

SS 05 Monetary and Fiscal Policy, International Trade, and Currency Exchange Rates

Question #1 of 196

Question ID: 413964

Given an exchange rate of USD/CAD 0.9250 and USD/CHF 1.6250, what is the cross rate for CAD/CHF?

- A) 1.7568.
 - B) 1.5032.
 - C) 0.5692.
-

Question #2 of 196

Question ID: 413842

Banks choose to hold a higher percentage of deposits as reserves because they believe general business conditions in the economy are subject to greater uncertainty. If all else is held constant, what is the *most likely* impact of this action?

- A) The money supply will decrease.
 - B) There will be no effect on the money supply.
 - C) The money supply will increase during a period of inflation, but will decrease if the economy goes into a recession.
-

Question #3 of 196

Question ID: 413868

A central bank has operational independence if it can independently determine:

- A) how inflation is calculated.
 - B) the policy rate.
 - C) the horizon over which to achieve its inflation target.
-

Question #4 of 196

Question ID: 413934

Regional trade agreements exist primarily to:

- A) lower currency volatility for their members.
 - B) improve economic welfare for their members.
 - C) protect their members from unfair trading practices by non-members.
-

Question #5 of 196

Question ID: 413936

Which of the following lists of trading blocs is *most* accurately ordered by degree of economic integration, from least to most integrated?

- A) Free trade area, common market, customs union.
 - B) Customs union, economic union, monetary union.
 - C) Free trade area, economic union, common market.
-

Question #6 of 196

Question ID: 413851

Which of the following statements about the demand and supply of money is *most* accurate? People who are:

- A) holding money when interest rates are lower will try to increase their money balances and, as a result, the supply of money increases.
 - B) holding money when interest rates are higher will try to reduce their money balances and, as a result, the demand for money decreases.
 - C) buying bonds to reduce their money balances will increase the demand for bonds with an associated increase in interest rates.
-

Question #7 of 196

Question ID: 413900

The government budget deficit of Country M is increasing. At the same time, the government budget surplus of Country N is decreasing. Are the fiscal policies of these countries expansionary or contractionary?

- A) Both are expansionary.
 - B) Both are contractionary.
 - C) One is expansionary and one is contractionary.
-

Question #8 of 196

Question ID: 413928

The primary benefits derived from tariffs usually accrue to:

- A) foreign producers of goods protected by tariffs.
 - B) domestic suppliers of goods protected by tariffs.
 - C) domestic producers of export goods.
-

Question #9 of 196

Question ID: 413952

An exchange rate at which two parties agree to trade a specific amount of one currency for another a year from today is called a:

- A) spot exchange rate.
 - B) forward exchange rate.
 - C) real exchange rate.
-

Question #10 of 196

Question ID: 434265

Country G and Country H have currencies that trade freely and have markets for forward currency contracts. If Country G has an interest rate greater than that of Country H, the no-arbitrage forward G/H exchange rate is:

- A) greater than the G/H spot rate.
 - B) less than the G/H spot rate.
 - C) equal to the G/H spot rate.
-

Question #11 of 196

Question ID: 413988

The tendency for currency depreciation to increase a country's trade deficit in the short run is known as the:

- A) absorption effect.
 - B) Marshall-Lerner effect.
 - C) J-curve effect.
-

Question #12 of 196

Question ID: 696228

The term "automatic stabilizers" refers to:

- A) changes in taxes and expenditure programs legislators automatically enact in response to changes the level of economic activity in order to smooth economic cycles.
 - B) government expenditures and tax receipts that are required to balance over the course of the business cycle, although they may be out of balance in any single year.
 - C) increases in transfer payments and decreases in tax revenues that result from an economic contraction without new legislation.
-

Question #13 of 196

Question ID: 413923

Which of the items below is NOT a valid reason why nations adopt trade restrictions? To:

- A) prohibit foreign firms from increasing market share by selling products below cost.
 - B) protect industries in which they have a comparative advantage.
 - C) protect industries that are highly sensitive to national security.
-

Question #14 of 196

Question ID: 434237

Promoting economic growth and price stability are the goals of:

- A) fiscal policy, but not monetary policy.
 - B) monetary policy, but not fiscal policy.
 - C) both fiscal and monetary policy.
-

Question #15 of 196

Question ID: 413965

Given the following quotes, GBP/USD 2.0000 and MXN/USD 8.0000, calculate the direct MXN/GBP spot cross exchange rate.

- A) 4.0000.
 - B) 0.6250.
 - C) 0.2500.
-

Question #16 of 196

Question ID: 413973

If the AUD/CAD spot exchange rate is 0.9875 and 60-day forward points are -25, the 60-day AUD/CAD forward rate is *closest to*:

- A) 0.9900.
 - B) 0.9850.
 - C) 0.9870.
-

Question #17 of 196

Question ID: 413896

Which of the following statements *best* explains the importance of the timing of changes in discretionary fiscal policy? Changes in

discretionary fiscal policy must be timed properly if they are going to:

- A) exert a stabilizing influence on an economy.
 - B) enable the government to control the money supply.
 - C) help the government achieve a balanced budget.
-

Question #18 of 196

Question ID: 434261

The difference between Country D's nominal and real exchange rates with Country F is *most* closely related to:

- A) the ratio of the two countries' price levels.
 - B) the risk-free interest rates of the two countries.
 - C) Country D's inflation rate.
-

Question #19 of 196

Question ID: 413931

In what way does a tariff differ from a quota? A tariff is:

- A) a tax imposed by a foreign government, whereas a quota is a limit on the total amount of trade allowed.
 - B) a tax imposed on imports, whereas a quota is a limit on the number of units of a good that can be imported.
 - C) not significantly different from a quota; tariffs are imposed by world organizations, whereas quotas are imposed by individual countries.
-

Question #20 of 196

Question ID: 413968

If the spot exchange rate between the British pound and the U.S. dollar is GBP/USD 0.7775, and the spot exchange rate between the Canadian dollar and the British pound is CAD/GBP 1.8325, what is the USD/CAD spot cross exchange rate?

- A) 0.42428.
 - B) 0.70186.
 - C) 1.42477.
-

Question #21 of 196

Question ID: 413921

In the Ricardian model of trade, the source of comparative advantage is:

- A) labor productivity.
 - B) the difference between labor productivity and capital productivity.
 - C) capital productivity.
-

Question #22 of 196

Question ID: 413878

An economy's long-term trend rate of real GDP growth is 3% and the central bank's target inflation rate is 2%. If the policy rate is 6%, monetary policy is:

- A) expansionary.
 - B) neutral.
 - C) contractionary.
-

Question #23 of 196

Question ID: 413914

The law of comparative advantage explains why a nation will benefit from trade when it:

- A) exports goods for which it is a high-cost producer, while importing those for which it is a low-cost producer.
 - B) exports goods for which it is a low-cost producer, while importing those for which it is a high-cost producer.
 - C) exports more than it imports.
-

Question #24 of 196

Question ID: 413855

The primary objective of a central bank is to:

- A) stabilize exchange rates.
 - B) control inflation.
 - C) achieve full employment.
-

Question #25 of 196

Question ID: 413891

The crowding-out model implies that a:

- A) budget surplus will retard aggregate demand and trigger an economic downturn.

- B) budget deficit will stimulate aggregate demand and trigger a multiplier effect which will lead to inflation.
 - C) budget deficit will increase the real interest rate and thereby retard private investment.
-

Question #26 of 196

Question ID: 434257

Government-owned assets abroad and foreign-owned assets in the country are included in which of the balance of payments accounts?

- A) Financial account.
 - B) Capital account.
 - C) Current account.
-

Question #27 of 196

Question ID: 434236

When the central bank reduces the quantity of money and credit in an economy, its monetary policy is *best* described as:

- A) accommodative.
 - B) expansionary.
 - C) contractionary.
-

Question #28 of 196

Question ID: 413974

The spot CHF/EUR exchange rate is 1.2025. If the 90-day forward quotation is +0.25%, the 90-day forward rate is *closest to*:

- A) 1.2000.
 - B) 1.2055.
 - C) 1.2050.
-

Question #29 of 196

Question ID: 413862

If a monetary policy is focused on combating inflation, which open market actions by the Federal Reserve will *most* effectively accomplish this?

- A) Sell Treasury securities, causing aggregate demand to decrease.
 - B) Purchase Treasury securities, causing aggregate demand to decrease.
 - C) Sell Treasury securities, causing aggregate demand to increase.
-

Question #30 of 196

Question ID: 413885

When an economy dips into a recession, automatic stabilizers will tend to alter government spending and taxation so as to:

- A) reduce the budget deficit (or increase the surplus).
 - B) reduce interest rates, thus stimulating aggregate demand.
 - C) enlarge the budget deficit (or reduce the surplus).
-

Question #31 of 196

Question ID: 413985

In which of the following exchange rate regimes can a country participate without giving up its own currency?

- A) Crawling peg or formal dollarization.
 - B) Monetary union or currency board.
 - C) Target zone or conventional fixed peg.
-

Question #32 of 196

Question ID: 413845

Which of the following statements about the relationship between interest rates and the demand for and supply of money is *most* accurate?
Interest rates affect:

- A) the demand for money only.
 - B) both the demand for and supply of money.
 - C) the supply of money only.
-

Question #33 of 196

Question ID: 413829

Policies that can be used as tools for redistribution of wealth and income include:

- A) both fiscal policy and monetary policy.
 - B) fiscal policy only.
 - C) monetary policy only.
-

Question #34 of 196

Question ID: 413848

Which of the following statements regarding money demand and supply is *least* accurate?

- A) The supply curve for money is vertical.
 - B) As the Fed reduces the money supply, short-term interest rates decrease.
 - C) The supply of money is determined by the monetary authority and is not affected by changes in interest rates.
-

Question #35 of 196

Question ID: 413972

The spot exchange rate is 1.1132 GBP/EUR and the 1-year forward rate is quoted as +1349 points. The 1-year forward exchange rate for GBP/EUR is *closest to*:

- A) 1.2634.
 - B) 1.1267.
 - C) 1.2481.
-

Question #36 of 196

Question ID: 413871

The open market sale of Treasury securities by the Federal Reserve is *least likely* to result in:

- A) increased exports of U.S. goods.
 - B) a decreased rate of inflation.
 - C) increased longer-term interest rates.
-

Question #37 of 196

Question ID: 434249

If a country can produce a good at a lower opportunity cost relative to another country, it is said to have a(n):

- A) absolute advantage.
- B) comparative advantage.

C) autarkian advantage.

Question #38 of 196

Question ID: 434247

Compared to not engaging in international trade, a country that engages in international trade is *most likely* to experience:

- A) higher prices for consumer goods.
 - B) increased specialization of domestic industries.
 - C) lower employment in exporting industries.
-

Question #39 of 196

Question ID: 434263

In the foreign exchange markets, transactions by households and small institutions for tourism, cross-border investment, or speculative trading comprise the:

- A) real money market.
 - B) retail market.
 - C) sovereign wealth market.
-

Question #40 of 196

Question ID: 413912

Suppose labor in Venezuela is less productive than labor in the United States in all areas of production. Which of the following statements about trading between Venezuela and the U.S. is *most* accurate?

- A) Venezuela will not have a comparative advantage in any good.
 - B) Both nations can benefit from trade.
 - C) Venezuela can benefit from trade but the U.S. cannot.
-

Question #41 of 196

Question ID: 413935

Which form of regional trading agreement is *least likely* to allow free movement of labor?

- A) Customs union.
 - B) Economic union.
 - C) Common market.
-

Question #42 of 196

Question ID: 413937

The form of regional trading agreement (RTA) *least likely* to have the unintended negative effect of reducing a member country's low-cost imports from a non-member country is a:

- A) common market.
 - B) free trade area.
 - C) customs union.
-

Question #43 of 196

Question ID: 413873

If the U.S. Federal Reserve decides to decrease the money supply, which of the following is *most likely* to occur in the short run?

- A) An increase in the velocity of money similar to decrease in the money supply.
 - B) An increase in the real rate of interest.
 - C) A decrease in the unemployment rate.
-

Question #44 of 196

Question ID: 413971

The spot exchange rate is 0.6243 USD/GBP and the 1-year forward rate is quoted as 3.016%. The 1-year forward exchange rate for USD/GBP is *closest to*:

- A) 0.6431.
 - B) 0.6544.
 - C) 0.6054.
-

Question #45 of 196

Question ID: 413940

Sales and purchases of non-produced, non-financial assets are included in which of a country's trade accounts?

- A) Current account.
 - B) Financial account.
 - C) Capital account.
-

Question #46 of 196

Question ID: 413901

Which of the following fiscal and monetary policy scenarios is *most likely* to increase the size of the public sector relative to the

private sector?

- A) Expansionary fiscal policy and contractionary monetary policy.
 - B) Contractionary fiscal and monetary policy.
 - C) Expansionary monetary policy and contractionary fiscal policy.
-

Question #47 of 196

Question ID: 413920

The source of comparative advantage in the Heckscher-Ohlin model of trade is differences among countries in:

- A) labor productivity.
 - B) relative scarcity of labor and capital.
 - C) technological advancement.
-

Question #48 of 196

Question ID: 413840

When additional or excess reserves are injected into the U.S. banking system, the money supply can potentially increase by an amount equal to the additional excess reserves multiplied by which of the following?

- A) Reciprocal of the required reserve ratio.
 - B) Required reserve ratio.
 - C) Reciprocal of one minus the required reserve ratio.
-

Question #49 of 196

Question ID: 434262

A currency exchange rate that is set today for an exchange to be made 90 days in the future is *best* described as a:

- A) forward exchange rate.
 - B) real exchange rate.
 - C) spot exchange rate.
-

Question #50 of 196

Question ID: 434259

Ensuring that international trade flows smoothly and freely, settling trade disputes, and establishing agreements between trading partners *most accurately* describe the activities of the:

- A) International Monetary Fund.

- B) World Bank.
 - C) World Trade Organization.
-

Question #51 of 196

Question ID: 434254

Merchandise and services, income receipts, and unilateral transfers are included in which of the balance of payments accounts?

- A) Financial account.
 - B) Current account.
 - C) Capital account.
-

Question #52 of 196

Question ID: 413889

An argument against being concerned with the size of a fiscal deficit is that a deficit can:

- A) lead to higher future taxes that will increase government revenues.
 - B) aid in increasing GDP and employment if the economy is operating at less than potential GDP.
 - C) cause government borrowing to crowd out private borrowing.
-

Question #53 of 196

Question ID: 498749

An individual has just purchased a home by taking on a 30-year fixed rate mortgage. She would benefit *most* from this transaction if future inflation rates are:

- A) higher than anticipated.
 - B) lower than anticipated.
 - C) exactly as anticipated.
-

Question #54 of 196

Question ID: 413869

What are the three essential qualities an effective central bank should possess?

- A) Transparency, comprehensiveness, and consistency.
- B) Independence, credibility, and transparency.
- C) Understandability, relevance, and reliability.

Question #55 of 196

Question ID: 472414

A government that imposes restrictions on capital flows into or out of the country is *most likely* attempting to:

- A) reduce the volatility of domestic asset prices.
 - B) encourage competition in domestic industries.
 - C) increase domestic interest rates.
-

Question #56 of 196

Question ID: 413864

Assume the U.S. economy is undergoing a recession. In its efforts to stimulate the economy by trying to influence short-term interest rates the Fed is *most likely* to take which two actions?

- A) Sell Treasury securities and decrease bank reserve requirements.
 - B) Sell Treasury securities and increase bank reserve requirements.
 - C) Buy Treasury securities and decrease bank reserve requirements.
-

Question #57 of 196

Question ID: 413951

In the currency market, traders quote the:

- A) real exchange rate.
 - B) nominal exchange rate.
 - C) base currency rate.
-

Question #58 of 196

Question ID: 413880

Which of the following statements regarding the monetary policy transmission mechanism is *most* accurate?

- A) Central banks can control short-term interest rates directly, but long-term interest rates are beyond their control.
 - B) Central banks can control short-term interest rates by increasing the money supply to increase interest rates or by decreasing the money supply to decrease interest rates.
 - C) Central banks can control long-term interest rates directly because decisions by consumers and businesses are based on these rates.
-

Question #59 of 196

Question ID: 434264

If the current spot exchange rate for quotes of JPY/GBP is greater than the no-arbitrage 3-month forward exchange rate, the 3-month GBP interest rate is:

- A) less than the 3-month JPY interest rate.
 - B) greater than the 3-month JPY interest rate.
 - C) equal to the 3-month JPY interest rate.
-

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Question ID: 413927

David Forsythe and Linda Novak are discussing the advantages and disadvantages of import restrictions. They state the following:

Forsythe: One of the groups that benefits from import restrictions is often the government that imposes them.

Novak: Import restrictions impose costs on specific groups, such as the country's import industries, but these costs are more than offset by the benefits to other groups and to the economy as a whole.

With respect to these statements:

- A) both are incorrect.
 - B) both are correct.
 - C) only one is correct.
-

Question #61 of 196

Question ID: 413925

Suppose the world price of Mercury tennis shoes is \$60, but they sell in the U.S. for \$75 due to a \$15 import tariff. Who will *most likely* be negatively affected by the tariff?

- A) Foreign consumers.
 - B) U.S. consumers.
 - C) Producers.
-

Question #62 of 196

Question ID: 413989

The Marshall-Lerner condition suggests that a country's ability to narrow a trade deficit by devaluing its currency depends on:

- A) national saving relative to domestic investment.

- B) elasticity of demand for imports and exports.
 - C) capacity utilization in the domestic economy.
-

Question #63 of 196

Question ID: 434253

Capital transfers and sales of non-financial assets are included in which of the balance of payments accounts?

- A) Capital account.
 - B) Current account.
 - C) Financial account.
-

Question #64 of 196

Question ID: 413860

Frequent changes in advertised prices are one of the costs of:

- A) both expected and unexpected inflation.
 - B) unexpected inflation only.
 - C) expected inflation only.
-

Question #65 of 196

Question ID: 413844

If households are holding larger real money balances than they desire, which of the following is *least likely*?

- A) The interest rate is higher than its equilibrium rate in the market for real money balances.
 - B) The central bank must sell securities to absorb the excess money supply and establish equilibrium.
 - C) The opportunity cost of holding money balances will decrease.
-

Question #66 of 196

Question ID: 413926

Who benefits *least* from tariffs?

- A) Foreign consumers.
- B) Domestic producers.
- C) Domestic consumers.

Question #67 of 196

Question ID: 413917

Which type of advantage determines the pattern of trade in the world?

- A) Absolute advantage.
- B) Advantages due to tariffs and quotas.
- C) Comparative advantage.

Question #68 of 196

Question ID: 702536

The table below outlines the possible tradeoffs of producing units of cloth and corn, using one hour of labor input, for Country A and Country B.

Country A		Country B	
Units of Cloth	Units of Corn	Units of Cloth	Units of Corn
14	4	16	8

Country A has a comparative advantage in producing:

- A) cloth.
- B) corn.
- C) neither cloth nor corn.

Question #69 of 196

Question ID: 413879

The *most likely* reason for deflation to persist despite expansionary monetary policy is:

- A) bond market vigilantes.
 - B) a liquidity trap.
 - C) inelastic demand for money.
-

Question #70 of 196

Question ID: 413982

Currency depreciation is *most likely* to affect the balance of trade when a country's imports are goods that:

- A) represent a small proportion of consumer spending.
 - B) have relatively inelastic demand.
 - C) have close substitutes.
-

Question #71 of 196

Question ID: 413839

On January 5, the U.S. Federal Reserve (the Fed) bought \$10,000,000 of U.S. Treasury securities in the open market. At the time, the reserve requirement was 25%, and all banks had zero excess reserves. What is the potential impact of the Fed's purchase on the U.S. money supply?

- A) \$25,000,000 decrease.
 - B) \$40,000,000 increase.
 - C) \$10,000,000 increase.
-

Question #72 of 196

Question ID: 413954

Participants in foreign exchange markets that can be characterized as "real money accounts" *most likely* include:

- A) central banks.
 - B) insurance companies.
 - C) hedge funds.
-

Question #73 of 196

Question ID: 413919

In the Heckscher-Ohlin model, whether a country has a comparative advantage relative to another country is determined by:

- A) amounts of labor and capital the countries possess.
 - B) labor productivity differences.
 - C) capital productivity differences.
-

Question #74 of 196

Question ID: 494898

The table below outlines the possible output per unit of labor input of producing beer and cheese for Germany and Holland.

Germany		Holland	
Cheese	Beer	Cheese	Beer
5	10	4	6

Which of the following statements is *most* accurate?

- A) Germany would not gain from trade, because it has an absolute advantage in the production of both goods.
- B) Both countries would gain if Germany traded beer for Holland's cheese.
- C) Both countries would gain if Germany traded cheese for Holland's beer.

Question #75 of 196

Question ID: 413969

The Japanese yen is trading at JPY/USD 115.2200 and the Danish krone (DKK) is trading at JPY/DKK 16.4989. The USD/DKK exchange rate is:

- A) 6.9835.
- B) 0.5260.
- C) 0.1432.

Question #76 of 196

Question ID: 413832

Attempting to influence economic growth and inflation by changing tax rates and government spending is *best* described as:

- A) monetary policy.
- B) government policy.
- C) fiscal policy.

Question #77 of 196

Question ID: 413915

According to the law of comparative advantage:

- A) Mexico is considered to have a comparative advantage in plastics if Mexico can produce plastic using fewer resources than the U.S.
 - B) if a foreign government subsidizes the textile industry, the domestic government should impose a tariff.
 - C) a nation will benefit from trade when it imports goods for which it is the high cost producer and exports goods for which it is the low-cost producer.
-

Question #78 of 196

Question ID: 413883

Which of the following statements *best* explains how automatic stabilizers work? Even without a change in fiscal policy, automatic stabilizers tend to promote:

- A) a budget deficit during a recession but do not promote a budget surplus during an inflationary expansion.
 - B) a budget deficit during a recession and a budget surplus during an inflationary expansion.
 - C) a budget surplus during a recession and a budget deficit during an inflationary expansion.
-

Question #79 of 196

Question ID: 413980

The USD/EUR spot exchange rate is 1.3500 and 6-month forward points are -75. The 6-month forward exchange rate is:

- A) 1.3575, and the USD is at a forward discount.
 - B) 1.3425, and the USD is at a forward discount.
 - C) 1.3425, and the USD is at a forward premium.
-

Question #80 of 196

Question ID: 413930

Which of the following arguments in favor of trade restrictions is *least likely* to be supported by economists?

- A) Infant industries should be protected.
 - B) Trade with low-wage countries depresses wage rates in high-wage countries.
 - C) National defense industries should be protected.
-

Question #81 of 196

Question ID: 413963

The exchange rate of the Athelstan ryal (ATH) with the British pound is 9.00 ATH/GBP. The exchange rate of the Mordred ducat (MOR) with the U.S. dollar is 2.00 MOR/USD. If the USD/GBP exchange rate is 1.50, the ATH/MOR cross rate is *closest to*:

- A) 12.00 ATH/MOR.
 - B) 3.00 ATH/MOR.
 - C) 6.75 ATH/MOR.
-

Question #82 of 196

Question ID: 434244

Fiscal policy includes a government's:

- A) spending, tax, and monetary policies.
 - B) spending and tax policies only.
 - C) tax policies only.
-

Question #83 of 196

Question ID: 413846

The supply of money is primarily determined by:

- A) interest rates.
 - B) inflation.
 - C) the monetary authorities.
-

Question #84 of 196

Question ID: 413955

The sell side of the foreign exchange markets primarily consists of:

- A) multinational banks.
 - B) retail investors.
 - C) accounting firms.
-

Question #85 of 196

Question ID: 413902

Which one of the following Federal Reserve monetary policies, when pursued in line with the U.S. government's fiscal policies, would help increase aggregate demand during a period of high unemployment?

- A) A decrease in the discount rate.
 - B) An increase in the reserve requirements for financial institutions.
 - C) The sale of bonds by the Fed.
-

Question #86 of 196

Question ID: 413916

A country has a comparative advantage over another when:

- A) a nation has the ability to produce a good with a lower opportunity cost than another nation.
 - B) it can produce a product with the fewest resources.
 - C) a nation can produce more output with a given amount of input than another nation.
-

Question #87 of 196

Question ID: 413961

If the exchange rate value of the CAD goes from USD 0.60 to USD 0.80, then the CAD:

- A) appreciated and Canadians will find U.S. goods cheaper.
 - B) depreciated and Canadians will find U.S. goods more expensive.
 - C) depreciated and Canadians will find U.S. goods cheaper.
-

Question #88 of 196

Question ID: 413949

If we compare the prices of goods in two countries through time, we can use the price information in concert with the quoted foreign exchange rate to calculate the:

- A) real exchange rate.
 - B) interest rate spread.
 - C) nominal exchange rate.
-

Question #89 of 196

Question ID: 413882

Unemployment compensation is an example of:

- A) an automatic fiscal policy stabilizer.

- B) a discretionary fiscal policy stabilizer.
 - C) an automatic monetary policy stabilizer.
-

Question #90 of 196

Question ID: 413938

The North American Free Trade Agreement (NAFTA) is *most accurately* described as a:

- A) common market.
 - B) customs union.
 - C) free trade area.
-

Question #91 of 196

Question ID: 413908

This table below outlines the possible tradeoffs of producing milk and bread for Country A and Country B, in units of each product.

Country A		Country B	
Milk	Bread	Milk	Bread
0	5	0	8
10	0	12	0

Given these possible units of production:

- A) neither country would gain from trade.
 - B) both countries would gain if Country A traded milk for B's bread.
 - C) both countries would gain if Country A traded bread for B's milk.
-

Question #92 of 196

Question ID: 434246

The income from a country's citizens working abroad is included in:

- A) gross domestic product, but not gross national product.
 - B) gross national product, but not gross domestic product.
 - C) both gross domestic product and gross national product.
-

Question #93 of 196

Question ID: 472413

Which of the following is the *most likely* result of a central bank's shift to an expansionary monetary policy?

- A) Exports increase.
 - B) Interest rates increase.
 - C) Domestic currency appreciates.
-

Question #94 of 196

Question ID: 441026

The spot exchange rate for Canadian dollars (CAD) per Swiss franc (CHF) is 1.1350 CAD/CHF and the 12-month forward exchange rate is 1.1460 CAD/CHF. The forward quote is a:

- A) premium of 110 points and the CAD is at a forward discount to the CHF.
 - B) premium of 11 points and the CAD is at a forward premium to the CHF.
 - C) discount of 110 points and the CAD is at a forward discount to the CHF.
-

Question #95 of 196

Question ID: 413865

When the Federal Reserve sells government securities on the open market, bank reserves are:

- A) decreased, which reduces the amount of money banks are able to lend, causing a decrease in the federal funds rate.
 - B) increased, which increases the amount of money banks are able to lend, causing a decrease in the federal funds rate.
 - C) decreased, which reduces the amount of money banks are able to lend, causing an increase in the federal funds rate.
-

Question #96 of 196

Question ID: 434255

In the balance of payments accounts, goods and financial assets that migrants bring to a country are included in the:

- A) capital account.
 - B) current account.
 - C) financial account.
-

Question #97 of 196

Question ID: 413948

Other things equal, a real exchange rate (stated as units of domestic currency per unit of foreign currency) will decrease as a result of an increase in the:

- A) domestic price level.
 - B) nominal exchange rate (domestic/foreign).
 - C) foreign price level.
-

Question #98 of 196

Question ID: 413933

Prior to the beginning of summer, the government of Japan places a 150 percent tariff on imported chain saws. Assume for this example that this tariff has a significant impact on the supply of chain saws. The government's action:

- A) is more harmful than if the government had limited the amount of chain saws imported.
 - B) benefits the Japanese government and domestic producers.
 - C) will protect the jobs and high wages of Japanese chain saw industry workers.
-

Question #99 of 196

Question ID: 434248

Costs of international trade are *most likely* borne by:

- A) consumers who have fewer choices of goods.
 - B) industries competing with imported goods.
 - C) consumers who pay higher prices for consumer goods.
-

Question #100 of 196

Question ID: 413843

Which of the following relationships in regard to the quantity theory of money is *least* accurate?

- A) $\text{Nominal GDP} = \text{Money Supply} \times \text{Velocity} = \text{Price} \times \text{Real Output}$.
 - B) $\text{Money} \times \text{Velocity} = \text{Money Supply} \times \text{Velocity}$.
 - C) $\text{Nominal GDP} = \text{Price} \times \text{Money Supply}$.
-

Question #101 of 196

Question ID: 498751

Under the absorption approach, which of the following is *least likely* required to move the balance of payments towards surplus?

- A) Sufficient elasticities of export and import demand.
 - B) Increased savings relative to domestic investment.
 - C) Decreased domestic expenditure relative to income.
-

Question #102 of 196

Question ID: 413979

Spot and one-month forward exchange rates are as follows:

	<u>Spot</u>	<u>1-month forward</u>
EUR/DEF	2.5675	2.5925
EUR/GHI	4.3250	4.2800
EUR/JKL	7.0625	7.0075

Based on these exchange rates, the EUR is *closest* to a 1-month forward:

- A) premium of 1% to the DEF.
 - B) discount of 1% to the JKL.
 - C) premium of 1% to the GHI.
-

Question #103 of 196

Question ID: 413887

Robert Necco and Nelson Packard are economists at Economic Research Associates. ERA asks Necco and Packard for their opinions about the effects of fiscal policy on real GDP for an economy currently experiencing a recession. Necco states that real GDP is likely to increase if both government spending and taxes are increased by the same amount. Packard states that if both government spending and taxes are increased by the same amount, there is no expected net effect on real GDP.

Are the statements made by Necco and Packard CORRECT?

	<u>Necco</u>	<u>Packard</u>
A) Incorrect	Incorrect	
B) Correct	Incorrect	
C) Incorrect	Correct	

Question #104 of 196

Question ID: 413849

The demand for money curve represents the relationship between the quantity of money demanded and:

- A) the quantity of money supplied.
- B) short-term interest rates.

C) the price level.

Question #105 of 196

Question ID: 413877

To determine whether monetary policy is expansionary or contractionary, an analyst should compare the central bank's policy rate to the:

- A) neutral interest rate.
 - B) target inflation rate.
 - C) trend rate of real growth.
-

Question #106 of 196

Question ID: 445333

The *most* accurate description of the relative roles played by the International Monetary Fund, World Bank, and World Trade Organization is that the only one explicitly focused on:

- A) expanding international trade is the World Trade Organization.
 - B) reducing poverty is the World Bank.
 - C) providing funding to member nations is the International Monetary Fund.
-

Question #107 of 196

Question ID: 500858

Which of the following is *least likely* a common objective of governmental capital restrictions?

- A) Keep domestic interest rates high.
 - B) Maintain fixed exchange rates.
 - C) Reduce the volatility of domestic asset prices.
-

Question #108 of 196

Question ID: 413899

A government that is implementing a contractionary fiscal policy is *most likely* to:

- A) decrease income tax rates.
 - B) increase spending on public works.
 - C) decrease transfer payments to households.
-

Question #109 of 196

Question ID: 413833

A distinction between fiscal policy and monetary policy is that fiscal policy:

- A) is aimed at promoting economic growth, while monetary policy is aimed at promoting price stability.
 - B) is typically expansionary, while monetary policy is typically contractionary.
 - C) concerns taxes and government spending, while monetary policy concerns the money supply.
-

Question #110 of 196

Question ID: 413913

The law of comparative advantage holds that trading partners can be made better off if they:

- A) specialize in production of goods for which they are the low opportunity cost producer.
 - B) import those goods for which they have a comparative advantage.
 - C) specialize in production of goods for which they are the low exchange rate adjusted producer.
-

Question #111 of 196

Question ID: 413895

Which of the following statements about achieving proper timing in fiscal policy is *least* accurate?

- A) There is usually a time lag between when a change in policy is needed and when the need is recognized by policy makers.
 - B) Improvements in quantitative methods have made the occurrence of recessions or expansions quite predictable.
 - C) Policy errors are inevitable due to unpredictable events.
-

Question #112 of 196

Question ID: 434251

In 20X5, Carthage's merchandise imports exceeded the value of its merchandise exports. In this case, Carthage would *most likely* have which of the following?

- A) Capital account surplus.
 - B) Current account surplus.
 - C) Balance of trade surplus.
-

Question #113 of 196

Question ID: 413893

The time it takes for policy makers to enact a fiscal policy action is *best* described as:

- A) implementation lag.
 - B) action lag.
 - C) legislative lag.
-

Question #114 of 196

Question ID: 413858

Which of the following is *least likely* to be a function of the central bank?

- A) Issue currency.
 - B) Tax collection.
 - C) Control money supply.
-

Question #115 of 196

Question ID: 413957

Which of the following would least likely be a participant in the forward market?

- A) Arbitrageurs.
 - B) Traders.
 - C) Long-term investors.
-

Question #116 of 196

Question ID: 413960

The exchange rate for Japanese yen (JPY) per euro (EUR) changes from 98.00 to 103.00 JPY/EUR. How has the value of the EUR changed relative to the JPY in percentage terms?

- A) Appreciated by 4.9%.
 - B) Depreciated by 4.9%.
 - C) Appreciated by 5.1%.
-

Question #117 of 196

Question ID: 413872

Silvano Jimenez, an analyst at Banco del Rey, is reviewing recent actions taken by the U.S. Federal Reserve (the Fed) in setting monetary policy. Recently, the Fed decided to increase the money supply, which has resulted in a decrease in real interest rates. At a staff meeting, Jimenez brings this matter to the attention of his colleagues and makes the following statements:

Statement 1: Although the money supply increase has led to a decrease in real interest rates, we should begin to see U.S. investors decrease their investments abroad and the U.S. dollar will appreciate in the foreign exchange market.

Statement 2: The Fed's increase in the money supply will increase the amount of imports into the U.S.

Are Statement 1 and Statement 2 as made by Jimenez CORRECT?

<u>Statement 1</u>	<u>Statement 2</u>
--------------------	--------------------

- | | |
|--------------|-----------|
| A) Correct | Incorrect |
| B) Incorrect | Incorrect |
| C) Incorrect | Correct |

Question #118 of 196

Question ID: 434250

The most integrated type of trading bloc or regional trade agreement is a(n):

- A) common market.
- B) economic union.
- C) monetary union.

Question #119 of 196

Question ID: 434240

Central banks pursuing expansionary policies may:

- A) increase the policy rate and make open market purchases of securities.
- B) decrease the policy rate and make open market sales of securities.
- C) decrease the policy rate and make open market purchases of securities.

Question #120 of 196

Question ID: 492013

A government that wishes to reduce the volatility of domestic asset prices and protect domestic industries is *most likely* to:

- A) participate in regional trading agreements.
 - B) impose capital restrictions.
 - C) adopt voluntary export restraints.
-

Question #121 of 196

Question ID: 413861

Compared to the costs of inflation that is unexpected, costs of inflation that is incorrectly anticipated are *most likely* to be:

- A) less severe.
 - B) equally severe.
 - C) more severe.
-

Question #122 of 196

Question ID: 413890

Arguments for being concerned about the size of a fiscal deficit *least likely* include:

- A) the crowding-out effect.
 - B) Ricardian equivalence.
 - C) a reduction in long-term economic growth.
-

Question #123 of 196

Question ID: 413967

If the CAD is trading at USD/CAD 0.6403 and the GBP is trading CAD/GBP 2.5207, the USD/GBP exchange rate is:

- A) 3.9367.
 - B) 1.6140.
 - C) 0.6196.
-

Question #124 of 196

Question ID: 434241

If a central bank's targeted inflation rate is above the current rate, the central bank is *most likely* to:

- A) increase the reserve requirement.
 - B) buy government securities.
 - C) increase the overnight lending rate.
-

Question #125 of 196

Question ID: 413922

In the context of foreign trade, quotas are *best* described as:

- A) limits on the amounts of imports a country allows over some period.
- B) government payments to firms that export goods.

C) taxes on imported goods collected by the government.

Question #126 of 196

Question ID: 434245

Arguments against being concerned about the size of a fiscal deficit include:

- A) higher future taxes.
 - B) the crowding-out effect.
 - C) Ricardian equivalence.
-

Question #127 of 196

Question ID: 413850

If the money interest rate is measured on the y-axis and the quantity of money is measured on the x-axis, the money supply curve is:

- A) vertical.
 - B) upward sloping to the upper right.
 - C) downward sloping to the lower right.
-

Question #128 of 196

Question ID: 413897

The country of Zurkistan is experiencing both high interest rates and high inflation. The government passes laws that reduce government spending and increase taxes. It takes many months before interest rates fall and inflation is reduced. This is an example of:

- A) recognition lag in discretionary fiscal policy.
 - B) impact lag in discretionary fiscal policy.
 - C) action lag and automatic stabilizers.
-

Question #129 of 196

Question ID: 413881

Discretionary fiscal policy refers to:

- A) active decisions regarding spending and taxing to affect economic growth.
 - B) increasing aggregate demand through lower interest rates.
 - C) built-in devices that counteract the business cycle phase.
-

Question #130 of 196

Question ID: 413924

An anti-dumping restriction on trade:

- A) protects infant industries.
 - B) keeps some highly sensitive products in the country.
 - C) prohibits foreign firms from selling products below cost to gain market share.
-

Question #131 of 196

Question ID: 413907

Which of the following statements about the costs and benefits of international trade is *most* accurate?

- A) The costs of trade primarily affect those in domestic industries that compete with imports.
 - B) Increased international trade benefits all groups in the trading countries.
 - C) The costs of trade are greater than the benefits with regard to domestic employment.
-

Question #132 of 196

Question ID: 413903

For a country that produces 100 million more income from foreign capital invested within the country than from domestic investment abroad, and produces 100 million more goods and services by foreign labor within the country than by its citizens abroad, gross national product is:

- A) equal to gross domestic product.
 - B) less than gross domestic product.
 - C) greater than gross domestic product.
-

Question #133 of 196

Question ID: 413943

In a country that has a current account surplus, it is *most likely* that:

- A) private domestic savings are greater than the budget deficit.
 - B) domestic investment is greater than government savings.
 - C) domestic savings are greater than domestic investment.
-

Question #134 of 196

Question ID: 413856

If a bank needs to borrow funds from the Federal Reserve to fund a temporary shortage in reserves, it would borrow funds at the:

- A) prime rate.
 - B) federal funds rate.
 - C) discount rate.
-

Question #135 of 196

Question ID: 472412

Contractionary monetary policy is *least likely* to decrease consumption spending by decreasing:

- A) securities prices.
 - B) the foreign exchange value of the currency.
 - C) expectations for economic growth.
-

Question #136 of 196

Question ID: 434266

The spot rate for Japanese yen per UK pound is 138.78. If the UK interest rate is 1.75% and the Japanese interest rate is 1.25%, the 6-month no-arbitrage forward rate is *closest to*:

- A) 138.10 JPY/GBP.
 - B) 138.95 JPY/GBP.
 - C) 138.44 JPY/GBP.
-

Question #137 of 196

Question ID: 413874

If a central bank implements an exchange rate targeting policy successfully, the country's inflation rate is *most likely* to be:

- A) the same as that of the target currency.
- B) less than that of the target currency.

C) greater than that of the target currency.

Question #138 of 196

Question ID: 434243

Which of the following conditions is difficult for monetary policy to address because a central bank cannot reduce its nominal policy rate below zero?

- A) Deflation.
 - B) Stagflation.
 - C) Inflation.
-

Question #139 of 196

Question ID: 413838

The amount of money a commercial bank has available to lend is known as:

- A) fractional reserves.
 - B) required reserves.
 - C) excess reserves.
-

Question #140 of 196

Question ID: 413898

An example of a contractionary fiscal policy change is a(n):

- A) increase in a fiscal deficit.
 - B) increase in a fiscal surplus.
 - C) decrease in a fiscal surplus.
-

Question #141 of 196

Question ID: 413853

According to the Fisher effect, which of the following interest rates includes a premium for the expected rate of inflation?

- A) Yields on long-term corporate debt, but not yields on short-term government debt.
 - B) Both yields on short-term government debt and yields on long-term corporate debt.
 - C) Neither yields on short-term government debt nor yields on long-term corporate debt.
-

Question #142 of 196

Question ID: 485768

Two countries trade freely with each other and have agreed to specific tariffs on imports from other countries. The workers in either country may freely cross the common border to work in the other country. The two countries have agreed to common economic policies, but they use separate currencies. This type of cooperation is *best* described as a(n):

- A) monetary union.
 - B) economic union.
 - C) customs union.
-

Question #143 of 196

Question ID: 434267

The spot rate for Chinese yuan per Canadian dollar is 6.4440. If the Canadian interest rate is 2.50% and the Chinese interest rate is 3.00%, the 3-month no-arbitrage forward rate is *closest to*:

- A) 6.475 CNY/CAD.
 - B) 6.436 CNY/CAD.
 - C) 6.452 CNY/CAD.
-

Question #144 of 196

Question ID: 434258

Promoting international monetary cooperation, promoting exchange stability, and assisting members experiencing balance of payments difficulties are the goals of the:

- A) World Trade Organization.
 - B) International Monetary Fund.
 - C) World Bank.
-

Question #145 of 196

Question ID: 434256

A country that has imports valued more than its exports is said to have a:

- A) capital account deficit.
 - B) current account surplus.
 - C) current account deficit.
-

Question #146 of 196

Question ID: 485766

Xanadu attempts to decrease its inflation rate by implementing contractionary monetary policy. Which of the following is *most likely* to be the long-run effect on Xanadu's trade balance as a result of the monetary policy change?

- A) Remain the same.
 - B) Improve.
 - C) Worsen.
-

Question #147 of 196

Question ID: 413834

Money serves as a unit of account because:

- A) money is accepted as the form of payment for goods.
 - B) prices of goods and services are expressed in units of money.
 - C) money received for work or goods can be saved to purchase goods or services in the future.
-

Question #148 of 196

Question ID: 413918

The following chart indicates the production possibilities of food and drink per day in Country A and Country B.

	Units of Output Per Day	
	Country A	Country B
Food	9	5
Drink	7	5

Which of the following statements is *most* accurate?

- A) Since B workers can produce more of food and drink than A workers, no gains from trade are possible.
 - B) Mutual gains could be realized from trade if A specialized in drink production and B specialized in the food production.
 - C) Mutual gains could be realized from trade if A specialized in food production and B specialized in drink production.
-

Question #149 of 196

Question ID: 413958

The exchange rate for Chinese yuan (CNY) per euro (EUR) changed from CNY/EUR 8.1588 to CNY/EUR 8.3378 over a 3-month period. It is *most accurate* to state that the:

- A) EUR has appreciated 2.19% relative to the CNY.
 - B) CNY has depreciated 2.19% relative to the EUR.
 - C) EUR has appreciated 2.15% relative to the CNY
-

Question #150 of 196

Question ID: 434238

The three reasons for holding money are most accurately described as:

- A) narrow money demand, precautionary demand, and speculative demand.
 - B) transaction demand, precautionary demand, and speculative demand.
 - C) broad money demand, narrow money demand, and transaction demand.
-

Question #151 of 196

Question ID: 413888

Assuming the economy currently is experiencing high inflation, an example of appropriate discretionary fiscal policy is:

- A) reduce the money supply.
 - B) reduce government expenditures on major government construction projects.
 - C) increase the federal funds target rate.
-

Question #152 of 196

Question ID: 413847

Which of the following statements about the demand for and supply of money is *least* accurate?

- A) As inflation rises, the demand for money by households and businesses also rises.
 - B) As the interest rate rises, the supply of money also rises.
 - C) As gross domestic product rises, the demand for money balances also rises.
-

Question #153 of 196

Question ID: 413959

The exchange rate for Australian dollars per British pound (AUD/GBP) was 1.4800 five years ago and is 1.6300 today. The percent change in the Australian dollar relative to the British pound is *closest to*:

- A) appreciation of 10.1%.

- B) depreciation of 10.1%.
 - C) depreciation of 9.2%.
-

Question #154 of 196

Question ID: 413857

A country is experiencing a core inflation rate of 7% during a recessionary period of real GDP growth. If the central bank has a single mandate to achieve price stability and uses inflation targeting with an acceptable range of zero to 4%, its monetary policy response is *most likely* to decrease:

- A) GDP growth in the short run.
 - B) short-term interest rates.
 - C) the foreign exchange value of the country's currency.
-

Question #155 of 196

Question ID: 434242

Central banks that are able to define how inflation is computed and determine its desired level are *best* described as having:

- A) target independence.
 - B) operational independence.
 - C) transparency.
-

Question #156 of 196

Question ID: 413859

Central banks are *most likely* to pursue a target inflation rate:

- A) between 0 and 3%.
 - B) above 3%.
 - C) equal to 0%.
-

Question #157 of 196

Question ID: 413970

The spot exchange rate for CHF/EUR is 0.8342 and the 1-year forward quotation is -0.353%. The 1-year forward exchange rate for EUR/CHF is *closest to*:

- A) 1.2022.
 - B) 1.2029.
 - C) 0.8313.
-

Question #158 of 196

Question ID: 413905

In contrast to gross domestic product (GDP), gross national product (GNP) includes income earned by:

- A) foreign labor working domestically.
 - B) domestic capital invested abroad.
 - C) foreign capital invested domestically.
-

Question #159 of 196

Question ID: 434239

The Fisher effect describes a nominal interest rate as the:

- A) expected inflation rate less the real interest rate.
 - B) actual inflation rate less the real interest rate.
 - C) expected inflation rate plus the real interest rate.
-

Question #160 of 196

Question ID: 413975

If the no-arbitrage forward exchange rate for a euro in Japanese yen is less than the spot rate, then the interest rate in:

- A) the eurozone is less than in Japan.
 - B) Japan is less than in the eurozone.
 - C) Japan is the same as in the eurozone.
-

Question #161 of 196

Question ID: 413986

With respect to exchange rate regimes, crawling bands are *most likely* used in a transition toward:

- A) a fixed peg arrangement.
- B) a monetary union.
- C) floating exchange rates.

Question #162 of 196

Question ID: 413892

The time it takes for a fiscal policy action to affect the economy is *best* described as:

- A) fiscal lag.
- B) economic lag.
- C) impact lag.

Question #163 of 196

Question ID: 696229

For an analyst interested in measuring activity within an economy, the *most appropriate* measure to use is:

- A) gross national product.
- B) national income.
- C) gross domestic product.

Question #164 of 196

Question ID: 434252

The balance of payments accounts consist of:

- A) current account, capital account, and financial account.
- B) current account, capital account, and currency account.
- C) capital account, financial account, and non-financial account.

Question #165 of 196

Question ID: 413987

A country's central bank announces a monetary policy goal of a stable exchange rate with the euro, which it defines as deviations of no more than 3% from its current exchange rate of 2.5000. The country's exchange rate regime is *best* described as a:

- A) fixed peg.
- B) target zone.
- C) crawling band.

Question #166 of 196

Question ID: 413841

On January 3, Logan Industries deposited \$1,000,000 in cash at Federal Savings Bank. No excess reserves were present at the time Logan made the deposit and the required reserve ratio is 10%. What is the maximum amount by which Federal Savings Bank can increase its lending?

- A) \$10,000,000.
 - B) \$900,000.
 - C) \$100,000.
-

Question #167 of 196

Question ID: 413966

An analyst observes that the exchange rate for Mexican pesos is MXN/USD 8.0000, and the exchange rate for Polish zlotys is PLN/USD 6.0000. The MXN/PLN exchange rate is closest to:

- A) 0.7500.
 - B) 1.3333.
 - C) 14.0000.
-

Question #168 of 196

Question ID: 413984

The spot exchange rate for United States dollars per United Kingdom pound (USD/GBP) is 1.5775. If 30-day interest rates are 1.5% in the United States and 2.5% in the United Kingdom, and interest rate parity holds, the 30-day forward USD/GBP exchange rate should be:

- A) 1.5621.
 - B) 1.5788.
 - C) 1.5762.
-

Question #169 of 196

Question ID: 444935

Money functions as a store of value because:

- A) money is accepted as the form of payment for goods.
 - B) money received for work or goods can be saved to purchase goods or services in the future.
 - C) prices of goods and services are expressed in units of money.
-

Question #170 of 196

Question ID: 444963

Policies used with the goal of maintaining stable prices and producing economic growth include:

- A) both fiscal policy and monetary policy.
 - B) monetary policy only.
 - C) fiscal policy only.
-

Question #171 of 196

Question ID: 413906

Country P imports goods from Country Q. In the long run, the benefits of international trade *most likely* accrue to:

- A) Country P only.
 - B) Country Q only.
 - C) Both Country P and Country Q.
-

Question #172 of 196

Question ID: 413852

Which of the following is determined by the equilibrium between the demand for money and the supply of money?

- A) Money supply.
 - B) Inflation rate.
 - C) Interest rate.
-

Question #173 of 196

Question ID: 413911

The following chart indicates the production possibilities of food and drink per day in Country A and Country B.

	Units of Output Per Day	
	Country A	Country B
Food	4	8
Drink	6	7

Which of the following statements about the chart is *most* accurate?

- A) Mutual gains could be realized from trade if A specialized in food production and B specialized in drink production.
- B) Mutual gains could be realized from trade if A specialized in drink production and B specialized in the food production.
- C) Since B workers can produce more of food and drink than A workers, no gains from trade are possible.
-

Question #174 of 196

Question ID: 413942

Other things equal, a current account deficit will tend to narrow if:

- A) taxes decrease.
- B) domestic investment decreases.
- C) private savings decrease.
-

Question #175 of 196

Question ID: 413831

Monetary policy refers to actions that influence economic activity by increasing or decreasing:

- A) government purchases of goods and services.
- B) tax rates on income and consumption.
- C) the supply of money and credit.
-

Question #176 of 196

Question ID: 413886

Assuming the federal government maintains a balanced budget, the *most likely* effects of a tax increase on government expenditures and real GDP are:

<u>Government Expenditures</u>	<u>Real GDP</u>
--------------------------------	-----------------

- | | |
|-------------|----------|
| A) Increase | Decrease |
| B) Decrease | Decrease |
| C) Increase | Increase |
-

Question #177 of 196

Question ID: 413946

The international organization whose primary role is settling disputes among trading nations is the:

- A) World Bank.
 - B) World Trade Organization.
 - C) International Monetary Fund.
-

Question #178 of 196

Question ID: 413837

Which of the following is the *most* accurate definition of the velocity of money? The velocity of money is the:

- A) GDP of a country divided by its price level.
 - B) money supply of a country divided by its price level.
 - C) GDP of a country divided by its money supply.
-

Question #179 of 196

Question ID: 413863

Which of the following statements regarding U.S. Federal Reserve open market operations is *least* accurate?

- A) If the Fed wants to stimulate the economy, it will sell Treasury securities to banks.
 - B) When the Fed buys Treasury securities, short-term interest rates will generally decrease.
 - C) When the Fed sells Treasury securities, excess reserves decrease.
-

Question #180 of 196

Question ID: 413962

If the exchange rate value of the CAD goes from USD 0.60 to USD 0.80, then the CAD:

- A) depreciated and Canadians will find U.S. goods cheaper.
 - B) depreciated and Canadians will find U.S. goods more expensive.
 - C) appreciated and Canadians will find U.S. goods cheaper.
-

Question #181 of 196

Question ID: 413867

Which of the following policy tools is the *least likely* to be available to the U.S. Federal Reserve Board?

- A) Requiring the banking system to tighten or loosen its credit policies.
 - B) Setting the discount rate at which banks can borrow from the Federal Reserve.
 - C) Buying and selling Treasury securities in the open market.
-

Question #182 of 196

Question ID: 413866

If the Federal Reserve wishes to lower market interest rates without changing the discount rate, it can:

- A) raise the yield on Treasury securities.
 - B) buy Treasury securities.
 - C) increase bank reserve requirements.
-

Question #183 of 196

Question ID: 413854

The Fisher effect holds that a nominal rate of interest equals a real rate:

- A) plus actual inflation.
 - B) minus expected inflation.
 - C) plus expected inflation.
-

Question #184 of 196

Question ID: 498750

Which of the following is currently the most-used target for central banks?

- A) Money supply targeting.
 - B) Interest rate targeting.
 - C) Inflation targeting.
-

Question #185 of 196

Question ID: 413894

The time it takes for policy makers to determine that the economy requires a fiscal policy action is *best* described as:

- A) action lag.
- B) impact lag.
- C) recognition lag.

Question #186 of 196

Question ID: 413929

Which of the following groups in the country of Minidonia would *least likely* be helped by the imposition of tariffs on Minidonian imports of transportation equipment?

- A) Automotive manufacturers.
 - B) Minidonia's government.
 - C) Trucking companies.
-

Question #187 of 196

Question ID: 413876

An analyst has determined the projected trend rate of real GDP growth is 2.5% and the central bank's inflation target is 2.5%. If the central bank policy rate is 5.0%, monetary policy is *most likely*:

- A) contractionary.
 - B) expansionary.
 - C) neutral.
-

Question #188 of 196

Question ID: 485767

The government is reducing its spending to balance the budget, while the central bank is lowering its official policy rate. What will *most likely* be the combined effect on the economy?

- A) The public and private sectors as a percentage of GDP will neither decrease nor increase.
 - B) The public sector as a percentage of GDP will increase.
 - C) The private sector as a percentage of GDP will increase.
-

Question #189 of 196

Question ID: 413945

The primary goals of the International Monetary Fund (IMF) include:

- A) resolving trade-related disputes among nations.
 - B) promoting exchange rate stability.
 - C) reducing global poverty.
-

Question #190 of 196

Question ID: 413939

In the context of international trading blocs, the primary feature of an economic union that distinguishes it from a common market is the adoption of a common:

- A) set of economic policies.
 - B) currency.
 - C) set of trade restrictions with non-members.
-

Question #191 of 196

Question ID: 413944

Holding other factors constant, a country can reduce its trade deficit by increasing its:

- A) government budget deficit.
 - B) private saving.
 - C) domestic capital investment.
-

Question #192 of 196

Question ID: 434260

Assuming no changes in the prices of a representative consumption basket in two currency areas over the measurement period, changes in the nominal exchange rate:

- A) are equal to changes in the real exchange rate.
 - B) can be converted to the real exchange rate using interest rates.
 - C) can be extrapolated to calculate interest rates.
-

Question #193 of 196

Question ID: 413932

Who benefits the *most* from a quota?

- A) Foreign consumers.
 - B) Domestic producers.
 - C) Foreign producers.
-

Question #194 of 196

Question ID: 413870

If a country's economy is growing at an unsustainably rapid rate and the central bank decreases its target overnight interest rate, the country's:

- A) expected rate of inflation is likely to decline.
 - B) long-term rate of economic growth will increase.
 - C) inflation rate is likely to increase.
-

Question #195 of 196

Question ID: 413875

A central bank follows an inflation targeting monetary policy. If the permissible band is plus-or-minus 2% around the target inflation rate, the central bank is *most likely* to choose a target inflation rate of:

- A) 3%.
 - B) 0%.
 - C) 1%.
-

Question #196 of 196

Question ID: 413836

When comparing a barter economy with an economy that uses money as a medium of exchange we would expect increased efficiencies due to a reduction in which of the following?

- A) Transaction costs.
- B) The need to specialize.
- C) Nominal interest rates.