(Table 6.2) Consider the peso–dollar exchange rate. Between July 2007 and October 2007, the dollar _____ and the peso _____.

- Answer**
- ✓ appreciated; depreciated
 - depreciated; appreciated
 - appreciated; appreciated
 - There is not enough information provided to answer the question.

[Add Question Here](#)

Question 22 **Multiple Choice** **0 points**

[Modify](#) [Remove](#)

Question
Table 6.2

Date	January 2007	April 2007	July 2007	October 2007	January 2008	April 2008	July 2008
Pesos/\$	10.956	10.980	10.815	10.821	10.906	10.515	10.216

Reference: Ref 6-2

(Table 6.2) Consider the peso–dollar exchange rate. Between April 2007 and July 2008, the dollar _____ and the peso _____.

- Answer**
- appreciated; appreciated
 - appreciated; depreciated
 - ✓ depreciated; appreciated
 - There is not enough information provided to answer the question.

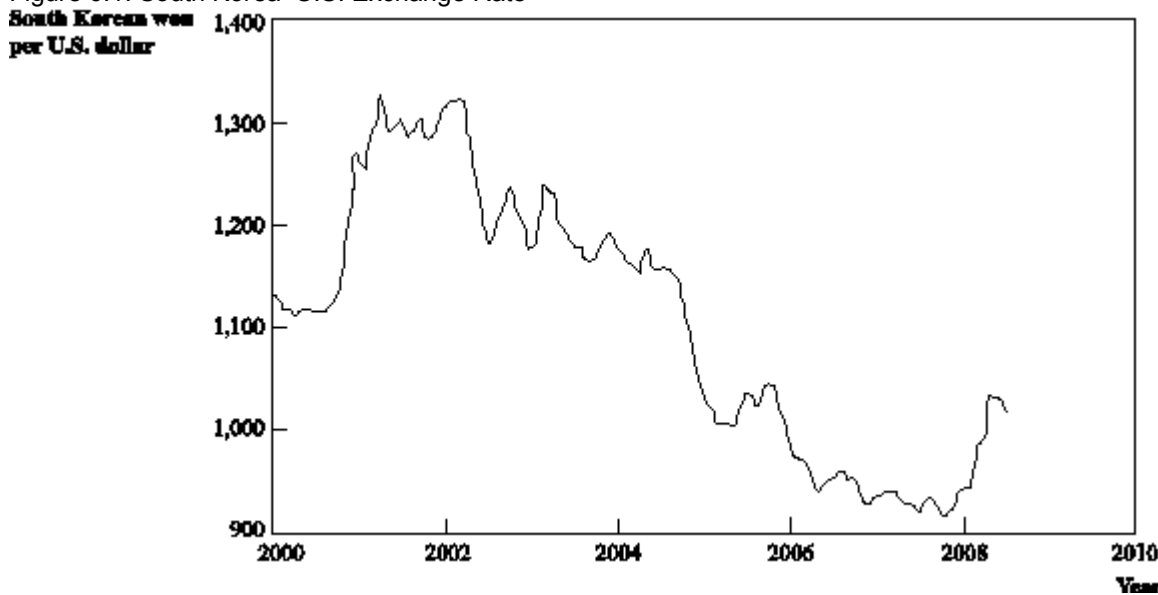
[Add Question Here](#)

Question 23 **Multiple Choice** **0 points**

[Modify](#) [Remove](#)

Question

Figure 6.1: South Korea–U.S. Exchange Rate



During the period 2002–2007, the Korean won _____ and the U.S. dollar _____.

- Answer**
- ✓ appreciated; depreciated
 - depreciate; appreciated
 - weakened; strengthened
 - There is not enough information provided to answer the question.

[Add Question Here](#)

Question 24 **Multiple Choice** **0 points** [Modify](#) [Remove](#)

Question

If the exchange rate between the U.S. dollar and the euro moves from 0.8 dollars per euro to 1.0 dollar per euro, then the U.S. dollar ____ and the euro has ____.

- Answer**
- has appreciated; depreciated
 - has depreciated; appreciated
 - is overvalued; strengthened
 - is undervalued; risen

[Add Question Here](#)

Question 25 **Multiple Choice** **0 points** [Modify](#) [Remove](#)

Question

If the exchange rate between the euro and the dollar is 1.25 dollars per euro, the same exchange rate can be quoted as:

- Answer**
- 1.25 euros per dollar.
 - 0.80 euro per dollar.
 - 0.95 euro per dollar.
 - 2.50 euros per dollar.

[Add Question Here](#)

Question 26 **Multiple Choice** **0 points** [Modify](#) [Remove](#)

Question

When the exchange rate between the euro and the dollar goes from 0.81 euro to 0.93 euro per dollar,

- Answer**
- the dollar has depreciated.
 - the dollar has appreciated.
 - it is now (at the 0.93 rate) more expensive to buy a euro if one holds a dollar.
 - the dollar has depreciated and it is now (at the 0.93 rate) more expensive to buy a euro if one holds a dollar

[Add Question Here](#)

Question 27 **Multiple Choice** **0 points** [Modify](#) [Remove](#)

Question

Which of the following statements about currency markets and exchange rates is true?

- Answer** Only large banks trade currencies in the interbank market.
- Exchange rates do not fluctuate over time.
 - The interbank market operates from 1 to 5 PM Eastern Time on weekdays.
 - The interbank market has a volume of around of \$1 million per day.

[Add Question Here](#)

Question 28 **Multiple Choice** **0 points** [Modify](#) [Remove](#)

Question

When the exchange rate between the euro and the dollar goes from 0.81 euro to 0.76 euro per dollar:

- Answer**
- the dollar has depreciated.
 - the dollar has appreciated.
 - it is now (at the 0.76 rate) more expensive to buy a euro if one holds a dollar.
 - the dollar has depreciated, and it is now (at the 0.76 rate) more expensive to buy a euro if one holds a dollar.

[Add Question Here](#)

Question 29 **Multiple Choice** **0 points** [Modify](#) [Remove](#)

Question

If the exchange rate between the yuan and the dollar is 0.15 yuan per dollar, the same exchange rate can be quoted as:

- Answer**
- 3.34 dollars per yuan.
 - 4.56 dollars per yuan.
 - 6.67 dollars per yuan.
 - 8.85 dollars per yuan.

[Add Question Here](#)

Question 30 **Multiple Choice** **0 points** [Modify](#) [Remove](#)

Question

When the dollar appreciates:

- Answer**
- imports become less expensive.
 - the trade deficit worsens.
 - U.S. exports fall.
 - All of the answers are correct.

[Add Question Here](#)

Question 31 **Multiple Choice** **0 points** [Modify](#) [Remove](#)

Question

When the dollar depreciates:

- Answer** imports become more expensive.
- the trade deficit worsens.
 - U.S. exports fall.
 - All of the answers are correct.

[Add Question Here](#)

Question 32 **Multiple Choice** **0 points** [Modify](#) [Remove](#)

Question

During the period 2002–2008, the euro appreciated about 44 percent to the dollar. This benefited _____ and hurt _____.

- Answer**
- U.S. exporters; European exporters
 - U.S. consumers; U.S. exporters
 - U.S. exporters; European consumers
 - the U.S. government; European exporters

[◀ Add Question Here](#)

Question 33 **Multiple Choice** **0 points**

[Modify](#) [Remove](#)

Question

During the period 2002–2008, the euro appreciated about 44 percent to the dollar. This benefited _____ and hurt _____.

- Answer**
- U.S. exporters; European consumers
 - European exporters; U.S. exporters
 - U.S. exporters; U.S. consumers
 - the U.S. government; European importers

[◀ Add Question Here](#)

Question 34 **Multiple Choice** **0 points**

[Modify](#) [Remove](#)

Question

When the dollar appreciates, it makes imports _____, which benefits _____.

- Answer**
- cheaper; U.S. consumers
 - more expensive; U.S. exporters
 - more expensive; U.S. consumers
 - fall; U.S. producers

[◀ Add Question Here](#)

Question 35 **Multiple Choice** **0 points**

[Modify](#) [Remove](#)

Question

As a lover of European wines, you are made better off when the:

- Answer**
- dollar depreciates.
 - dollar appreciates.
 - euro appreciates.
 - There is not enough information provided to answer the question.

[◀ Add Question Here](#)

Question 36 **Multiple Choice** **0 points**

[Modify](#) [Remove](#)

Question

Your favorite bike components are made in Italy by Campagnolo. You are made better off when the:

- Answer**
- dollar depreciates.
 - euro appreciates.
 - lira appreciates.
 - None of the answers are correct.

[◀ Add Question Here](#)

Question 37 **Multiple Choice** **0 points**

[Modify](#) [Remove](#)

Question

During the period 2002–2008, the euro appreciated about 44 percent to the dollar. This benefited _____ and hurt _____.

- Answer**
- European tourists visiting the U.S.; Americans holding European assets
 - European exporters; U.S. tourists visiting Spain
 - U.S. exporters; European consumers
 - European exporters; U.S. exporters

[◀ Add Question Here](#)

Question 38 **Multiple Choice** **0 points**

[Modify](#) [Remove](#)

Question

Suppose the price of a pair of Levis, a U.S.-made product, is \$40 in the United States. If the exchange rate is €0.75/\$1 and then changes to €0.65/\$1, the euro has _____ and the price of jeans in Italy _____.

- Answer**
- depreciated; falls
 - appreciated; falls
 - appreciated; rises
 - There is not enough information provided to answer the question.

[◀ Add Question Here](#)

Question 39 **Multiple Choice** **0 points**

[Modify](#) [Remove](#)

Question

Suppose the price of a pair of Levis, a U.S.-made product, is \$40 in the United States. If the exchange rate is €0.75/\$1 and then changes to €0.65/\$1, the euro has _____ and the price of jeans in Russia _____.

- Answer**
- appreciated; falls
 - depreciated; falls
 - appreciated; rises
 - There is not enough information provided to answer the question.

[◀ Add Question Here](#)

Question 40 **Multiple Choice** **0 points**

[Modify](#) [Remove](#)

Question

Suppose the price of a pair of Levi's, a U.S.-made product, is \$40 in the United States. If the exchange rate is €0.75/\$1 and then changes to €0.65/\$1, the original price of jeans in Italy was €_____ and is now €_____.

- Answer**
- 30; 26
 - 40; 30
 - 53.33; 61.54
 - 26; 30

[◀ Add Question Here](#)

Question 41 **Multiple Choice** **0 points**

[Modify](#) [Remove](#)

Question

Consider the two exchange rates, e_1 and e_2 in periods 1 and 2, where $e_1 = €0.678/\$1$ and $e_2 = €0.756/\$1$. Over this period, the:

- Answer**
- euro appreciated.
 - dollar depreciated.
 - dollar appreciated.
 - There is not enough information provided to answer this question.

[◀ Add Question Here](#)

Question 42 **Multiple Choice** **0 points**

[Modify](#) [Remove](#)

Question

Consider the two exchange rates, e_1 and e_2 in periods 1 and 2, where $e_1 = ¥123/\$1$ and $e_2 = ¥99/\$1$, and where ¥ is the symbol for the Japanese yen. Over this period, the:

- Answer**
- dollar depreciated.
 - dollar appreciated.
 - yen depreciated.
 - dollar depreciated to the euro.

[◀ Add Question Here](#)

Question 43 **Multiple Choice** **0 points**

[Modify](#) [Remove](#)

Question

Among other things, a "strong" dollar potentially leads to:

- Answer**
- high unemployment.
 - low inflation.
 - loss of competitiveness.
 - All of the answers are correct.

[◀ Add Question Here](#)

Question 44 **Multiple Choice** **0 points**

[Modify](#) [Remove](#)

Question

Among other things, a "strong" dollar potentially leads to:

- Answer**
- low unemployment.
 - high inflation.
 - gain in competitiveness.
 - None of the answers are correct.

[◀ Add Question Here](#)

Question 45 **Multiple Choice** **0 points**

[Modify](#) [Remove](#)

Question

Among other things, a "strong" dollar potentially leads to:

- Answer**
- high unemployment.
 - high inflation.
 - gain in competitiveness.
 - All of the answers are correct.

[◀ Add Question Here](#)

Question 46 **Multiple Choice** **0 points**

[Modify](#) [Remove](#)

Question

U.S. Treasury secretaries seem to believe in a _____ dollar.

- Answer**
- weak
 - strong
 - neutral
 - None of the answers are correct.

[◀ Add Question Here](#)

Question 47 **Multiple Choice** **0 points**

[Modify](#) [Remove](#)

Question

Two parties agree to trade currencies at a certain exchange rate on a future delivery date. This is called a currency:

- Answer**
- future.
 - stock.
 - option.
 - bond.

[◀ Add Question Here](#)

Question 48 **Multiple Choice** **0 points**

[Modify](#) [Remove](#)

Question

Firms use currency futures to hedge:

- Answer**
- unemployment.
 - inflation risk.
 - ✓ exchange rate risk.
 - All of the answers are correct.

◀ [Add Question Here](#)

[Modify](#) | [Remove](#)

Question 49 **Multiple Choice** **0 points**

Question

Generally, the longest currency future is:

- Answer**
- six weeks.
 - three months.
 - one year.
 - ✓ six months.

◀ [Add Question Here](#)

[Modify](#) | [Remove](#)

Question 50 **Multiple Choice** **0 points**

Question

If P and P^* are the U.S. and German price levels, respectively, and e is the nominal exchange rate in euros per dollar, the U.S.–German real exchange rate, ε , is given by:

- Answer**
- ✓ $\varepsilon = eP/P^*$
 - $\varepsilon = ePP^*$
 - $\varepsilon = eP^*/P$
 - $\varepsilon = \varepsilon + (P/P^*)$

◀ [Add Question Here](#)

[Modify](#) | [Remove](#)

Question 51 **Multiple Choice** **0 points**

Question

The real exchange rate measures the:

- Answer**
- number of foreign goods one unit of domestic currency can buy.
 - ✓ number of foreign goods that are required to purchase a single unit of the domestic good.
 - value of foreign currency denominated in domestic prices.
 - amount of foreign currency you can get for one unit of domestic currency.

◀ [Add Question Here](#)

[Modify](#) | [Remove](#)

Question 52 **Multiple Choice** **0 points**

Question

The U.S. real exchange rate, ε is given by:

- Answer** ✓ $\varepsilon = \text{cost of U.S. goods}/\text{cost of foreign goods}.$
- $\varepsilon = \text{cost of U.S. goods} \times \text{cost of foreign goods}.$
 - $\varepsilon = \text{U.S. price level}/\text{foreign price level}.$
 - $\varepsilon = \text{U.S. interest rate} - \text{foreign interest rate}.$

◀ [Add Question Here](#)

[Modify](#) | [Remove](#)

Question 53 **Multiple Choice** **0 points**

Question

If the pound–dollar exchange rate is £0.53/\$1; the CPI in the U.S. is 220; and CPI in the U.K. is 215, the U.S.–U.K. real exchange rate is:

- Answer**
- 435.53.
 - 0.52.
 - ✓ 0.54.
 - 1.93.

◀ [Add Question Here](#)

[Modify](#) | [Remove](#)

Question 54 **Multiple Choice** **0 points**

Question

If the U.S. interest rate is 6 percent, inflation in the U.S. is 5.5 percent, and the U.K. inflation is 4 percent, the U.S.–U.K. real exchange rate is:

- Answer**
- 7 percent.
 - 3.5 percent.
 - 2.875 percent.
 - ✓ There is not enough information provided to answer the question.

◀ [Add Question Here](#)

[Modify](#) | [Remove](#)

Question 55 **Multiple Choice** **0 points**

Question

Movements in the real exchange rate occur because of changes in the:

- Answer** ✓ domestic price level.
- foreign interest rate.
 - domestic interest rate.
 - None of the answers are correct.

◀ [Add Question Here](#)

[Modify](#) | [Remove](#)

Question 56 **Multiple Choice** **0 points**

Question

Movements in the real exchange rate occur because of changes in the:

- Answer**
- domestic price level.
 - foreign price level.
 - nominal exchange rate.
 - All of the answers are correct.

[◀ Add Question Here](#)

[Modify](#) [Remove](#)

Question 57 **Multiple Choice** **0 points**

Question

If the real exchange rate is greater than one, foreign goods:

- Answer** are relatively cheap and domestic goods are relatively expensive.
- are relatively expensive and domestic goods are relatively cheap.
 - and domestic goods are both relatively cheap.
 - and domestic goods are both relatively expensive.

[◀ Add Question Here](#)

[Modify](#) [Remove](#)

Question 58 **Multiple Choice** **0 points**

Question

The United States benefits from a stronger dollar because _____.

- Answer** imports become more expensive
- a strong dollar indicates a strong economy
 - it is easier for U.S. companies to export goods to other countries
 - None of the answers are correct.

[◀ Add Question Here](#)

[Modify](#) [Remove](#)

Question 59 **Multiple Choice** **0 points**

Question

Politicians tend to prefer a strong dollar to a weak dollar because _____.

- Answer**
- foreigners increase their travel to the United States
 - workers are made better off
 - consumers are made better off
 - All of the answers are correct.

[◀ Add Question Here](#)

[Modify](#) [Remove](#)

Question 60 **Multiple Choice** **0 points**

Question

U.S. companies tend to prefer a strong to a weak dollar if:

- Answer** they tend to import their raw materials.
- they tend to export their finished product.
 - they tend to provide services.
 - None of the answers are correct.

[◀ Add Question Here](#)

[Modify](#) [Remove](#)

Question 61 **Multiple Choice** **0 points**

Question

Stockholders tend to prefer a strong dollar to a weak dollar if:

- Answer**
- they tend to travel in the United States rather than in foreign countries.
 - they tend to own shares in companies that sell their goods in Europe.
 - they tend to purchase a diversified portfolio of shares.
 - they tend to own shares in companies that import raw materials.

[◀ Add Question Here](#)

[Modify](#) [Remove](#)

Question 62 **Multiple Choice** **0 points**

Question

U.S. Treasury Secretary Paul O'Neill was criticized for:

- Answer**
- interfering with the foreign exchange markets.
 - encouraging consumers to increase their savings.
 - not pursuing a strong dollar policy.
 - not encouraging companies to export.

[◀ Add Question Here](#)

[Modify](#) [Remove](#)

Question 63 **Multiple Choice** **0 points**

Question

Exporters can protect themselves against exchange rate risk by:

- Answer**
- trading options for futures contracts.
 - trading futures contracts for currencies.
 - hedging against changes in economic growth.
 - purchasing futures contracts that last more than one year.

[◀ Add Question Here](#)

[Modify](#) [Remove](#)

Question 64 **Multiple Choice** **0 points**

Question

The real exchange rate of the euro to the U.S. dollar weakens if:

- Answer** the European price level rises and the U.S. price level is constant.
 the U.S. price level falls and the European price level is constant.
 price levels are constant in both Europe and the United States, while the nominal exchange rate falls.
 All of the answers are correct.

[Add Question Here](#)

Question 65 **Multiple Choice** **0 points**

[Modify](#) [Remove](#)

Question

Exchange rates have large effects on U.S. steel producers because:

- Answer** they export steel and compete with imports from foreign steel producers.
 the United States does not intervene in the foreign currency markets.
 steel producers are not able to hedge their currency exposure.
 the trade-weighted real exchange rate has fallen over time.

[Add Question Here](#)

Question 66 **Multiple Choice** **0 points**

[Modify](#) [Remove](#)

Question

The U.S. steel industry faced problems beginning in 2004 because:

- Answer** U.S. steel producers began exporting to China.
 the United States removed voluntary restraint agreements.
 the dollar strengthened relative to Chinese currency.
 the dollar weakened relative to Chinese currency.

[Add Question Here](#)

Question 67 **Multiple Choice** **0 points**

[Modify](#) [Remove](#)

Question

When the dollar appreciates:

- Answer** U.S. exporters are hurt.
 U.S. importers are hurt.
 holders of foreign assets benefit.
 There is no effect on U.S. net exports.

[Add Question Here](#)

Question 68 **Multiple Choice** **0 points**

[Modify](#) [Remove](#)

Question

When the dollar depreciates, U.S. importers _____ and holders of foreign assets _____.

- Answer** benefit; benefit
 benefit; are hurt
 are hurt; benefit
 are hurt; are hurt

[Add Question Here](#)

Question 69 **Multiple Choice** **0 points**

[Modify](#) [Remove](#)

Question

Suppose the real exchange rate between U.S. goods and European goods is 1.5. According to this information:

- Answer** European goods are more expensive than American goods.
 American goods are 1.5 times more expensive than European goods.
 European goods are 1.5 times more expensive than European goods.
 European goods are 2.5 times more expensive than European goods

[Add Question Here](#)

Question 70 **Multiple Choice** **0 points**

[Modify](#) [Remove](#)

Question

Suppose the real exchange rate between U.S. goods and European goods is 0.8. According to this information:

- Answer** European goods are as expensive as American goods.
 American goods are 1.5 times more expensive than European goods.
 European goods are 1.25 times more expensive than American goods.
 American goods are 2.5 times more expensive than European goods.

[Add Question Here](#)

Question 71 **Multiple Choice** **0 points**

[Modify](#) [Remove](#)

Question

Suppose that the price level in China is 700 and that the nominal exchange rate is 7 yuan per dollar. If the price level in the United States is 120, the real exchange rate is:

- Answer** 0.95.
 1.50.
 0.80.
 1.20.

[Add Question Here](#)

Question 72 **Multiple Choice** **0 points**

[Modify](#) [Remove](#)

Question

Everything else being the same, an increase in the nominal exchange rate (units of foreign currency per dollar) _____ the real exchange rate, making U.S. goods _____ expensive abroad.

Answer

- increases; more
- increases; less
- decreases; more
- decreases; less

[Add Question Here](#)

Question 73 **Multiple Choice** **0 points**

[Modify](#) [Remove](#)

Question

The key assumption of purchasing power parity is that:

Answer

- a currency will buy more goods and services in domestic than in foreign markets.
- a currency can purchase the same quantities of goods and services in different countries.
- a dollar will *always* buy a dollar's worth of goods.
- all currencies will exchange one-for-one.

[Add Question Here](#)

Question 74 **Multiple Choice** **0 points**

[Modify](#) [Remove](#)

Question

_____ simply states that in the long run, individual goods must sell for the same price in all countries.

Answer

- Purchasing power parity
- The law of one price
- The real exchange rate
- Real interest rate parity

[Add Question Here](#)

Question 75 **Multiple Choice** **0 points**

[Modify](#) [Remove](#)

Question

If the price of Yoo-hoo is \$US2 in New York and \$US1 in St. Petersburg, Russia (after converting the rubles to dollars), you might expect:

Answer

- people to buy Yoo-hoo in St. Petersburg and sell it in New York until the price was the same in each country.
- people to buy Yoo-hoo in New York and sell it in St. Petersburg until the price was the same in each country.
- people to buy Yoo-hoo in St. Petersburg and sell it in New York and the price difference would remain.
- the price difference to exist forever.

[Add Question Here](#)

Question 76 **Multiple Choice** **0 points**

[Modify](#) [Remove](#)

Question

If the law of one price holds for all goods and services, defining P and P^* as the U.S. and eurozone price level, respectively, and e is the euro-dollar exchange rate, then _____ must hold, which is called _____.

Answer

- $eP = P^*$; purchasing power parity
- $eP^* = P$; the law of one price
- $eP = P^*$; inflation parity
- $e = P/P^*$; purchasing power parity

[Add Question Here](#)

Question 77 **Multiple Choice** **0 points**

[Modify](#) [Remove](#)

Question

Defining P and P^* as the U.S. and Swiss price level, respectively, and e as the franc-dollar exchange rate, we can write the purchasing power parity condition as:

Answer

- $ePP^* = 1$.
- $(eP)/P^* = 1$.
- $eP^* = P$.
- None of the answers are correct.

[Add Question Here](#)

Question 78 **Multiple Choice** **0 points**

[Modify](#) [Remove](#)

Question

Under purchasing power parity, the nominal exchange rate is equal to the:

Answer

- foreign price level times the domestic price level.
- ratio of the foreign price level to domestic price level.
- foreign price level plus the domestic price level.
- difference between the foreign and domestic interest rate.

[Add Question Here](#)

Question 79 **Multiple Choice** **0 points**

[Modify](#) [Remove](#)

Question

The long-run nominal exchange rate is determined by the _____, which assumes that _____ holds in the long run.

Answer

- foreign plus the domestic price level; law of one price
- ratio of the foreign to domestic price level; purchasing power parity
- ratio of the foreign to domestic GDP; the Solow growth model
- difference between the foreign and domestic interest rates; covered interest parity

[Add Question Here](#)

Question 80 **Multiple Choice** **0 points**

[Modify](#) [Remove](#)

Question

To analyze exchange rate movements over time, we consider _____ where e is the nominal exchange rate and P and P^* are the domestic and foreign price levels, respectively.

Answer ✓ % change in $e = (\% \text{ change in } P^*) - (\% \text{ change in } P)$
 $e = P^*/P$
 % change in $e = (\% \text{ change in } P^*) \div (\% \text{ change in } P)$
 $e = P^* + P$

[Add Question Here](#)

[Modify](#) [Remove](#)

Question 81 **Multiple Choice** **0 points**

Question

To analyze exchange rate movements over time, we consider _____, using the notation in the text.

Answer ✓ % change in $e = (\% \text{ change in } P^*) - (\% \text{ change in } P)$
 % change in $e = \pi - \pi^*$
 $e = P^*/P$
 % change in $e = (\% \text{ change in } P^*) + (\% \text{ change in } P)$

[Add Question Here](#)

[Modify](#) [Remove](#)

Question 82 **Multiple Choice** **0 points**

Question

If the Spanish rate of inflation is 3 percent and the U.S. rate of inflation is 6 percent, the euro-dollar exchange rate will:

Answer remain unchanged.
 rise by 3 percent.
 ✓ fall by 3 percent.
 There is not enough information provided to answer the question.

[Add Question Here](#)

[Modify](#) [Remove](#)

Question 83 **Multiple Choice** **0 points**

Question

Under the purchasing power parity theory:

- I. the nominal exchange rate equals the ratio of price levels.
- II. arbitrage eliminates cross-country price differences.
- III. the law of one price always holds.

Answer ✓ I and II
 I and III
 II and III
 I, II, and III

[Add Question Here](#)

[Modify](#) [Remove](#)

Question 84 **Multiple Choice** **0 points**

Question

Purchasing power parity tends to hold when:

Answer countries tend to specialize in services.
 ✓ goods are easily traded across borders.
 inflation rates are high relative to changes in the exchange rate.
 None of the answers are correct.

[Add Question Here](#)

[Modify](#) [Remove](#)

Question 85 **Multiple Choice** **0 points**

Question

If inflation in the United States is 3 percent and the rate of inflation in France is 5 percent, the euro-dollar exchange rate will:

Answer not change.
 fall by 2 percent
 ✓ rise by 2 percent
 There is not enough information to answer the question.

[Add Question Here](#)

[Modify](#) [Remove](#)

Question 86 **Multiple Choice** **0 points**

Question

A good way to predict the expected change in the nominal exchange rate is to:

Answer look at the rate of domestic inflation.
 look at the rate of foreign inflation.
 look at the change in the real exchange rate.
 ✓ look at the difference in foreign and U.S. inflation rates.

[Add Question Here](#)

[Modify](#) [Remove](#)

Question 87 **Multiple Choice** **0 points**

Question

According to the law of one price, if a bottle of wine costs 15 euros in Paris and the nominal exchange rate is 0.75 euro per dollar, the same bottle of wine should sell for _____ in the United States.

Answer \$11.25
 \$15.00
 ✓ \$20.00
 \$12.75

[Add Question Here](#)Question 88 **Multiple Choice** **0 points**[Modify](#) [Remove](#)**Question**

Suppose a T-shirt sells for \$10 in New York and for 70 yuan in Shanghai, China. According to the law of one price, the nominal exchange rate (units of yuan per dollar) should be:

- Answer**
- 7.00.
 - 5.00.
 - 0.14.
 - 0.20.

[Add Question Here](#)Question 89 **Multiple Choice** **0 points**[Modify](#) [Remove](#)**Question**

Reasons why the purchasing power parity result is not perfect include:

- Answer** shipping costs.
- trade restrictions that make imports less expensive.
 - the fact that all services are easily shipped across the world.
 - the fact that most goods and services are identical, even if sold in different countries.

[Add Question Here](#)Question 90 **Multiple Choice** **0 points**[Modify](#) [Remove](#)**Question**

Suppose the inflation rate is 4 percent in the United States and 6 percent in Canada. According to purchasing power parity, the U.S. dollar should _____ with respect to the Canadian dollar by _____.

- Answer**
- depreciate; 10 percent
 - depreciate; 2 percent
 - appreciate; 2 percent
 - appreciate; 10 percent

[Add Question Here](#)Question 91 **Multiple Choice** **0 points**[Modify](#) [Remove](#)**Question**

Suppose the inflation rate is 4 percent in the United States and 3 percent in Japan. According to purchasing power parity, the U.S. dollar should _____ with respect to the Japanese yen by _____.

- Answer**
- depreciate; 7 percent
 - depreciate; 1 percent
 - appreciate; 1 percent
 - appreciate; 7 percent

[Add Question Here](#)Question 92 **Multiple Choice** **0 points**[Modify](#) [Remove](#)**Question**

Which of the following statements about the purchasing power parity (PPP) is true?

- Answer**
- PPP does not provide a good explanation of long-run movements in exchange rates.
 - PPP explains short-run movements in exchange rates quite well.
 - According to the PPP, nominal exchange rates should reflect changes in the price levels of countries.
 - The PPP theory assumes that all countries have a fixed exchange rate.

[Add Question Here](#)Question 93 **Multiple Choice** **0 points**[Modify](#) [Remove](#)**Question**

In the short run, the dollar nominal exchange rate is determined by:

- Answer**
- purchasing power parity.
 - the supply and demand for dollars.
 - the law of one price.
 - the Balassa-Samuelson effect.

[Add Question Here](#)Question 94 **Multiple Choice** **0 points**[Modify](#) [Remove](#)**Question**

The change in the short-run market dollar exchange rate is determined by:

- Answer**
- the quantity exchange equation.
 - purchasing power parity.
 - the Marx-Engels effect.
 - None of the answers are correct.

[Add Question Here](#)Question 95 **Multiple Choice** **0 points**[Modify](#) [Remove](#)**Question**

The nominal exchange rate in the short run is determined by:

- Answer**
- imports + capital outflows = exports + capital inflows.
 - net exports = net capital outflows.
 - exports – imports = capital outflows – capital inflows.
 - All of the answers are correct.

[Add Question Here](#)

Question 96	Multiple Choice	0 points	Modify Remove
Question The nominal exchange rate in the short run is determined by:			
Answer ✓ imports + capital outflows = exports + capital inflows. net imports = net capital outflows. purchasing power parity. differences in government expenditures across countries.			
Add Question Here			
Question 97	Multiple Choice	0 points	Modify Remove
Question A trade surplus is another term for:			
Answer a trade deficit. positive net imports. ✓ positive net exports. the government budget deficit.			
Add Question Here			
Question 98	Multiple Choice	0 points	Modify Remove
Question Foreigners want to buy dollars to:			
Answer buy U.S. services only. buy U.S. goods only. sell U.S. securities only. ✓ None of the answers are correct.			
Add Question Here			
Question 99	Multiple Choice	0 points	Modify Remove
Question When there is an appreciation of the real exchange rate,			
Answer ✓ exports decline. imports decline. prices in the foreign country rise. there is a net capital outflow.			
Add Question Here			
Question 100	Multiple Choice	0 points	Modify Remove
Question When economists talk about the price of a dollar, they are referring to:			
Answer ✓ the nominal exchange rate of the dollar relative to a foreign currency. the amount of foreign goods a dollar can purchase. the rate of inflation in the United States relative to that of the foreign country. All of the answers are correct.			
Add Question Here			
Question 101	Multiple Choice	0 points	Modify Remove
Question The real exchange rate falls when: I. consumer confidence strengthens. II. real interest rates fall. III. monetary policy is loosened.			
Answer I only II only III only ✓ II and III only			
Add Question Here			
Question 102	Multiple Choice	0 points	Modify Remove
Question When U.S. exports exceed U.S. imports:			
Answer the United States runs a trade deficit. the United States runs a trade surplus. net capital outflows are positive. ✓ the United States runs a trade surplus and net capital outflows are positive.			
Add Question Here			
Question 103	Multiple Choice	0 points	Modify Remove
Question When U.S. imports exceed U.S. exports:			
Answer ✓ the United States runs a trade deficit. the United States runs a trade surplus. net capital outflows are positive. the United States runs a trade surplus and net capital outflows are positive.			
Add Question Here			
Question 104	Multiple Choice	0 points	Modify Remove

Question

Everything else being the same, an increase in the real exchange rate:

- Answer**
- reduces exports.
 - increases imports.
 - reduces net exports.
 - ✓ reduces exports, increases imports, and reduces net exports.

[Add Question Here](#)

[Modify](#) [Remove](#)

Question 105 **Multiple Choice** **0 points**

Question

Everything else being the same, a decrease in the real exchange rate:

- Answer**
- does not affect imports.
 - ✓ increases exports.
 - reduces net exports.
 - There is not enough information to answer this question.

[Add Question Here](#)

[Modify](#) [Remove](#)

Question 106 **Multiple Choice** **0 points**

Question

The equilibrium real exchange rate is determined at the intersection of the _____ curve and the _____ curve.

- Answer**
- net exports; net imports
 - net exports; money supply
 - ✓ net exports; net capital outflows
 - money supply; net imports

[Add Question Here](#)

[Modify](#) [Remove](#)

Question 107 **Multiple Choice** **0 points**

Question

The intersection of the net exports curve and the net capital outflows curve determines the:

- Answer**
- ✓ real exchange rate.
 - demand for money.
 - real interest rate.
 - supply of money.

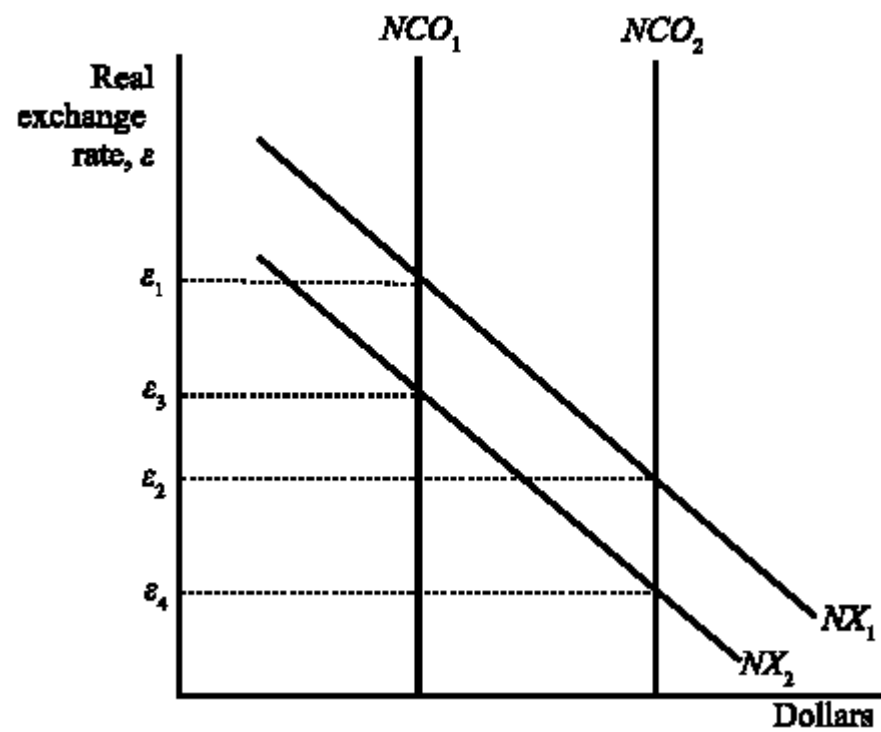
[Add Question Here](#)

[Modify](#) [Remove](#)

Question 108 **Multiple Choice** **0 points**

Question

Figure 6.2: The Real Exchange Rate



Reference: Ref 6-3

(Figure 6.2: The Real Exchange Rate) What would happen to the real exchange rate if the U.S. real interest rate rises?

- Answer**
- NCO shifts from NCO_1 to NCO_2 and $\epsilon_1 \rightarrow \epsilon_2$.
 - ✓ NCO shifts from NCO_2 to NCO_1 and $\epsilon_2 \rightarrow \epsilon_1$.
 - NX shifts from NX_2 to NX_1 and $\epsilon_2 \rightarrow \epsilon_3$.
 - There is not enough information provided to answer the question.

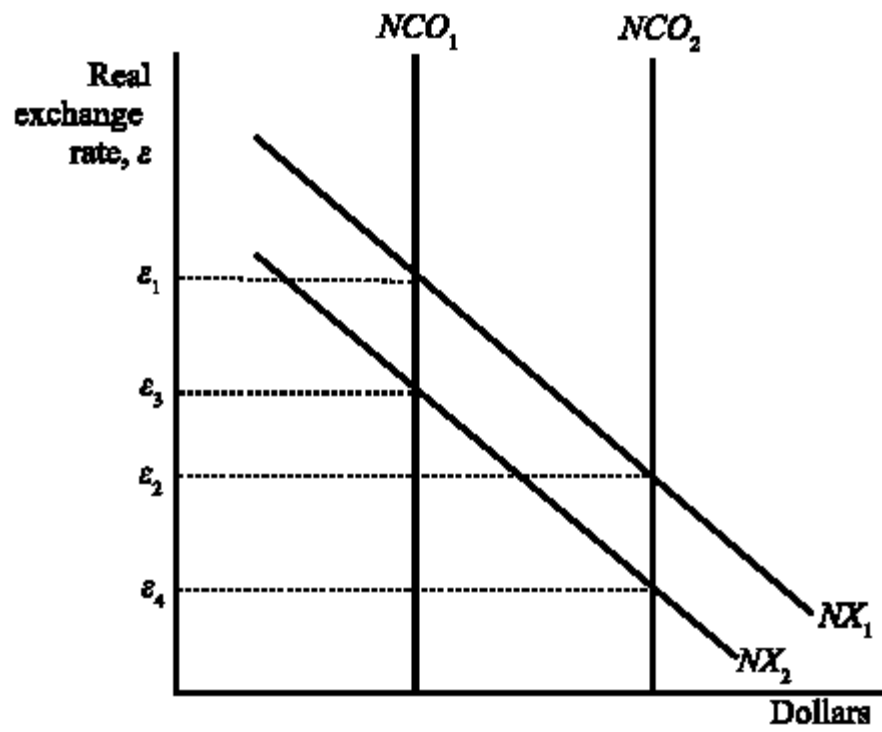
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Question 109 **Multiple Choice** **0 points**

Question

Figure 6.2: The Real Exchange Rate



Reference: Ref 6-3

(Figure 6.2: The Real Exchange Rate) You are listening to the BBC and hear that the Federal Reserve is lowering interest rates. Simultaneously, the European Central Bank is worried about inflation and is raising interest rates. What do you predict will happen to the real exchange rate?

- Answer**
- NCO will shift from NCO_1 to NCO_2 and $\epsilon_1 \rightarrow \epsilon_2$.
 - NCO will shift from NCO_2 to NCO_1 and $\epsilon_2 \rightarrow \epsilon_1$.
 - NX will shift from NX_2 to NX_1 and $\epsilon_3 \rightarrow \epsilon_3$.
 - There is not enough information provided to answer the question.

[Add Question Here](#)

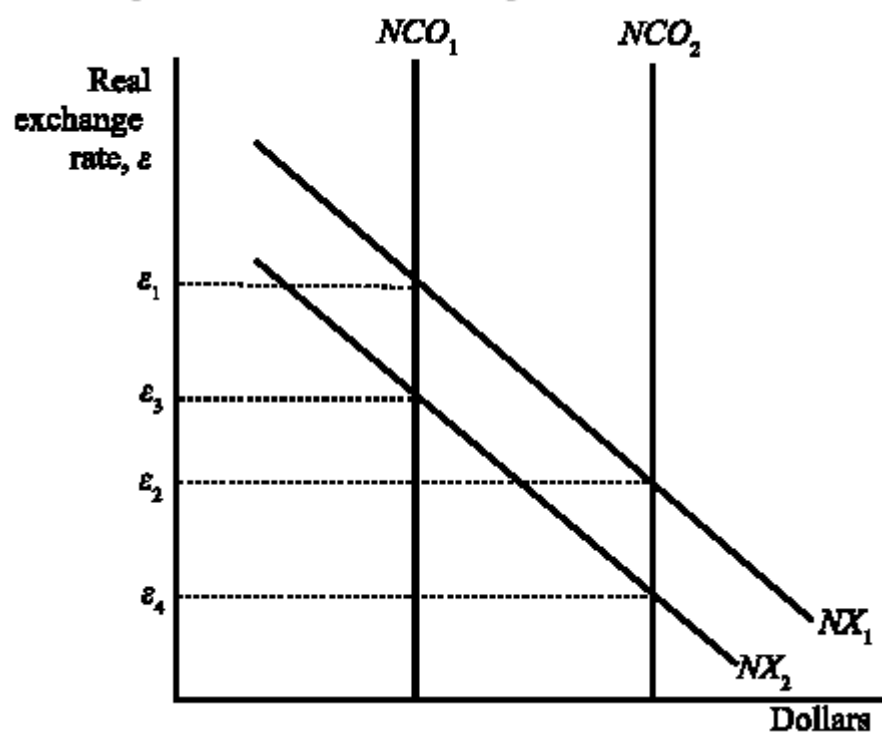
Question 110 Multiple Choice

0 points

[Modify](#) [Remove](#)

Question

Figure 6.2: The Real Exchange Rate



Reference: Ref 6-3

(Figure 6.2: The Real Exchange Rate) Over recent years, the Chinese have been buying up U.S. government bonds. As a result,

- Answer**
- NCO has shifted from NCO_2 to NCO_1 and $\epsilon_2 \rightarrow \epsilon_1$.
 - NX has shifted from NX_1 to NX_2 and $\epsilon_1 \rightarrow \epsilon_3$.
 - NX has shifted from NX_2 to NX_1 and $\epsilon_2 \rightarrow \epsilon_3$.
 - There is not enough information provided to answer the question.

[Add Question Here](#)

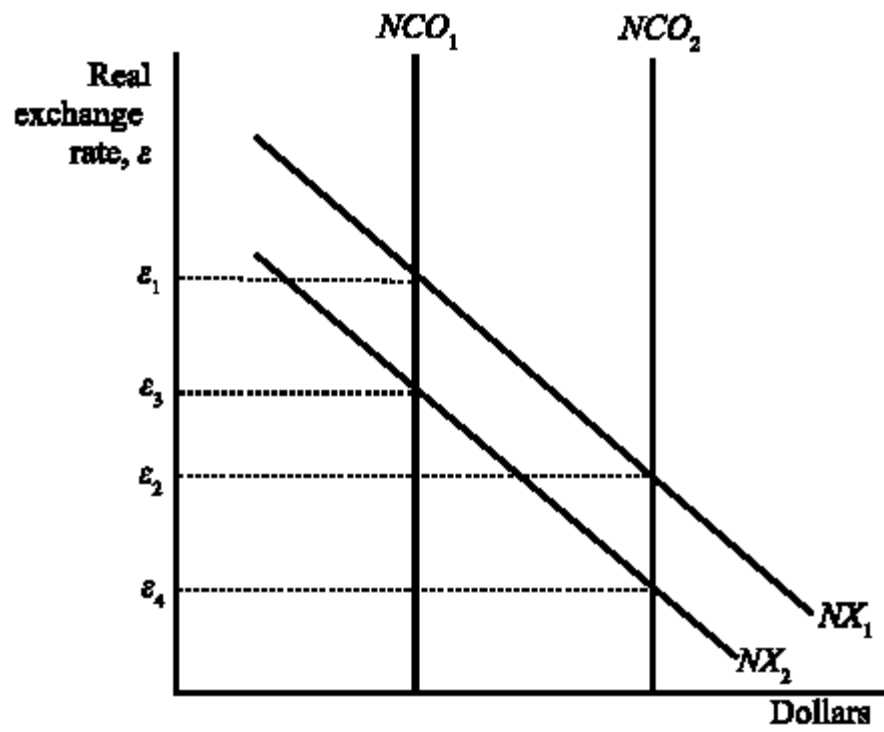
Question 111 Multiple Choice

0 points

[Modify](#) [Remove](#)

Question

Figure 6.2: The Real Exchange Rate



Reference: Ref 6-3

(Figure 6.2: The Real Exchange Rate) In the past five years or so, the U.S. trade deficit with China has grown rapidly, shifting _____ in Figure 6.2. As a result the U.S.–China real exchange _____ has moved.

Answer

NX from NX_1 to NX_2 ; $\varepsilon_1 \rightarrow \varepsilon_3$

NCO from NCO_1 to NCO_2 ; $\varepsilon_1 \rightarrow \varepsilon_2$

✓ NX from NX_1 to NX_2 ; $\varepsilon_1 \rightarrow \varepsilon_3$

There is not enough information provided to answer the question.

[Add Question Here](#)

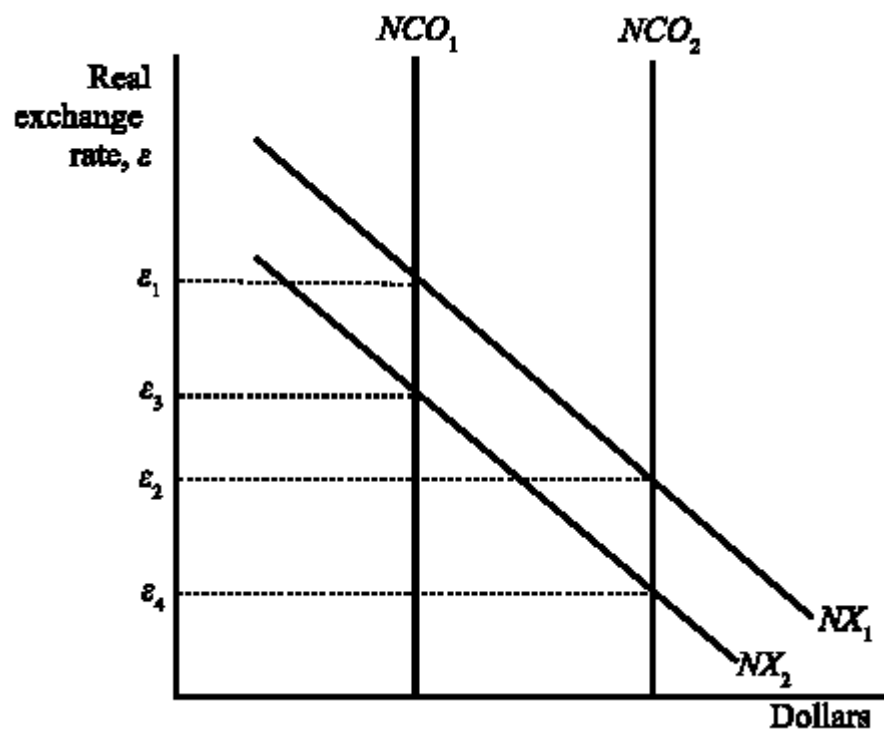
Question 112 Multiple Choice

0 points

[Modify](#) [Remove](#)

Question

Figure 6.2: The Real Exchange Rate



Reference: Ref 6-3

(Figure 6.2: The Real Exchange Rate) In the past five years or so, the U.S. trade deficit with China has grown rapidly, shifting _____ in Figure 6.2. At the same time, China has purchased billions of dollars of U.S. government bonds; as a result the _____. This has caused the real exchange rate to move from _____.

Answer

✓ NX from NX_1 to NX_2 ; NCO shifts from NCO_2 to NCO_1 ; $\varepsilon_2 \rightarrow \varepsilon_3$

NX from NX_2 to NX_1 ; NCO shifts from NCO_1 to NCO_2 ; $\varepsilon_1 \rightarrow \varepsilon_2$

NCO from NCO_2 to NCO_1 ; NX shifts from NX_1 to NX_2 ; $\varepsilon_1 \rightarrow \varepsilon_2$

NCO from NCO_1 to NCO_2 ; NX shifts from NX_2 to NX_1 ; $\varepsilon_2 \rightarrow \varepsilon_3$

[Add Question Here](#)

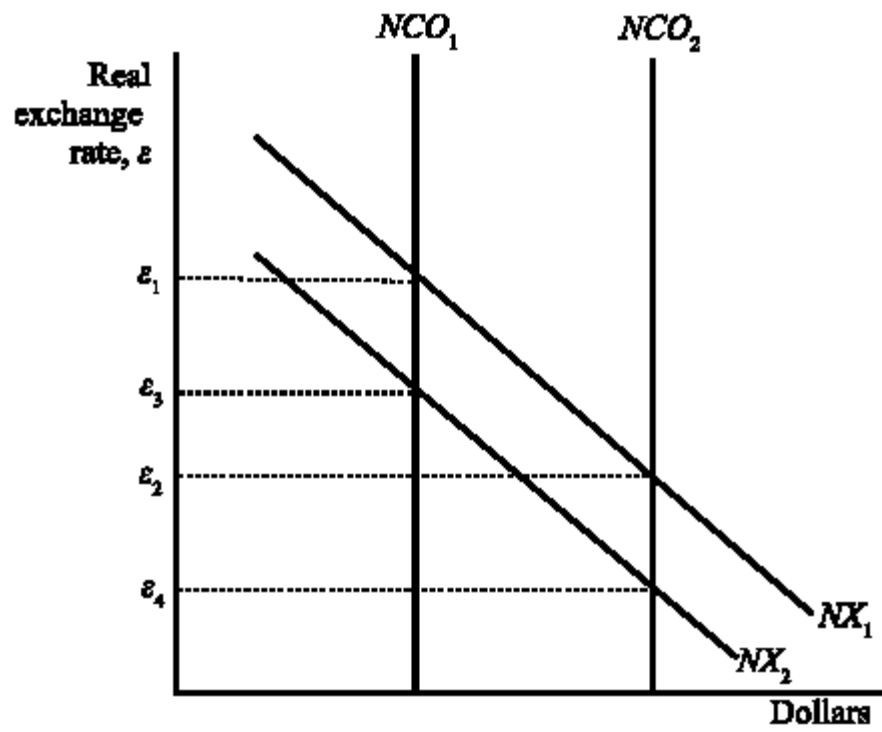
Question 113 Multiple Choice

0 points

[Modify](#) [Remove](#)

Question

Figure 6.2: The Real Exchange Rate



Reference: Ref 6-3

(Figure 6.2: The Real Exchange Rate) A recession in a foreign country would cause _____ and the real exchange rate to _____.

- Answer**
- $NX_1 \rightarrow NX_2; \epsilon_1 \rightarrow \epsilon_3$
 - $NX_1 \rightarrow NX_2; \epsilon_4 \rightarrow \epsilon_2$
 - $NCO_1 \rightarrow NCO_2; \epsilon_1 \rightarrow \epsilon_2$
 - None of the answers are correct.

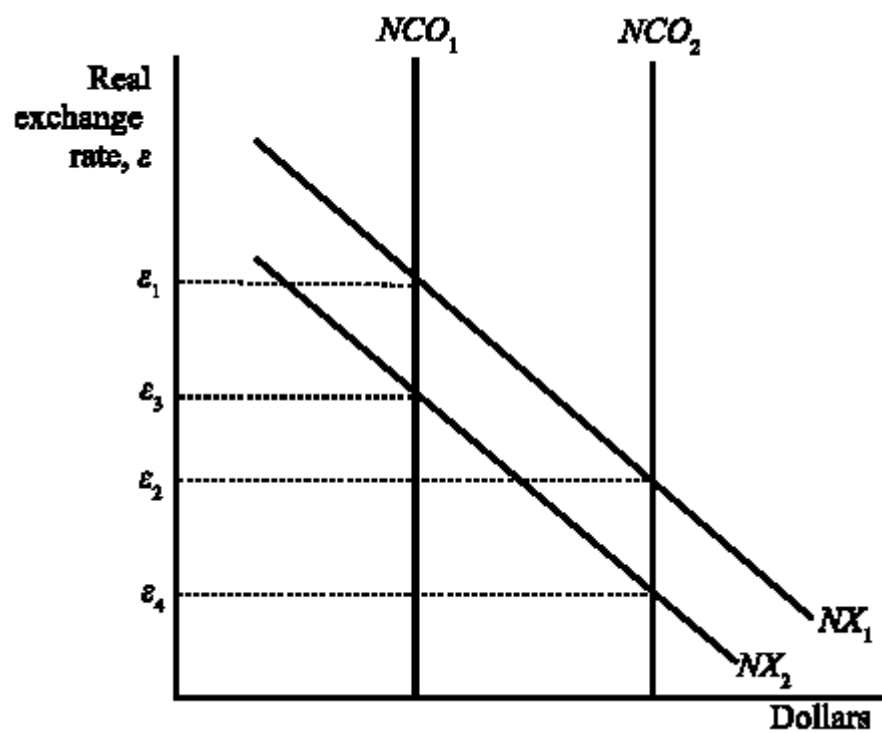
[Add Question Here](#)

Question 114 Multiple Choice 0 points

[Modify](#) [Remove](#)

Question

Figure 6.2: The Real Exchange Rate



Reference: Ref 6-3

(Figure 6.2: The Real Exchange Rate) With the U.S. economic slowdown of 2007 to the present, we expect _____ in Figure 6-2, and the real exchange rate to _____.

- Answer**
- $NCO_2 \rightarrow NCO_1; \epsilon_2 \rightarrow \epsilon_1$
 - $NX_1 \rightarrow NX_2; \epsilon_2 \rightarrow \epsilon_4$
 - $NX_2 \rightarrow NX_1; \epsilon_4 \rightarrow \epsilon_2$
 - There is not enough information provided to answer the question.

[Add Question Here](#)

Question 115 Multiple Choice 0 points

[Modify](#) [Remove](#)

Question

Your high-school civics teacher is worried about the rising trade deficit between the United States and Khazakstan. After reassuring her that the United States trades very little with Khazakstan, you also tell her it will cause:

- Answer**
- an appreciation of the real exchange rate.
 - a depreciation of the real exchange rate.
 - deflation in the United States.
 - the real interest rate to fall.

[Add Question Here](#)

Question 116 Multiple Choice 0 points

[Modify](#) [Remove](#)

Question

In January of 2006, the anti-Israel Islamic resistance movement in Palestine won a parliamentary election; as a result, there was a _____ in Israel, which caused a(n) _____ in the Israeli currency, the shekel.

- Answer**
- loss of confidence; depreciation
 - capital inflow; depreciation
 - capital inflow; appreciation
 - rise in Israeli imports; appreciation

[◀ Add Question Here](#)

Question 117 **Multiple Choice** **0 points**

[Modify](#) [Remove](#)

Question

When the U.S. invaded Iraq in 2003, _____ in the United States grew, causing a(n) _____ of the dollar.

- Answer**
- confidence; appreciation
 - risk; depreciation
 - confidence; depreciation
 - net imports; appreciation

[◀ Add Question Here](#)

Question 118 **Multiple Choice** **0 points**

[Modify](#) [Remove](#)

Question

One of the immediate consequences of the September 11, 2001, attacks was a(n) _____ of the dollar as _____ in the United States fell.

- Answer**
- depreciation; confidence
 - revaluation; exports
 - appreciation; interest rates
 - There is not enough information provided to answer the question.

[◀ Add Question Here](#)

Question 119 **Multiple Choice** **0 points**

[Modify](#) [Remove](#)

Question

In 1997, the currencies of several Southeast Asian countries sharply depreciated. This was caused by:

- Answer**
- a rapid inflow of foreign capital.
 - an increase in the demand for oil.
 - a fall in those countries' government share of GDP.
 - increased country risk in those countries.

[◀ Add Question Here](#)

Question 120 **Multiple Choice** **0 points**

[Modify](#) [Remove](#)

Question

The Mexican peso crisis of 1994 was caused by the assassination of a presidential candidate, a peasant revolution in the southern state of Chiapas, and an increase in risky bank loans. As a result, Mexican country _____ and with it a(n) _____ of the Mexican peso.

- Answer**
- risk grew; depreciation
 - confidence grew; appreciation
 - risk fell; appreciation
 - interest rates fell; depreciation

[◀ Add Question Here](#)

Question 121 **Multiple Choice** **0 points**

[Modify](#) [Remove](#)

Question

The reason(s) for the strengthening of the euro vis-à-vis the U.S. dollar between 2001–2008 are:

- Answer**
- relatively high interest rates in Europe.
 - falling confidence in the U.S. economy.
 - high U.S. government budget deficits.
 - All of the answers are correct.

[◀ Add Question Here](#)

Question 122 **Multiple Choice** **0 points**

[Modify](#) [Remove](#)

Question

With the increase in demand for coffee, in part because of the popularity of Starbucks, we would expect the real exchange rate of coffee-exporting countries to:

- Answer**
- fall.
 - rise.
 - stay the same.
 - There is not enough information provided to answer the question.

[◀ Add Question Here](#)

Question 123 **Multiple Choice** **0 points**

[Modify](#) [Remove](#)

Question

Which of the following equations yields the long-run equilibrium nominal exchange rate?

- Answer**
- $e = \varepsilon(P/P^*)$
 - $e = \varepsilon(P^*/P)$
 - $e = \varepsilon - (P^*/P)$
 - $e = (1/\varepsilon)(P^*/P)$

[◀ Add Question Here](#)

Question 124 **Multiple Choice** **0 points**

[Modify](#) [Remove](#)

Question

Because of PPP, the real exchange rate _____, and the long-run nominal exchange rate is determined by _____.

- Answer**
- fluctuates; changes in interest rates
 - ✓ is fixed; changes in the domestic and foreign price levels
 - is indeterminant; changes in unemployment across countries
 - is fixed; changes in interest rates

◀ [Add Question Here](#)

[Modify](#) | [Remove](#)

Question 125 **Multiple Choice** **0 points**

Question

The real exchange rate falls when:
 I. consumer confidence strengthens.
 II. real interest rates fall.
 III. monetary policy is loosened.

- Answer**
- I only
 - II only
 - III only
 - ✓ II and III only.

◀ [Add Question Here](#)

[Modify](#) | [Remove](#)

Question 126 **Multiple Choice** **0 points**

Question

When the Greek economy faced budget difficulties in mid-2010 and its economy weakened, capital outflows from the United States to Greece fell because:

- Answer**
- the European Central Bank raised interest rates.
 - Greece introduced capital controls.
 - ✓ American consumers lost confidence in the Greek economy.
 - All of the answers are correct.

◀ [Add Question Here](#)

[Modify](#) | [Remove](#)

Question 127 **Multiple Choice** **0 points**

Question

Everything else being the same, an increase in the U.S. real interest rate:

- Answer** ✓
- shifts the net capital outflow curve to the left.
 - results in a decrease in the real exchange rate.
 - encourages both Americans and foreigners to hold fewer U.S. assets.
 - does not affect the net capital outflow curve.

◀ [Add Question Here](#)

[Modify](#) | [Remove](#)

Question 128 **Multiple Choice** **0 points**

Question

Everything else being the same, a decrease in the U.S. real interest rate:

- Answer**
- has no effect on the real exchange rate.
 - ✓ encourages both Americans and foreigners to hold fewer U.S. assets.
 - decreases net capital outflows.
 - has no effect on net capital outflows.

◀ [Add Question Here](#)

[Modify](#) | [Remove](#)

Question 129 **Multiple Choice** **0 points**

Question

Which of the following events can affect net capital outflows?

- Answer**
- the size of the government budget deficit
 - monetary policy that affects the real interest rate
 - changes in confidence in the economy
 - ✓ All of these events can affect them.

◀ [Add Question Here](#)

[Modify](#) | [Remove](#)

Question 130 **Multiple Choice** **0 points**

Question

Everything else being the same, rumors about a decline in economic activity in the United States:

- Answer**
- increases net capital outflow.
 - shifts the net capital outflow curve to the right.
 - increases the real exchange rate.
 - ✓ increases net capital outflow and shifts the net capital outflow curve to the right.

◀ [Add Question Here](#)

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Question 131 **Multiple Choice** **0 points**

Question

Everything else being the same, a rise in confidence in the U.S. economy shifts the net capital outflows curve to the _____, thereby _____ the real exchange rate.

- Answer**
- right; increasing
 - right; decreasing
 - ✓ left; increasing
 - left; decreasing

◀ [Add Question Here](#)

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Question 132 **Multiple Choice** **0 points**

Question

Everything else being the same, an increase in the real expected exchange rate _____ net capital outflows, thereby _____ the real exchange rate today.

- Answer**
- increases; decreasing
 - increases; increasing
 - decreases; decreasing
 - ✓ decreases; increasing

◀ [Add Question Here](#)

Question 133 **Multiple Choice** **0 points**

[Modify](#) [Remove](#)

Question

Everything else being the same, an increase in the expected real exchange rate:

- Answer**
- has no effect on the current real exchange rate.
 - ✓ increases the current real exchange rate.
 - has no effect in net capital outflows.
 - encourages individuals to hold fewer domestic assets.

◀ [Add Question Here](#)

Question 134 **Multiple Choice** **0 points**

[Modify](#) [Remove](#)

Question

Everything else being the same, an increase in the demand for U.S. goods _____ net exports, thereby _____ the real exchange rate.

- Answer**
- increases; decreasing
 - decreases; increasing
 - ✓ increases; increasing
 - decreases; decreasing

◀ [Add Question Here](#)

Question 135 **Multiple Choice** **0 points**

[Modify](#) [Remove](#)

Question

Suppose Brazil exports a large share of its GDP to the United States. A recession in the United States will _____ Brazil's net exports, thereby _____ the Brazilian currency.

- Answer**
- increase; appreciating
 - increase; depreciating
 - decrease; appreciating
 - ✓ decrease; depreciating

◀ [Add Question Here](#)

Question 136 **Multiple Choice** **0 points**

[Modify](#) [Remove](#)

Question

Currency speculators include:

- Answer** ✓ investment banks.
- small savers.
 - community banks.
 - small firms.

◀ [Add Question Here](#)

Question 137 **Multiple Choice** **0 points**

[Modify](#) [Remove](#)

Question

If a currency speculator believes a currency will appreciate between today and tomorrow, she will:

- Answer** ✓ buy that currency today intending to sell it tomorrow.
- buy the currency tomorrow and hold it.
 - sell that currency today, intending to buy more tomorrow.
 - seek other currencies to hedge her bet.

◀ [Add Question Here](#)

Question 138 **Multiple Choice** **0 points**

[Modify](#) [Remove](#)

Question

Currency speculators buy and sell:

- Answer**
- currency options.
 - currency futures only.
 - ✓ currencies and currency futures.
 - foreign stocks.

◀ [Add Question Here](#)

Question 139 **Multiple Choice** **0 points**

[Modify](#) [Remove](#)

Question

The _____ implies that it is difficult to make profits in _____.

- Answer**
- exchange rate; selling coffee in international markets.
 - ✓ efficient markets hypothesis; currency speculation
 - law of one price; selling haircuts
 - real interest rate; buying and selling mortgages

◀ [Add Question Here](#)

Question 140 **Multiple Choice** **0 points**

[Modify](#) [Remove](#)

Question

Currency speculators forecast exchange rates using:

- Answer**
- economic models.
 - technical analysis.
 - order flow.
 - ✓ All of the answers are correct.

[◀ Add Question Here](#)

Question 141 **Multiple Choice** **0 points**

[Modify](#) [Remove](#)**Question**

Currency traders who believe that exchange rates stay within a band believe that:

- Answer**
- ✓ exchange rates have resistance and floor levels.
 - exchange rates follow a random walk.
 - traders can predict future exchange rates.
 - None of the answers are true.

[◀ Add Question Here](#)

Question 142 **Multiple Choice** **0 points**

[Modify](#) [Remove](#)**Question**

Which of the following statements about currency speculation is true?

- Answer**
- The efficient market hypothesis applies to stocks and bonds, but not to currencies.
 - ✓ Most currency speculation occurs over short periods.
 - Currency speculation accounts for around 10 percent of all currency trades.
 - Currency speculation has no effect on the value of currencies.

[◀ Add Question Here](#)

Question 143 **Multiple Choice** **0 points**

[Modify](#) [Remove](#)**Question**

Common approaches to conducting currency speculation include:

- Answer**
- economic analysis.
 - monitoring of order flows.
 - technical analysis.
 - ✓ All of these are common approaches.

[◀ Add Question Here](#)[OK](#)