Test Bank for International Trade 4th Edition by Feenstra

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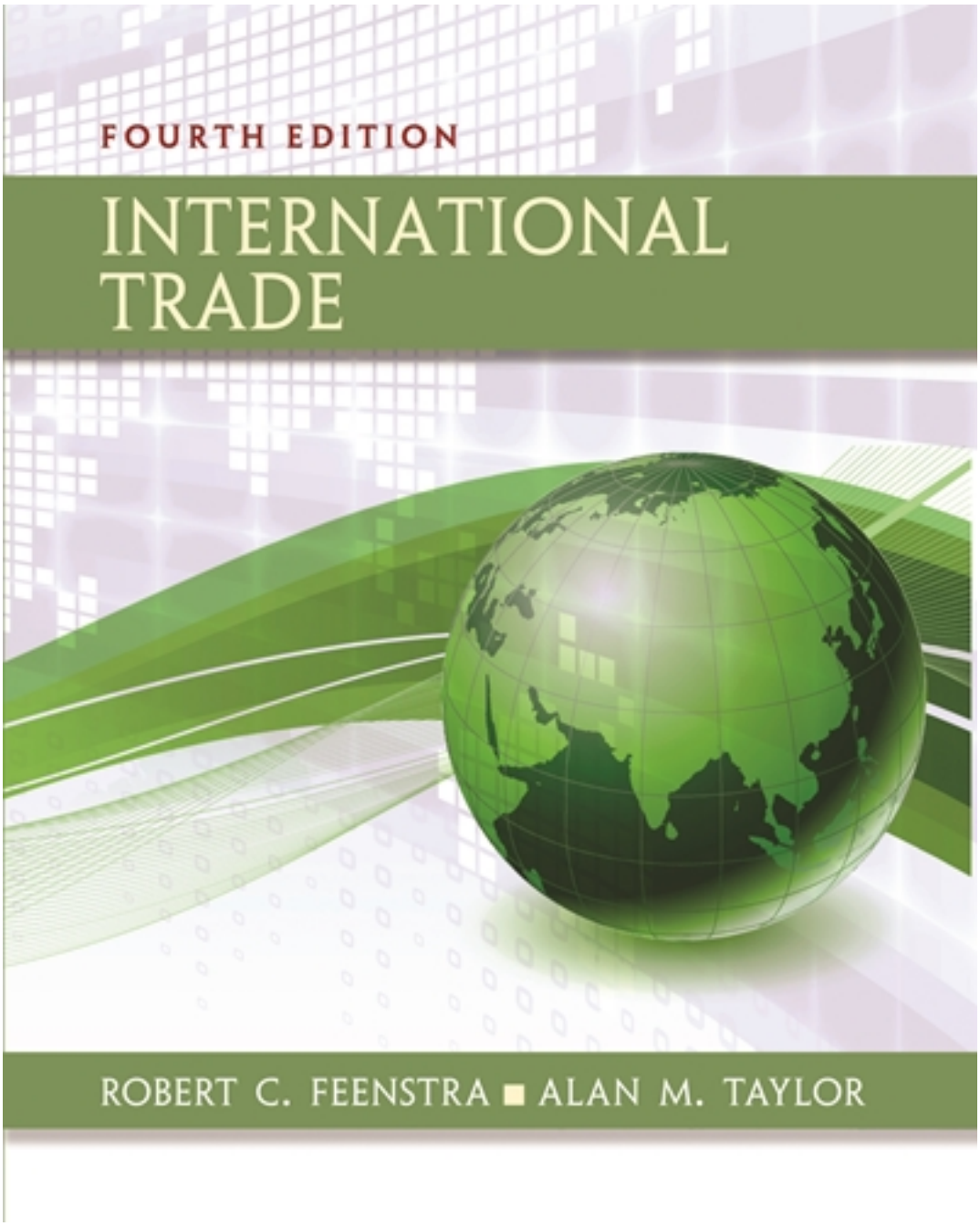

Test Bank

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1. Which of the following is NOT a reason why countries trade goods with one another?
   A) differences in technology used in different countries
   B) differences in countries' total amount of resources
   C) the proximity of countries to one another
   D) differences in countries' languages and cultures

2. David Ricardo's model explains trade based on:
   A) labor supply.
   B) technology.
   C) population.
   D) government control.

3. Which of the following is the MOST likely explanation for a Detroit construction company's imports of concrete blocks made in Windsor, Ontario?
   A) the Ricardian model
   B) offshoring
   C) technology
   D) proximity

4. What is the MOST likely reason why neighboring nations engage in trade?
   A) labor availability
   B) similar tastes and preferences
   C) proximity
   D) shared membership in a free-trade area

5. A country's factors of production includes:
   A) its labor, capital, natural resources, and markets.
   B) only its labor and capital.
   C) only its capital and natural resources.
   D) its labor, capital, and natural resources.

6. Which of the following is NOT considered to be a factor of production?
   A) labor
   B) capital
   C) natural resources
   D) government

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7. When a firm in one nation purchases unfinished products internationally and adds further processing to sell in the domestic market, this is known as:
   A) barter.
   B) offshoring.
   C) factor movement.
   D) marketing arrangements.

8. In some cases, a country can export a good without having any advantage in the natural resources needed to produce it. Which of the following is an example of this type of export?
   A) Austrian exports of snowboards
   B) U. S. exports of “icewine”
   C) Japanese exports of Toyotas
   D) Canadian exports of lumber

9. In some cases, a country can export a good without having any advantage in the natural resources needed to produce it. Which of the following is an example of this type of export?
   A) United Arab Emirates's exports of high-quality snowboards
   B) U. S. exports of Caterpillar bulldozers
   C) French exports of wine
   D) Canadian exports of lumber

10. In trade, if a nation has the technology to produce a good with fewest resources (such as Germany's production of snowboards), it is known as a(n):
    A) absolute advantage.
    B) technology advantage.
    C) comparative advantage.
    D) resource advantage.

11. The Ricardian model focuses on how:
    A) countries' resource bases explain international trade.
    B) countries' different technologies explain international trade.
    C) transportation costs explain international trade.
    D) different languages and cultures explain international trade.

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12. When a country requires *fewer* resources to produce a product than other countries, it is said to have a(n):
    A) absolute advantage in the production of the product.
    B) comparative advantage in the production of the product.
    C) higher opportunity cost of producing the product.
    D) lower opportunity cost of producing the product.

13. When a country requires *more* resources to produce a product than other countries, it is said to have a(n):
    A) absolute disadvantage in the production of the product.
    B) comparative disadvantage in the production of the product.
    C) lower opportunity cost of producing the product.
    D) higher opportunity cost of producing the product.

14. The primary explanation of trade among nations is Ricardo's theory of:
    A) offshoring.
    B) resource abundance.
    C) absolute advantage.
    D) comparative advantage.

15. The Ricardian model focuses on how differences in _____ influence international trade patterns.
    A) demand
    B) comparative costs
    C) absolute costs
    D) transportation costs

16. Ricardo's theory of trade discredited the school of economic thought that believed inflows of gold or silver as a result of exporting helped a nation, while outflows of gold or silver as a result of importing hurt a nation. This school of economic thought was known as:
    A) export preference.
    B) mercantilism.
    C) monetary economics.
    D) price-specie-flow mechanism.

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17. Ricardo's theory made a number of assumptions, including which of the following?
    A) Nations had balanced trade with their partners.
    B) There were barriers to trade.
    C) There was no transfer of gold or silver.
    D) Nations' factors of production consisted of labor and capital.

18. According to Ricardo:
    A) all countries can gain from trade if they export goods for which they have an absolute advantage.
    B) one country can gain from trade only at the expense of another country.
    C) all countries can gain from trade if they export goods for which they have a comparative advantage.
    D) all countries lose from international trade.

19. According to the Ricardian principle of comparative advantage, international trade increases a nation's total output because:
    A) the nation's resources are used where they are most productive.
    B) the output of the nation's trading partner declines.
    C) the nation can produce outside of its production possibilities frontier.
    D) the nation is able to increase its consumption.

20. David Ricardo believed that:
    A) trade is a zero-sum game; that is, a country benefits at the expense of other countries.
    B) trade will benefit countries when it generates gold and silver for the national treasury.
    C) all nations can gain from free international trade.
    D) trade cannot increase the world's output of goods.

21. Mercantilists believed that:
    A) exporting goods will leave fewer goods for the local economy.
    B) importing goods is beneficial for the economy.
    C) exports and imports are both bad for the economy.
    D) exports are good and imports are bad for the economy.

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22. Ricardo's theory showed that if nations are allowed to trade freely, the result will be that:
    A) all trading nations benefit by trade.
    B) the manufacturing sector benefits but the consumers lose out.
    C) workers benefit but the government loses tax revenue.
    D) the gains from trade offset the losses from trade exactly.

23. The Ricardian model can be simplified and made more explanatory by assuming that there is only one resource used in producing goods. What did Ricardo assume the resource was?
    A) capital
    B) technology
    C) labor
    D) loanable funds

24. What is the marginal product of labor?
    A) the average output of a unit of labor
    B) the extra output obtained by using one more unit of labor
    C) the average output obtained by using one more unit of labor
    D) the total output obtained by using one more unit of labor

25. In the Ricardian model, the marginal product of labor:
    A) first rises, then falls, as more labor is employed to produce a good.
    B) first falls, then rises, as more labor is employed to produce a good.
    C) continuously falls as more labor is employed to produce a good.
    D) does not change as more labor is employed to produce a good.

26. The Ricardian model assumes that the marginal product of labor is:
    A) increasing.
    B) decreasing.
    C) constant.
    D) zero.

27. Production possibilities frontiers in the Ricardian model:
    A) are linear (i.e., straight lines), with end points showing a country's production when it produces only one or the other good.
    B) are bowed out from the origin, with end points showing a country's production when it produces only one or the other good.
    C) are linear and begin from the origin.
    D) are curvilinear and increase at a decreasing rate.

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28. When the production possibilities frontier is a straight line, then production occurs under conditions of:
    A) increasing costs.
    B) decreasing costs.
    C) constant costs.
    D) increasing, then decreasing, then constant costs.

29. The Ricardian model employs the concept of alternate uses of economic resources in production. We refer to this technique as:
    A) the production possibilities frontier.
    B) the labor theory of value technique.
    C) the least-cost option.
    D) the labor productivity model.

30. With the assumption that the marginal product of labor is constant and that labor is the only variable resource, the slope of the PPF is:
    A) positive and increasing.
    B) negative and decreasing.
    C) negative and constant.
    D) unrelated to the issue at hand.

31. Assume the MPL_t = 5 tennis rackets and MPL_b = 4 baseball bats. If the economy has 100 workers, then the economy can produce:
    A) a maximum of 500 tennis rackets.
    B) a maximum of 350 baseball bats.
    C) 500 tennis rackets and 400 baseball bats.
    D) either 100 tennis rackets only or 100 baseball bats only.

32. Assume the MPL_c = 2 cars and the MPL_b = 5 boats. There are 150 workers in this hypothetical economy. What is the maximum number of boats that can be produced?
    A) 30
    B) 300
    C) 750
    D) 150

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33. The slope of the PPF can be expressed as:
    A) the ratio of abundance of capital to labor.
    B) the preferences of consumers in terms of marginal utility.
    C) the ratio of the quantities of good 1 and good 2.
    D) the negative of the ratio of the marginal products of labor in producing each good.

34. If the maximum number of units of cloth produced is 300 and the maximum number of units of corn produced is 600, then with an $MPL_{cloth} = 2$, what is the number of workers in the economy?
    A) 100
    B) 200
    C) 150
    D) 600

35. If the maximum number of units of cloth produced is 300 and the maximum number of units of corn produced is 600, then with an $MPL_{cloth} = 2$, what is the MPL_{corn}?
    A) 4
    B) 5
    C) 6
    D) 7

36. To complete the model of international trade using the PPF, we must also use the idea of indifference curves. One of these curves represent:
    A) a set of alternate quantities of both goods (sloped negatively), whereby consumers are equally satisfied in their level of utility gained.
    B) consumers who are indifferent to everything.
    C) producers who do not care which production method is chosen.
    D) a fixed quantity of one good (such as wheat) and a varying amount of the other good.

37. As a consumer moves down one of her indifference curves, her satisfaction:
    A) falls.
    B) rises.
    C) remains unchanged.
    D) first falls, then levels out.

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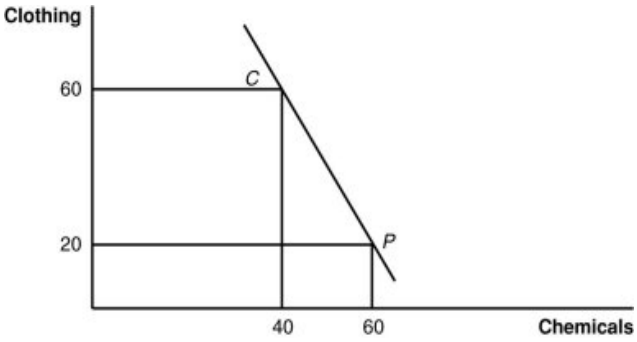
38. If a consumer moves to a higher indifference curve, her satisfaction:
    A) falls.
    B) rises.
    C) remains unchanged.
    D) first falls, then levels out.

39. International trade allows countries to:
    A) produce outside their PPF.
    B) produce inside their PPF.
    C) consume inside their PPF.
    D) consume outside their PPF.

40. (Figure: Home Production and Consumption) The figure gives Home's international trading pattern. Point *P* is production with trade, and point *C* is consumption with trade. Which product does Home export?



    A) clothing
    B) chemicals
    C) It exports neither chemicals nor clothing.
    D) It exports both chemicals and clothing.

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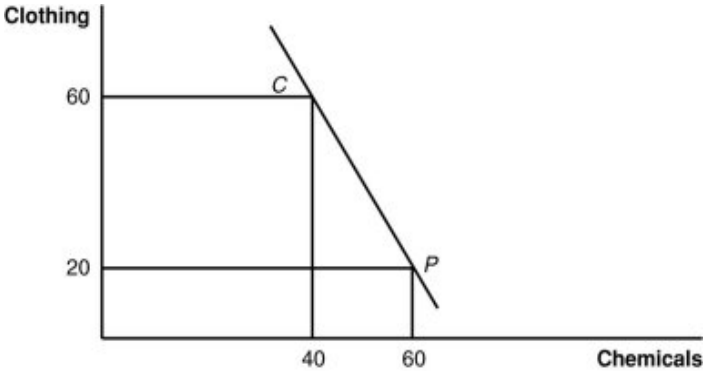
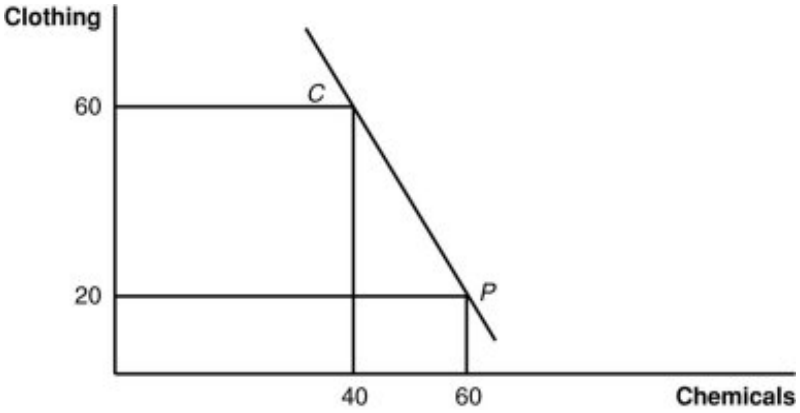
41. (Figure: Home Production and Consumption) The figure gives Home's international trading pattern. Point *P* is production with trade, and point *C* is consumption with trade. Which product does Home import?



A) clothing
B) chemicals
C) It imports neither chemicals nor clothing.
D) It imports both chemicals and clothing.

42. (Figure: Home Production and Consumption) The figure gives Home's international trading pattern. Point *P* is production with trade and point *C* is consumption with trade. How many units of which product does Home export and how many units of which product does it import?



A) Home exports 60 units of chemicals and imports 20 units of clothing.
B) Home exports 40 units of chemicals and imports 60 units of clothing.
C) Home exports 40 units of clothing and imports 20 units of chemicals.
D) Home exports 20 units of chemicals and imports 40 units of clothing.

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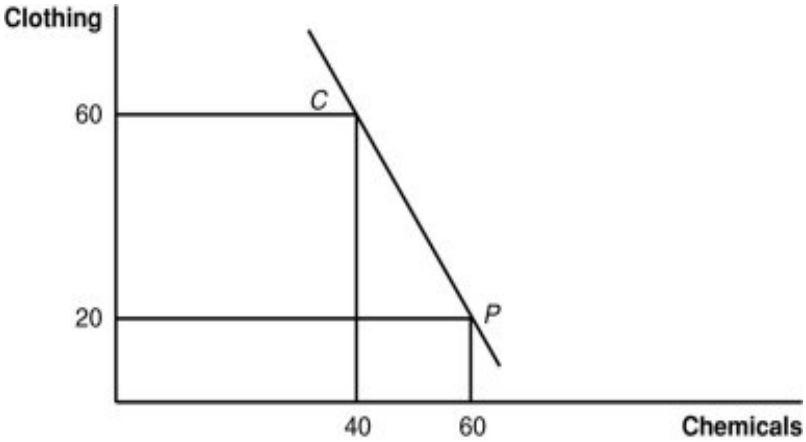
43. (Figure: Home Production and Consumption) The figure gives Home's international trading pattern. Point *P* is production with trade, and point *C* is consumption with trade. What is the international price of chemicals according to the figure?



A) 1/2 unit of clothing per unit of chemicals
B) one unit of clothing per unit of chemicals
C) two units of clothing per unit of chemicals
D) three units of clothing per unit of chemicals

44. Where will a nation that gains from trade find its consumption point located?
A) inside its production possibilities frontier
B) along its production possibilities frontier
C) outside its production possibilities frontier
D) at the center of its production possibilities frontier

45. When a nation is in autarky (a no-trade state) and maximizes its living standard, its consumption and production points are:
A) along its production possibilities frontier.
B) above its production possibilities frontier.
C) beneath production possibilities frontier.
D) along, above, or beneath its production possibilities frontier.

46. Assume the MPL_c = 2 cars and the MPL_b = 5 boats. There are 150 workers in this hypothetical economy. If cars are measured on the vertical axis and boats are measured on the horizontal axis, the slope of the PPF for this economy is:
A) –5.
B) –5/2.
C) –2/5.
D) –1/5.

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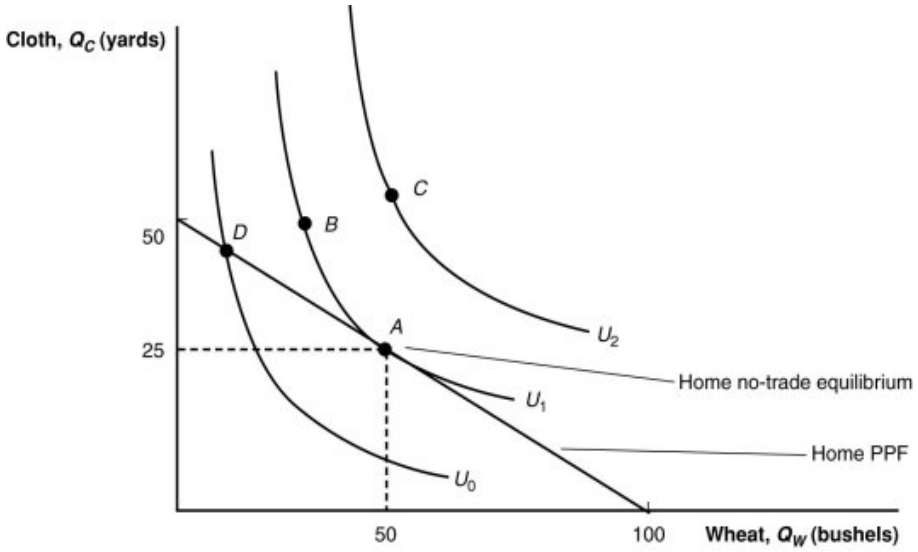
47. The slope of the PPF can also be expressed as:
    A) the ratio of abundance of labor to capital.
    B) consumer utility.
    C) the opportunity cost of the good measured on the vertical axis.
    D) the ratio of the marginal products of labor to the marginal product of capital.

48. (Figure: Home Equilibrium with No Trade) Under the condition of no trade, which attainable combination gives the nation the MOST utility?



    A) *A*
    B) *B*
    C) *C*
    D) *D*

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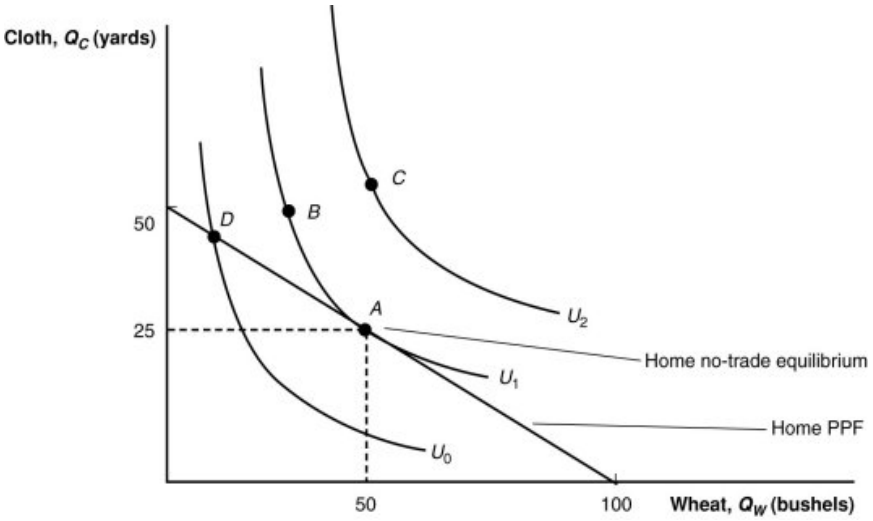
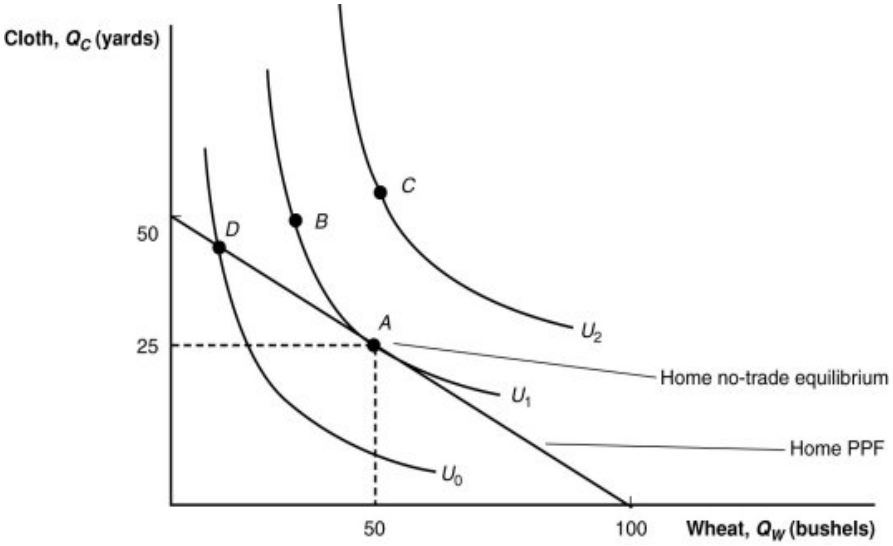
49. (Figure: Home Equilibrium with No Trade) Under the condition of no trade, which combinations are NOT attainable?



A) *A* and *D*
B) *A* and *B*
C) *B* and *D*
D) *B* and *C*

50. (Figure: Home Equilibrium with No Trade) Suppose that trade occurs and Home finds its comparative advantage in the production of wheat. How many bushels of wheat will it produce?



A) 0 bushels
B) 50 bushels
C) 100 bushels
D) between 50 and 100 bushels

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51. Assume a hypothetical economy where cloth and wheat can be produced. What is the opportunity cost of producing wheat in this economy?
    A) the amount of cloth that must be given up to produce one more unit of wheat
    B) the amount of money received by selling wheat
    C) the number of workers it takes to produce all the wheat
    D) More information is needed to answer the question.

52. Among the indifference curves for an economy, to achieve higher utility:
    A) you must move to the indifference curve farthest away from the origin.
    B) you must move to the indifference curve closest to the origin.
    C) it is necessary to always close the borders.
    D) it does not matter which indifference curve you select; your utility is the same along every curve.

53. If the opportunity cost is constant (the PPF is a straight line), then a country will:
    A) partially specialize in the production of its exported product.
    B) completely specialize in the production of its exported product.
    C) not benefit from importing goods from another country.
    D) benefit by raising trade barriers.

54. Moving to a lower indifference curve means that a country is:
    A) better off.
    B) worse off.
    C) indifferent.
    D) lowering production.

55. In order for the production possibilities frontier to be a straight line, production must exhibit:
    A) increasing costs.
    B) decreasing costs.
    C) constant costs.
    D) increasing, then decreasing, then constant costs.

56. In the absence of trade, a nation is in equilibrium where an indifference curve:
    A) lies above its production possibilities frontier.
    B) is tangent to its production possibilities frontier.
    C) intersects its production possibilities frontier.
    D) lies below its production possibilities frontier.

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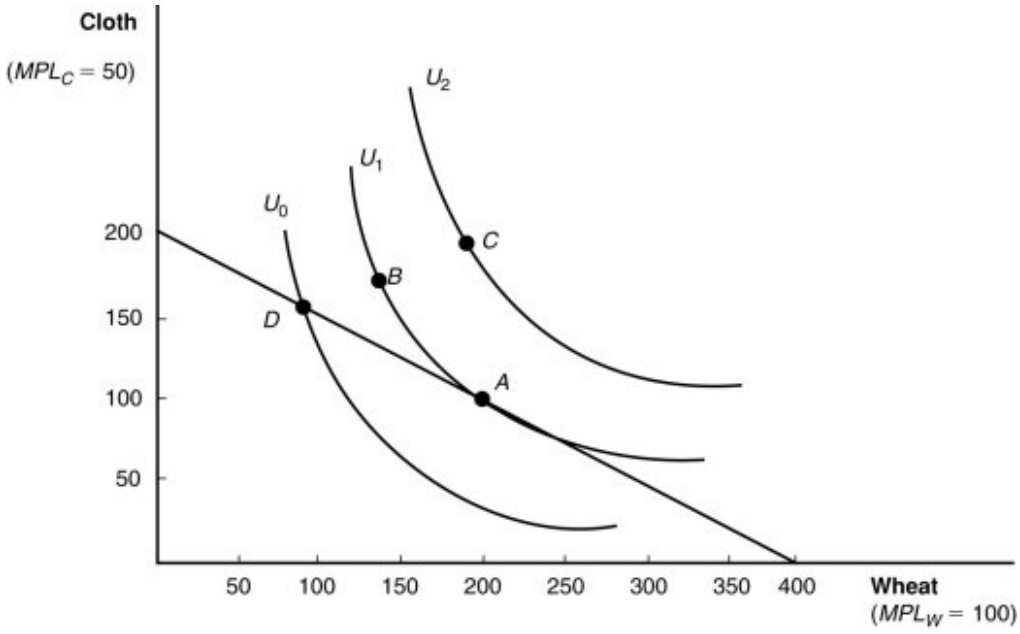
57. A country's indifference curve describes combinations of goods that:
    A) a country can purchase.
    B) yield equal satisfaction to a country.
    C) yield satisfaction to a country.
    D) a country can produce.

58. (Figure: Indifference Curves) If this economy produces no cloth, how many units of wheat are possible?



    A) 50
    B) 200
    C) 300
    D) 400

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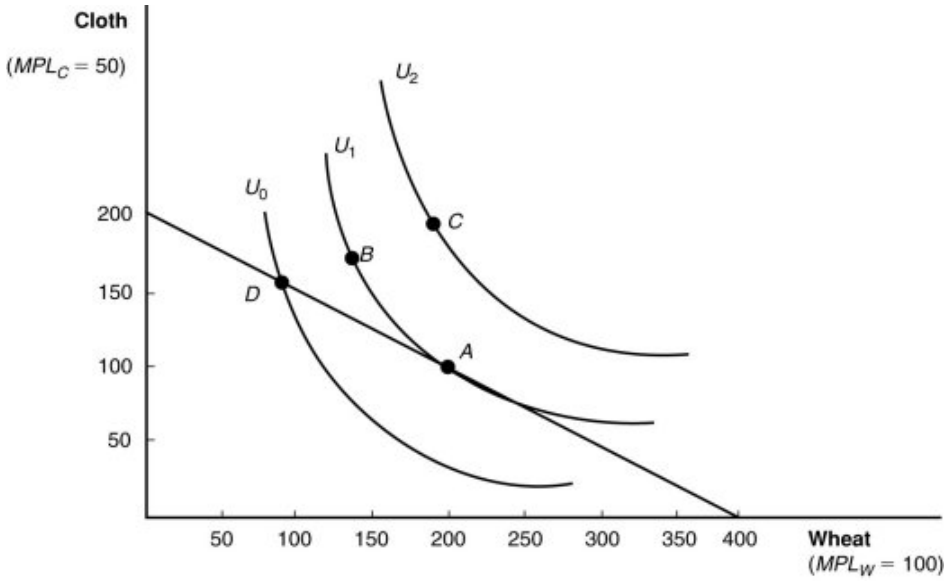
59. (Figure: Indifference Curves) What is the opportunity cost of cloth in terms of wheat in this example?



A) A unit of cloth may be obtained by foregoing a unit of wheat.
B) A unit of cloth "costs" 2 units of wheat.
C) A unit of cloth "costs" 1/2 unit of wheat.
D) Not enough information is given to answer.

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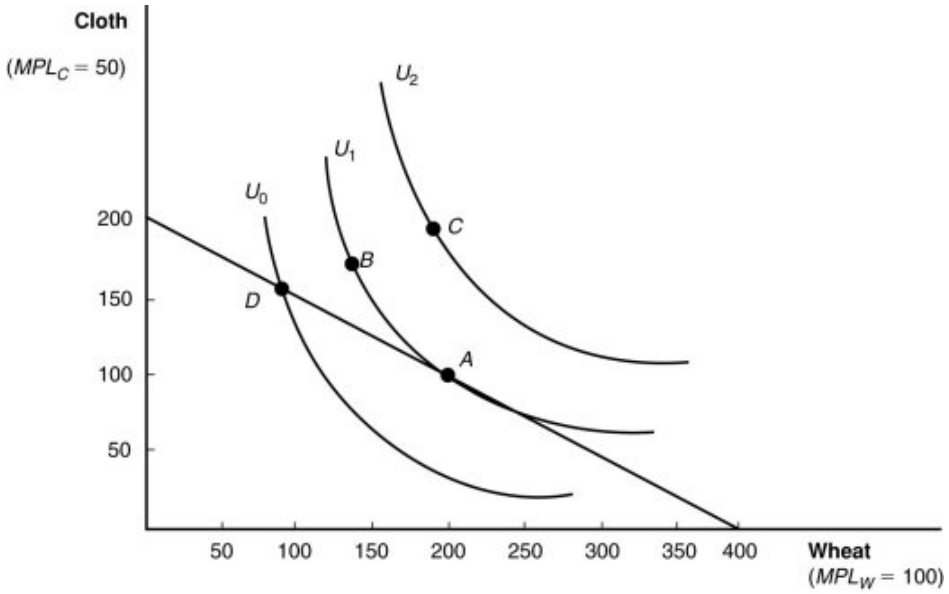
60. (Figure: Indifference Curves) Of the following points of consumption, which is MOST desirable for consumers?



A) *A*
B) *B*
C) *C*
D) *D*

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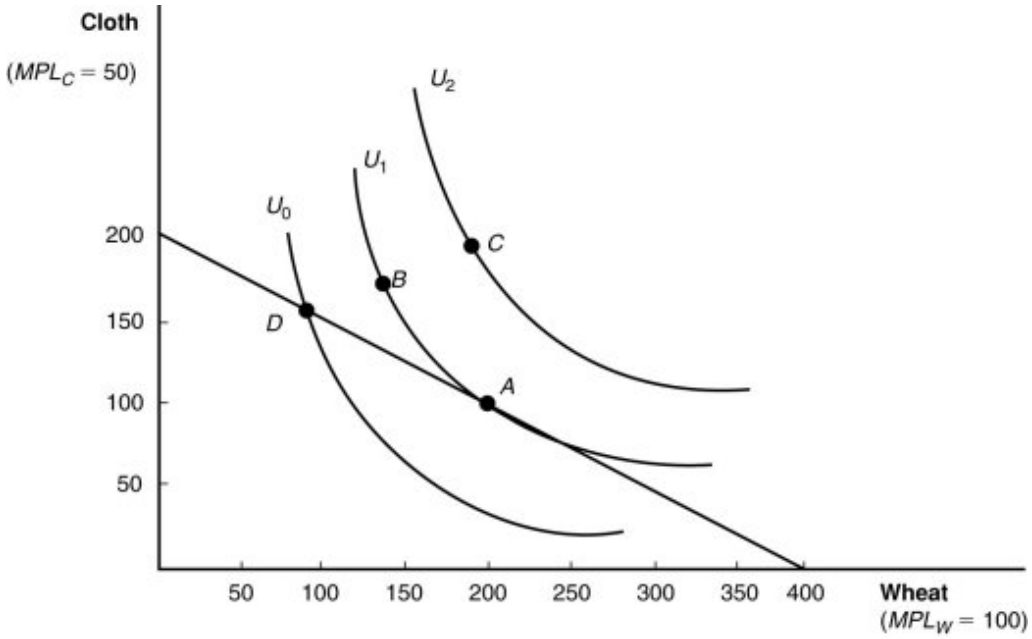
61. (Figure: Indifference Curves) Of the following points of consumption, which is LEAST desirable for consumers?



A) *A*
B) *B*
C) *C*
D) *D*

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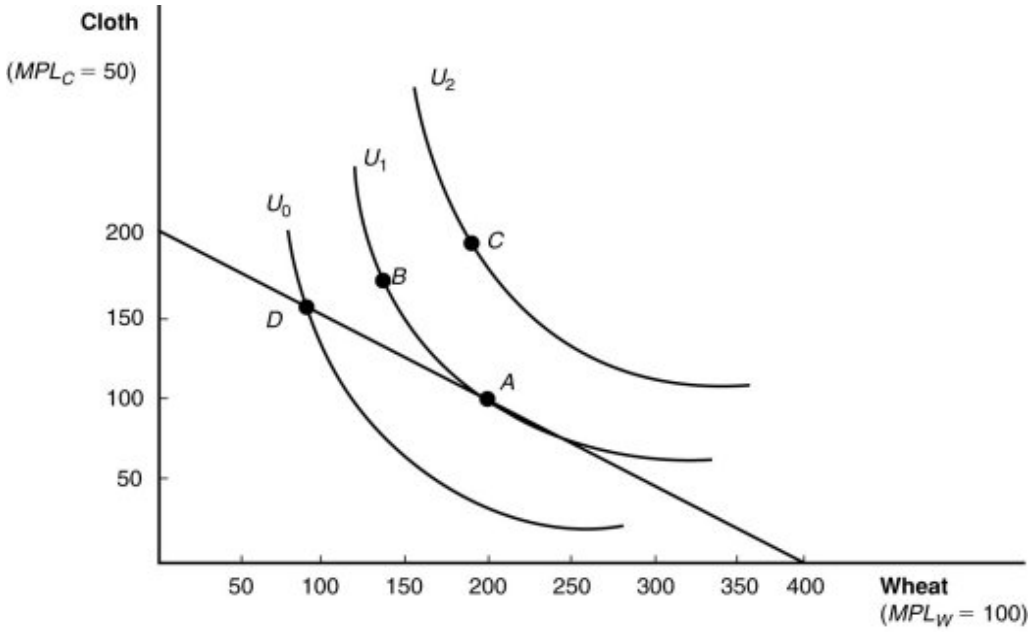
62. (Figure: Indifference Curves) Which point on the diagram represents Home's equilibrium in the absence of international trade?



A) *A*
B) *B*
C) *C*
D) *D*

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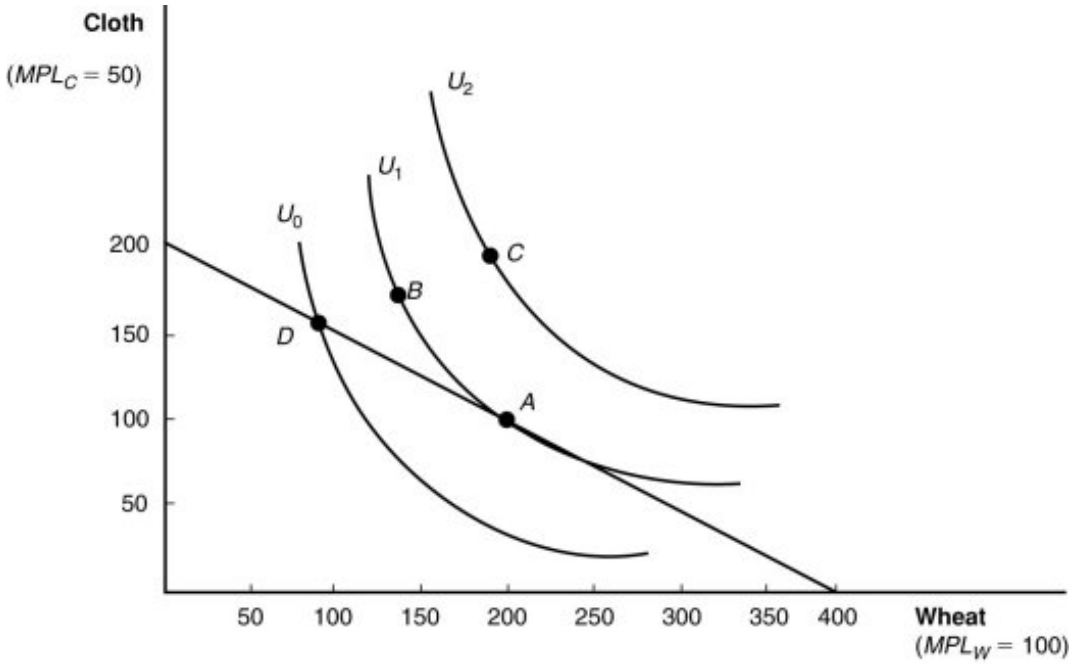
63. (Figure: Indifference Curves) Which combination of wheat and cloth is represented by point *A* in the diagram?



A) 200 units of cloth and 400 units of wheat
B) 100 units of cloth and 200 units of wheat
C) 200 units of cloth and 100 units of wheat
D) 300 units of cloth and 150 units of wheat

64. A nation will gain from trade if it:
A) produces and consumes along its PPF.
B) produces outside its PPF and consumes along its PPF.
C) consumes outside its PPF and produces along its PPF.
D) produces and consumes outside its PPF.

65. The pre-trade Home equilibrium will provide the highest level of consumer satisfaction from domestic resources whenever:
A) the marginal products of labor are equal.
B) capital and technology are not factors in the decision of what to produce.
C) perfect competition exists in product and labor markets.
D) Adam Smith's “invisible hand” is not an interfering factor.

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66. In competitive labor markets, the wage equals:
    A) the marginal product of labor times the price of output.
    B) the marginal product of labor plus the price of output.
    C) the marginal product of labor.
    D) the price of output.

67. Which of the following statements describes the way the pre-trade home equilibrium reflects the concepts of competitive markets?
    A) The opportunity cost of good 1 is the ratio of labor productivity of good 1 to good 2
    B) Prices of each good reflect their opportunity cost.
    C) Wages are not equal for each good
    D) The value of the marginal product of labor ($MPL \times P$) differs for each good.

68. In the home equilibrium situation, the relative price of wheat (when wheat is on the horizontal axis) is the same as:
    A) the relative price of cloth.
    B) the slope of the PPF.
    C) the marginal product of wheat.
    D) the cost of labor to produce wheat.

69. The United States requires 20 hours of labor to produce 1 ton of steel and 30 hours of labor to produce 1,000 board feet of lumber. In Canada, 20 hours of labor are required to produce 1 ton of steel and 25 hours of labor to produce 1,000 board feet of lumber. Which country has an absolute advantage in the production of steel?
    A) the United States
    B) Canada
    C) Neither the United States nor Canada has an absolute advantage.
    D) Both the United States and Canada have an absolute advantage.

70. The United States requires 20 hours of labor to produce 1 ton of steel and 30 hours of labor to produce 1,000 board feet of lumber. In Canada, 20 hours of labor are required to produce 1 ton of steel and 25 hours of labor to produce 1,000 board feet of lumber. Which country has an absolute advantage in the production of lumber?
    A) the United States
    B) Canada
    C) Neither the United States nor Canada has an absolute advantage.
    D) Both the United States and Canada have an absolute advantage.

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71. The United States requires 20 hours of labor to produce 1 ton of steel and 30 hours of labor to produce 1,000 board feet of lumber. In Canada, 20 hours of labor are required to produce 1 ton of steel and 25 hours of labor to produce 1,000 board feet of lumber. Which country has a comparative advantage in the production of steel?
    A) the United States
    B) Canada
    C) Neither the United States nor Canada has a comparative advantage.
    D) Both the United States and Canada have a comparative advantage.

72. The United States requires 20 hours of labor to produce 1 ton of steel and 30 hours of labor to produce 1,000 board feet of lumber. In Canada, 20 hours of labor are required to produce 1 ton of steel and 25 hours of labor to produce 1,000 board feet of lumber. Which country has a comparative advantage in the production of lumber?
    A) the United States
    B) Canada
    C) Neither the United States nor Canada has a comparative advantage.
    D) Both the United States and Canada have a comparative advantage.

73. Poland requires 4 hours of labor to produce 1 ton of coal and 1 hour of labor to produce a bushel of wheat. The Czech Republic requires 6 hours of labor to produce 1 ton of coal and 1 hour of labor to produce a bushel of wheat. Which country has an absolute advantage in the production of wheat?
    A) Poland
    B) the Czech Republic
    C) Neither country has an absolute advantage.
    D) Both countries have an absolute advantage.

74. Poland requires 4 hours of labor to produce 1 ton of coal and 1 hour of labor to produce a bushel of wheat. The Czech Republic requires 6 hours of labor to produce 1 ton of coal and 1 hour of labor to produce a bushel of wheat. Which country has an absolute advantage in the production of coal?
    A) Poland
    B) the Czech Republic
    C) Neither country has an absolute advantage.
    D) Both countries have an absolute advantage.

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75. Poland requires 4 hours of labor to produce 1 ton of coal and 1 hour of labor to produce a bushel of wheat. The Czech Republic requires 6 hours of labor to produce 1 ton of coal and 1 hour of labor to produce a bushel of wheat. Which country has a comparative advantage in the production of coal?
    A) Poland
    B) the Czech Republic
    C) Neither country has a comparative advantage.
    D) Both countries have a comparative advantage.

76. Poland requires 4 hours of labor to produce 1 ton of coal and 1 hour of labor to produce a bushel of wheat. The Czech Republic requires 6 hours of labor to produce 1 ton of coal and 1 hour of labor to produce a bushel of wheat. Which country has a comparative advantage in the production of wheat?
    A) Poland
    B) the Czech Republic
    C) Neither country has a comparative advantage.
    D) Both countries have a comparative advantage.

77. Poland requires 4 hours of labor to produce 1 ton of coal and 1 hour of labor to produce a bushel of wheat. The Czech Republic requires 6 hours of labor to produce 1 ton of coal and 1 hour of labor to produce a bushel of wheat. What is the opportunity cost of coal in Poland?
    A) 0.25 hours of labor per ton of coal
    B) 0.25 bushels of wheat per ton of coal
    C) 4 hours of labor per ton of coal
    D) 4 bushels of wheat per ton of coal

78. Poland requires 4 hours of labor to produce 1 ton of coal and 1 hour of labor to produce a bushel of wheat. The Czech Republic requires 6 hours of labor to produce 1 ton of coal and 1 hour of labor to produce a bushel of wheat. The international price of wheat must fall between which of the following two prices?
    A) between 1/6 ton and 1/4 ton of coal per bushel of wheat
    B) between 1/4 ton and 1/3 ton of coal per bushel of wheat
    C) between 1/3 ton and 1.5 tons of coal per bushel of wheat
    D) between 4 tons and 6 tons of coal per bushel of wheat

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79. Poland requires 4 hours of labor to produce 1 ton of coal and 1 hour of labor to produce a bushel of wheat. The Czech Republic requires 6 hours of labor to produce 1 ton of coal and 1 hour of labor to produce a bushel of wheat. Suppose that the international price of coal is 4 1/4 bushels of wheat per ton of coal. Which country is likely to have the larger gain from trade?
    A) Poland
    B) the Czech Republic
    C) Neither country has the larger gain.
    D) Both countries have the larger gain.

80. Poland requires 4 hours of labor to produce 1 ton of coal and 1 hour of labor to produce a bushel of wheat. The Czech Republic requires 6 hours of labor to produce 1 ton of coal and 1 hour of labor to produce a bushel of wheat. Suppose that Poland has 1,000 hours of labor and that it completely specializes according to its comparative advantage. How many units of which product will it produce?
    A) 250 tons of coal
    B) 1,000 bushels of wheat
    C) 100 bushels of wheat
    D) 4,000 tons of coal

81. Poland requires 4 hours of labor to produce 1 ton of coal and 1 hour of labor to produce a bushel of wheat. The Czech Republic requires 6 hours of labor to produce 1 ton of coal and 1 hour of labor to produce a bushel of wheat. In Poland, what is the marginal product of labor in coal production?
    A) 0.25 tons per hour
    B) 0.4 tons per hour
    C) 2.5 tons per hour
    D) 4 tons per hour

82. To explain why some nations purchase products from abroad, even when they have an absolute advantage in production, we have to use the theory of:
    A) absolute advantage.
    B) relative pricing.
    C) comparative advantage.
    D) industrial advantage.

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83. Whenever a nation has a lower opportunity cost of producing any good or service in relative terms, that nation is said to have:
    A) an absolute advantage.
    B) a comparative advantage.
    C) low labor costs.
    D) better technology to produce that good or service.

84. Comparative advantage in production of a product is reflected in:
    A) a lower relative price.
    B) a lower opportunity cost.
    C) higher labor productivity.
    D) a lower relative price and a lower opportunity cost.

85. (Table: Output in the United States and China) Which of the following statements is correct?

	U.S. Output per Worker	Chinese Output per Worker
Apparel	$100,000	$10,000
Wheat	$200,000	$5,000

    A) The United States has an absolute advantage in both apparel and wheat and a comparative disadvantage in wheat.
    B) China has an absolute advantage in both apparel and wheat and a comparative advantage in apparel.
    C) The United States has an absolute disadvantage in both apparel and wheat and a comparative advantage in wheat.
    D) China has an absolute disadvantage in both apparel and wheat and a comparative advantage in apparel.

86. (Table: Output in the United States and China) Which of the following products will the United States export to China?

	U.S. Output per Worker	Chinese Output per Worker
Apparel	$100,000	$10,000
Wheat	$200,000	$5,000

    A) wheat
    B) apparel
    C) The United States will export neither wheat nor apparel.
    D) The United States will export both wheat and apparel.

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87. (Table: United States and China Production per Worker in Apparel, Textiles, and Wheat in 2014) In the upper part of the table, the productivity of workers in the textile and apparel sectors is given for the United States and China. The average worker in the United States produces _____ times more apparel sales than the average worker in China.

	United States Sales/Employee	China Sales/Employ
Apparel	$70,000	$27,500
Textiles	$232,000	$20,000
	Bushels/Employee	**Bushels/Employe**
Wheat	10,000	300

A) 0.39
B) 2.55
C) 70
D) 27.5

88. (Table: United States and China Production per Worker in Apparel, Textiles, and Wheat in 2014) In the upper part of the table, the productivity of workers in the textile and apparel sectors is given for the United States and China. The table shows that the United States has an absolute advantage in:

	United States Sales/Employee	China Sales/Employ
Apparel	$70,000	$27,500
Textiles	$232,000	$20,000
	Bushels/Employee	**Bushels/Employe**
Wheat	10,000	300

A) textile manufacturing.
B) apparel manufacturing.
C) neither textile nor apparel manufacturing.
D) both textile and apparel manufacturing.

89. (Table: United States and China Production per Worker in Apparel, Textiles, and Wheat in 2014) In the upper part of the table, the productivity of workers in the textile and apparel sectors is given for the United States and China. The table shows that China has a comparative advantage in:

	United States Sales/Employee	China Sales/Employ
Apparel	$70,000	$27,500
Textiles	$232,000	$20,000
	Bushels/Employee	**Bushels/Employe**
Wheat	10,000	300

A) textile manufacturing.
B) apparel manufacturing.
C) neither textile nor apparel manufacturing.
D) both textile and apparel manufacturing.

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90. (Table: United States and China Production per Worker in Apparel, Textiles, and Wheat in 2014) Consider the productivity of workers in all three sectors of the table. In the United States, what is the dollar value of apparel foregone in order to produce an additional bushel of wheat?

	United States Sales/Employee	China Sales/Employ
Apparel	$70,000	$27,500
Textiles	$232,000	$20,000
	Bushels/Employee	**Bushels/Employe**
Wheat	10,000	300

A) $0.04
B) $0.14
C) $7.00
D) $23.20

91. (Table: United States and China Production per Worker in Apparel, Textiles, and Wheat in 2014) Consider the productivity of workers in all three sectors of the table. In China, how many dollars of textile production must be given up in order to produce additional bushel of wheat?

	United States Sales/Employee	China Sales/Employ
Apparel	$70,000	$27,500
Textiles	$232,000	$20,000
	Bushels/Employee	**Bushels/Employe**
Wheat	10,000	300

A) $66.67
B) $0.015
C) $300
D) $91.67

92. It can be shown that differences in before-trade relative prices will determine:
A) which nation has the absolute advantage.
B) which good each nation will export or import.
C) the quantity traded by each nation.
D) the equilibrium trade price.

93. A nation will export the product in which it has a comparative advantage, which results from the good being relatively ____ than in the importing nation.
A) less expensive
B) more expensive
C) lower in quality
D) less available

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94. At some point, as the price of the exported product is bid up and the price of the imported product falls, the price of the product in both nations:
    A) becomes more unequal.
    B) approaches zero.
    C) approaches infinity.
    D) equalizes.

95. When two nations have achieved identical relative prices of the two traded products, we have:
    A) a standoff.
    B) a stalemate.
    C) international trade equilibrium.
    D) absolute advantage once again.

96. Compared with constant cost production, if production occurs under increasing cost conditions, it is MORE likely that countries will:
    A) completely specialize.
    B) incompletely specialize.
    C) not engage in international trade.
    D) trade with one another.

97. Suppose a nation increases the quantity of a product it exports. To attract the labor resources needed to support the increased production, it must:
    A) pay higher wages.
    B) lay off workers.
    C) borrow capital abroad.
    D) find new sites for production near population centers.

98. The Ricardian model (with constant opportunity costs) predicts that a nation will _____ in the production of the good it exports.
    A) have a comparative disadvantage
    B) develop shortages
    C) lower the cost of production
    D) specialize completely

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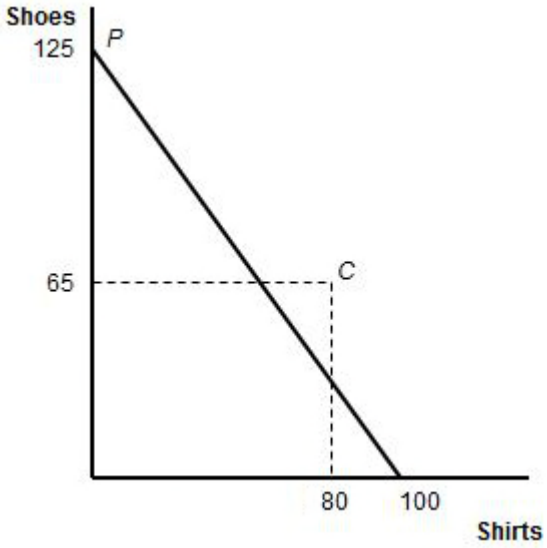
99. (Table: Output in the United States and China) Using the data in the table, what will happen to the U.S. labor force after trade occurs with China?

	U.S. Output per Worker	Chinese Output per Worker
Apparel	$100,000	$10,000
Wheat	$200,000	$5,000

A) U.S. labor will move from apparel to agriculture, where its marginal productivity is higher.
B) U.S. jobs in apparel will be exported to China, wheat exports will create additional jobs in agriculture, and the value of output produced by U.S. labor will increase.
C) The value of output produced by U.S. labor will increase.
D) U.S. labor will move from apparel to agriculture, where its marginal productivity is higher. U.S. jobs in apparel will be exported to China, wheat exports will create additional jobs in agriculture, and the value of output produced by U.S. labor will increase.

100. (Figure: Upperia's Production and Consumption) The graph shows Upperia's international trading pattern. Point *P* is production with trade, and point *C* is consumption with trade. Which product does Home export?



A) shoes
B) shirts
C) Home exports neither shirts nor shoes.
D) Home exports both shirts and shoes.

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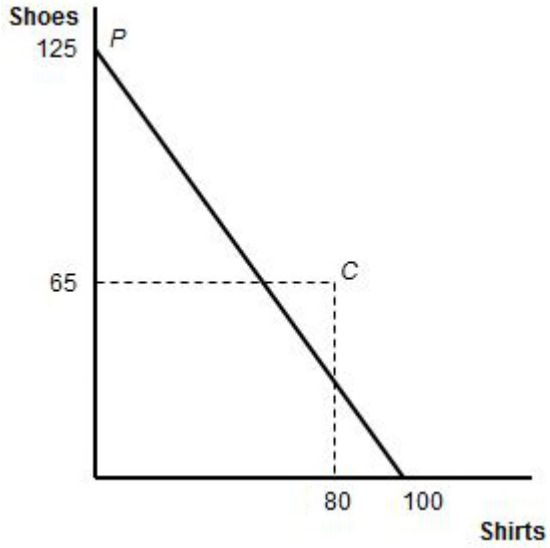
101. (Figure: Upperia's Production and Consumption) The graph shows Upperia's international trading pattern. Point *P* is production with trade, and point *C* is consumption with trade. Which product does Home import?



A) shoes
B) shirts
C) Home imports neither shirts nor shoes.
D) Home imports both shirts and shoes.

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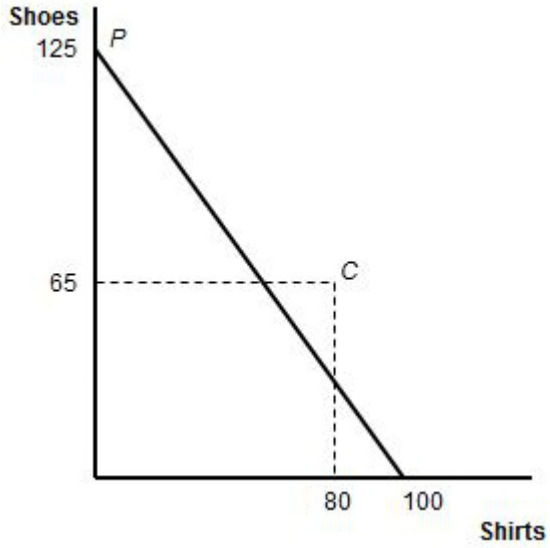
102. (Figure: Upperia's Production and Consumption) The graph shows Upperia's international trading pattern. Point *P* is production with trade, and point *C* is consumption with trade. What is the international price of shoes (shirts/pair of shoes)?



A) 125/80 shirts per unit of pair of shoes
B) 4/3 shirts per unit of pair of shoes
C) 5/4 shirts per unit of pair of shoes
D) 3/4 shirt per unit of pair of shoes

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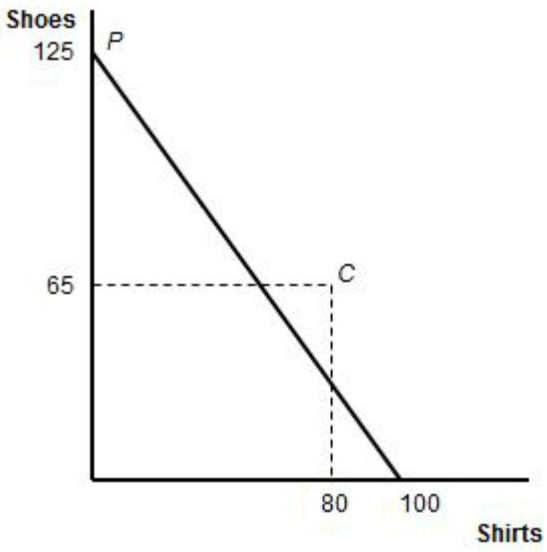
103. (Figure: Upperia's Production and Consumption) The graph shows Upperia's international trading pattern. Point *P* is production with trade, and point *C* is consumption with trade. Assume that the marginal product of labor in producing shoes is one pair per hour. How many hours of labor occur in Upperia?



A) 125
B) 100
C) 80
D) 65

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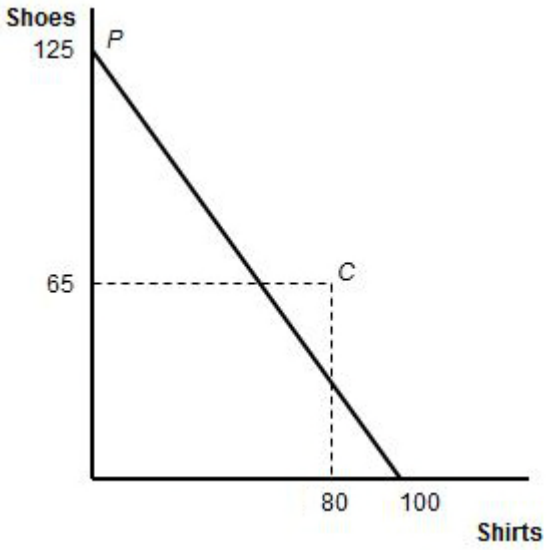
104. (Figure: Upperia's Production and Consumption) The graph shows Upperia's international trading pattern. What is the autarkic relative price of shirts in Upperia?



A) 4/3 pairs of shoes per shirt
B) 3/4 pair of shoes per shirt
C) 5/4 pairs of shoes per shirt
D) 4/5 pair of shoes per shirt

105. With trade, a country will maximize its economic well-being when it:
A) moves to the highest possible indifference curve.
B) forces the marginal rate of substitution to its lowest possible value.
C) consumes more of both goods than it does in autarky.
D) finds its marginal rate of substitution exceeding its marginal rate of transformation.

106. If the international terms of trade settle at a level that is between each country's opportunity cost:
A) there is no basis for gainful trade for either country.
B) both countries gain from trade.
C) only one country gains from trade.
D) one country gains and the other country loses from trade.

107. Trade between two nations is NOT possible if they have:
A) identical indifference curves but different production possibilities frontiers.
B) identical production possibilities frontiers but different indifference curves.
C) different production possibilities frontiers and different indifference curves.
D) identical production possibilities frontiers and identical indifference curves.

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108. As nations trade, their total level of utility (satisfaction from consuming goods):
    A) equalizes.
    B) levels out.
    C) decreases.
    D) increases.

109. The increase in total utility derived from trading products is called:
    A) trade patterns.
    B) gains from trade.
    C) comparative advantage.
    D) labor productivity.

110. Chile and Argentina each produce jellybeans and peanut butter, using labor as their only resource. Each country has 1,000 hours of labor. In Chile, an hour produces a pound of jellybeans and 2 hours produce a pound of peanut butter. In Argentina, an hour produces a pound of jellybeans and 3 hours produces a pound of peanut butter. When they do not trade with each other, Chile consumes 600 pounds of jellybeans and 200 pounds of peanut butter, and Argentina consumes 400 pounds of jellybeans and 200 pounds of peanut butter. Which country has an absolute advantage in jellybean production?
    A) Chile
    B) Argentina
    C) Neither Argentina nor Chile has an absolute advantage.
    D) Both Argentina and Chile have an absolute advantage.

111. Chile and Argentina each produce jellybeans and peanut butter, using labor as their only resource. Each country has 1,000 hours of labor. In Chile, an hour produces a pound of jellybeans and 2 hours produce a pound of peanut butter. In Argentina, an hour produces a pound of jellybeans and 3 hours produces a pound of peanut butter. When they do not trade with each other, Chile consumes 600 pounds of jellybeans and 200 pounds of peanut butter, and Argentina consumes 400 pounds of jellybeans and 200 pounds of peanut butter. Which country has a comparative advantage in jellybean production?
    A) Chile
    B) Argentina
    C) Neither Argentina nor Chile has a comparative advantage.
    D) Both Argentina and Chile have a comparative advantage.

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112. Chile and Argentina each produce jellybeans and peanut butter, using labor as their only resource. Each country has 1,000 hours of labor. In Chile, an hour produces a pound of jellybeans and 2 hours produce a pound of peanut butter. In Argentina, an hour produces a pound of jellybeans and 3 hours produces a pound of peanut butter. When they do not trade with each other, Chile consumes 600 pounds of jellybeans and 200 pounds of peanut butter, and Argentina consumes 400 pounds of jellybeans and 200 pounds of peanut butter. What are the endpoints of Chile's production possibilities frontier?
A) 1,000 pounds of jellybeans and 500 pounds of peanut butter
B) 1,000 pounds of jellybeans and 2,000 pounds of peanut butter
C) 600 pounds of jellybeans and 200 pounds of peanut butter
D) 1,000 pounds of jellybeans and 333 pounds of peanut butter

113. Chile and Argentina each produce jellybeans and peanut butter, using labor as their only resource. Each country has 1,000 hours of labor. In Chile, an hour produces a pound of jellybeans and 2 hours produce a pound of peanut butter. In Argentina, an hour produces a pound of jellybeans and 3 hours produces a pound of peanut butter. When they do not trade with each other, Chile consumes 600 pounds of jellybeans and 200 pounds of peanut butter, and Argentina consumes 400 pounds of jellybeans and 200 pounds of peanut butter. What is the price of peanut butter in Argentina before the two countries begin to trade with each other?
A) 1/3 pound of jellybeans per pound of peanut butter
B) 1/2 pound of jellybeans per pound of peanut butter
C) 2 pounds of jellybeans per pound of peanut butter
D) 3 pounds of jellybeans per pound of peanut butter

114. Chile and Argentina each produce jellybeans and peanut butter, using labor as their only resource. Each country has 1,000 hours of labor. In Chile, an hour produces a pound of jellybeans and 2 hours produce a pound of peanut butter. In Argentina, an hour produces a pound of jellybeans and 3 hours produces a pound of peanut butter. When they do not trade with each other, Chile consumes 600 pounds of jellybeans and 200 pounds of peanut butter, and Argentina consumes 400 pounds of jellybeans and 200 pounds of peanut butter. In order for Chile to gain from trade, the price of jellybeans must be less than:
A) 2 pounds of peanut butter per pound of jellybeans.
B) 3 pounds of peanut butter per pound of jellybeans.
C) 1/3 pound of peanut butter per pound of jellybeans.
D) 1/2 pound of peanut butter per pound of jellybeans.

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115. Chile and Argentina each produce jellybeans and peanut butter, using labor as their only resource. Each country has 1,000 hours of labor. In Chile, an hour produces a pound of jellybeans and 2 hours produce a pound of peanut butter. In Argentina, an hour produces a pound of jellybeans and 3 hours produces a pound of peanut butter. When they do not trade with each other, Chile consumes 600 pounds of jellybeans and 200 pounds of peanut butter, and Argentina consumes 400 pounds of jellybeans and 200 pounds of peanut butter. Argentina's gains from trade will be *largest* (and still feasible) when the price of jellybeans is:
    A) 2 pounds of peanut butter per pound of jellybeans.
    B) 3 pounds of peanut butter per pound of jellybeans.
    C) 1/3 pound of peanut butter per pound of jellybeans.
    D) 1/2 pound of peanut butter per pound of jellybeans.

116. Chile and Argentina each produce jellybeans and peanut butter, using labor as their only resource. Each country has 1,000 hours of labor. In Chile, an hour produces a pound of jellybeans and 2 hours produce a pound of peanut butter. In Argentina, an hour produces a pound of jellybeans and 3 hours produces a pound of peanut butter. When they do not trade with each other, Chile consumes 600 pounds of jellybeans and 200 pounds of peanut butter, and Argentina consumes 400 pounds of jellybeans and 200 pounds of peanut butter. What is the opportunity cost of a pound of peanut butter in Chile?
    A) 2 pounds of jellybeans
    B) 3 pounds of jellybeans
    C) 1/3 pound of jellybeans
    D) 1/2 pound of jellybeans

117. Chile and Argentina each produce jellybeans and peanut butter, using labor as their only resource. Each country has 1,000 hours of labor. In Chile, an hour produces a pound of jellybeans and 2 hours produce a pound of peanut butter. In Argentina, an hour produces a pound of jellybeans and 3 hours produces a pound of peanut butter. When they do not trade with each other, Chile consumes 600 pounds of jellybeans and 200 pounds of peanut butter, and Argentina consumes 400 pounds of jellybeans and 200 pounds of peanut butter. Suppose that Chile and Argentina begin to trade with each other. Each completely specializes in the product in which it finds its comparative advantage. How many pounds of peanut butter and jellybeans do the two countries jointly produce?
    A) 1,000 pounds of jellybeans and 400 pounds of peanut butter
    B) 1,000 pounds of jellybeans and 500 pounds of peanut butter
    C) 500 pounds of jellybeans and 1,000 pounds of peanut butter
    D) 333.33 pounds of jellybeans and 500 pounds of peanut butter

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118. Chile and Argentina each produce jellybeans and peanut butter, using labor as their only resource. Each country has 1,000 hours of labor. In Chile, an hour produces a pound of jellybeans and 2 hours produce a pound of peanut butter. In Argentina, an hour produces a pound of jellybeans and 3 hours produces a pound of peanut butter. When they do not trade with each other, Chile consumes 600 pounds of jellybeans and 200 pounds of peanut butter, and Argentina consumes 400 pounds of jellybeans and 200 pounds of peanut butter. Suppose that Chile and Argentina begin to trade with each other. Each completely specializes in the product in which it finds its comparative advantage. How many more pounds of peanut butter and jellybeans do the two countries jointly produce compared with production before they began to trade?
    A) 1,000 pounds of jellybeans and 500 pounds of peanut butter
    B) 0 pounds of jellybeans and 500 pounds of peanut butter
    C) 1,000 pounds of jellybeans and 0 pounds of peanut butter
    D) 0 pounds of jellybeans and 100 pounds of peanut butter

119. Chile and Argentina each produce jellybeans and peanut butter, using labor as their only resource. Each country has 1,000 hours of labor. In Chile, an hour produces a pound of jellybeans and 2 hours produce a pound of peanut butter. In Argentina, an hour produces a pound of jellybeans and 3 hours produces a pound of peanut butter. When they do not trade with each other, Chile consumes 600 pounds of jellybeans and 200 pounds of peanut butter, and Argentina consumes 400 pounds of jellybeans and 200 pounds of peanut butter. Which of the following groups will benefit from trade between Chile and Argentina?
    A) Chilean consumers only
    B) Argentinean consumers only
    C) Both Argentinean consumers and Chilean consumers
    D) Neither Chilean consumers nor Argentinean consumers

120. Suppose there are two countries (Home and Foreign) that produce two goods. Home's wages are 100% greater than Foreign's wages. Will trade be possible between Home and Foreign?
    A) No, because Foreign's wages are lower than Home's wages.
    B) Yes, Foreign will be able to export both products to Home.
    C) Yes, as long as Home's marginal productivity of labor in one product is at least 100% higher than Foreign's marginal productivity of labor in the same product.
    D) No, because prices will be the same in each country.

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121. According to the principle of comparative advantage, specialization and trade increase a nation's total output because:
A) resources are directed to their highest productivity.
B) the output of the nation's trading partner declines.
C) the nation can produce outside its production possibilities frontier.
D) the problem of unemployment is eliminated.

122. Assume that two countries (Home and Foreign) each produce two goods (corn and wheat) under constant cost production. Home produces 0.5 ton of corn or 1 ton of wheat with a day of labor. Without trade (in autarky), Home's daily production is 20 tons of wheat and 10 tons of corn. What is Home's price of corn in autarky?
A) 0.5 ton of wheat
B) 20 tons of wheat
C) 10 tons of wheat
D) 2 tons of wheat

123. Assume that two countries (Home and Foreign) each produce two goods (corn and wheat) under constant cost production. Home produces 0.5 ton of corn or 1 ton of wheat with a day of labor. Without trade (in autarky), Home's daily production is 20 tons of wheat and 10 tons of corn. How large is Home's labor force?
A) 50 workers
B) 40 workers
C) 30 workers
D) 20 workers

124. Assume that two countries (Home and Foreign) each produce two goods (corn and wheat) under constant cost production. Home produces 0.5 ton of corn or 1 ton of wheat with a day of labor. Without trade (in autarky), Home's daily production is 20 tons of wheat and 10 tons of corn. Now suppose that Home has the opportunity to trade with Foreign at an international price of 1 ton of wheat per ton of corn. In which product will Home find its comparative advantage?
A) wheat
B) corn
C) Home will find its competitive advantage in neither corn nor wheat.
D) Home will find its competitive advantage in both corn and wheat.

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125. Assume that two countries (Home and Foreign) each produce two goods (corn and wheat) under constant cost production. Home produces 0.5 ton of corn or 1 ton of wheat with a day of labor. Without trade (in autarky), Home's daily production is 20 tons of wheat and 10 tons of corn. Suppose that Home completely specializes, and it consumes 20 tons of wheat after it begins trading with Foreign. Home trades with Foreign at a 1-to-1 ratio of corn for wheat. How many tons of corn does Home consume when it trades with Foreign?
A) 10 tons of corn
B) 20 tons of corn
C) 30 tons of corn
D) 40 tons of corn

126. Assume that two countries (Home and Foreign) each produce two goods (corn and wheat) under constant cost production. Home produces 0.5 ton of corn or 1 ton of wheat with a day of labor. Foreign produces 1 ton of corn and 0.5 ton of wheat. Without trade (in autarky), Home's daily production is 20 tons of wheat and 10 tons of corn. At which international price will Home's gains from trade be largest?
A) 1/2 ton of wheat per ton of corn
B) 1 ton of wheat per ton of corn
C) 1.5 tons of wheat per ton of corn
D) 2 tons of wheat per ton of corn

127. Assume that two countries (Home and Foreign) each produce two goods (corn and wheat) under constant cost production. Home produces 1/2 ton of corn or 1 ton of wheat with a day of labor. Foreign produces 1 ton of corn and 1/2 ton of wheat. Suppose that, after trade occurs, the international price actually becomes 1.5 tons of wheat per ton of corn. Which of the following statements is true?
A) Home will gain from trade but Foreign will not.
B) Foreign will gain from trade but Home will not.
C) Neither home nor Foreign will gain from trade.
D) Both Home and Foreign will gain from trade.

128. Assume that Germany and China can produce beer and cloth. If the MPL_c/MPL_b for Germany is 2/5 and MPL_c/MPL_b for China is 1, then Germany and China have a comparative advantage in:
A) cloth and beer, respectively.
B) beer and cloth, respectively.
C) beer.
D) cloth.

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129. Assume that Germany and China can produce beer and cloth. If the MPL_c/MPL_b for Germany is 2/5 and MPL_c/MPL_b for China is 1, then China should:
A) specialize in producing beer and export beer.
B) specialize in producing cloth and export cloth.
C) not specialize, because China will not benefit from it.
D) specialize in producing cloth and import cloth.

130. Assume that Germany and China can produce beer and cloth. If the MPL_c/MPL_b for Germany is 2/5 and MPL_c/MPL_b for China is 1, then Germany should:
A) specialize in producing beer and export beer.
B) specialize in producing cloth and export cloth.
C) not specialize, because Germany will not benefit from it.
D) specialize in producing cloth and import cloth.

131. Using the marginal product theory of wages, a worker's "real" wage is:
A) twice the amount of the "money" wage.
B) what the "money" wage will purchase in terms of products.
C) what she earns after taxes.
D) what she would earn if her employer paid her fairly.

132. A worker's "real" wage is related to:
A) her productivity in the workplace.
B) the value of her production to her employer.
C) the nation's absolute advantage in production of that product.
D) her productivity in the workplace, the value of her production to her employer, and the nation's absolute advantage in production of that product.

133. Which of the following statements describes what the Ricardian model predicts as a nation improves its technology and productivity?
A) Its standard of living will rise.
B) Wages of its workers will fall.
C) It will lose its absolute advantage.
D) It will lose its comparative advantage.

134. For China, the result of opening its economy was:
A) a decline in its wages.
B) an increase in wages.
C) a reduction in the amount exported.
D) a reduction in the amount imported.

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135. The case study of wages and productivity in the textbook demonstrates that:
    A) workers lose out when international trade occurs.
    B) internationally, worker productivity varies directly with real wages.
    C) workers who get educated get higher wages.
    D) workers become more productive, but most of the value-added goes to the owners of capital.

136. For China and India, the result of opening their economies was:
    A) very large decreases in per capita real incomes.
    B) very large increases in per capita real incomes.
    C) no change in per capita real incomes.
    D) small increases in per capita real incomes.

137. A comparison of wages and value-added in manufacturing across countries suggests that there:
    A) is no relationship between value-added and wages.
    B) is a negative relationship between value-added and wages.
    C) wages tend to rise as productivity increases.
    D) wages tend to rise as productivity falls.

138. In the United States, one worker can produce 10 tons of steel per day or 20 tons of chemicals per day. In the United Kingdom, one worker can produce 5 tons of steel per day or 15 tons of chemicals per day. The United States has the absolute advantage in the production of:
    A) steel.
    B) chemicals.
    C) neither steel nor chemicals.
    D) both steel and chemicals.

139. In the United States, one worker can produce 10 tons of steel per day or 20 tons of chemicals per day. In the United Kingdom, one worker can produce 5 tons of steel per day or 15 tons of chemicals per day. The United Kingdom has the absolute advantage in the production of:
    A) steel.
    B) chemicals.
    C) neither steel nor chemicals.
    D) both steel and chemicals.

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140. In the United States, one worker can produce 10 tons of steel per day or 20 tons of chemicals per day. In the United Kingdom, one worker can produce 5 tons of steel per day or 15 tons of chemicals per day. The United Kingdom has a comparative advantage in the production of:
A) steel.
B) chemicals.
C) neither steel nor chemicals.
D) both steel and chemicals.

141. In the United States, one worker can produce 10 tons of steel per day or 20 tons of chemicals per day. In the United Kingdom, one worker can produce 5 tons of steel per day or 15 tons of chemicals per day. If trade occurs between the United States and the United Kingdom, American firms should specialize in producing:
A) steel.
B) chemicals.
C) neither steel nor chemicals.
D) both steel and chemicals.

142. In the United States, one worker can produce 10 tons of steel per day or 20 tons of chemicals per day. In the United Kingdom, one worker can produce 5 tons of steel per day or 15 tons of chemicals per day. International trade will occur between the United States and the United Kingdom so long as 1 ton of steel trades for:
A) at least 1 ton of chemicals, but no more than 2 tons of chemicals.
B) at least 2 tons of chemicals, but no more than 3 tons of chemicals.
C) at least 0.33 ton of chemicals, but no more than 0.5 ton of chemicals.
D) at least 0.55 ton of chemicals but no more than 0.75 ton of chemicals.

143. In the United States, one worker can produce 10 tons of steel per day or 20 tons of chemicals per day. In the United Kingdom, one worker can produce 5 tons of steel per day or 15 tons of chemicals per day. The United Kingdom will gain the most from trade (and trade will be feasible) if 1 ton of steel trades for:
A) 2 tons of chemicals.
B) 3 tons of chemicals.
C) 1.5 tons of chemicals.
D) 0.5 ton of chemicals.

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144. In the United States, one worker can produce 10 tons of steel per day or 20 tons of chemicals per day. In the United Kingdom, one worker can produce 5 tons of steel per day or 15 tons of chemicals per day. Which of the following statements is correct?
A) U.S. wages will be higher than U.K. wages.
B) U.K. wages will be higher than U.S. wages.
C) Wages in the United States and the United Kingdom will be equal.
D) There will be no relationship between U.S. and U.K. wages.

145. If export prices increase, what can we expect the wages in the export sector to do?
A) increase
B) decrease
C) stay the same
D) The answer cannot be determined from the information provided.

146. What does the term *value-added per hour* help us measure?
A) terms of trade
B) labor productivity
C) volume of exports
D) volume of imports

147. In the Ricardian model, wages are equal across industries because:
A) employers care for their workers.
B) workers prefer to work in exporting industries.
C) workers are freely mobile between industries.
D) workers are freely mobile between countries.

148. Suppose that the introduction of computers increases the productivity of workers in the developed world. What you would expect wages to do?
A) Rise mainly in the developed countries.
B) Rise mainly in the developing countries.
C) Fall mainly in the developed countries.
D) Fall mainly in the developing countries.

149. If a home country is exporting corn and importing bikes and if the relative price P_c/P_b is increasing, then:
A) the home country will export less corn.
B) the home country will export more corn.
C) the home country will import the same number of bikes.
D) there is no change in the trade pattern for the home country.

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150. It is possible to determine how much a nation will export over and above its domestic consumption at various international prices, other things being equal, by finding a set of equilibria. This schedule is:
    A) the import demand curve for a nation.
    B) the export supply curve for a nation.
    C) the production possibilities frontier for a nation.
    D) the “no-trade” equilibrium.

151. The flat part of Home's export supply curve in the Ricardian model is due to the assumption that:
    A) Home has a comparative advantage in its export.
    B) Home has an absolute advantage in its export.
    C) the marginal product of labor is constant in the export good.
    D) Home has more labor than Foreign.

152. It is possible to determine how much a nation will import at various international prices, other things being equal, by finding a set of equilibria. This schedule is the:
    A) import demand curve for a nation.
    B) export supply curve for a nation.
    C) production possibilities frontier for a nation.
    D) “no-trade” equilibrium.

153. Because the PPF is a straight line in the Ricardian model, Foreign's import demand curve is:
    A) upward sloping in parts.
    B) flat in parts.
    C) downward sloping in parts.
    D) flat everywhere.

154. International trade equilibrium occurs where:
    A) there is no further way to increase production of any commodity.
    B) the home excess supply curve intersects with the home excess demand curve.
    C) the total world import demand curve intersects with the total world export supply curve.
    D) the amount produced in each nation is just equal to the amounts produced in every other nation.

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155. The international relative price and total quantity of a traded good or service is determined by:
    A) labor shortages that occur worldwide.
    B) the World Trade Organization.
    C) the intersection of the total world import demand curve with the total world export supply curve.
    D) natural resource availability compared with the industrial demand for those products.

156. If prices of a nation's exported products rise in comparison with prices paid for imports, that nation experiences a:
    A) rise in its international terms of trade.
    B) decline in its international terms of trade.
    C) reduction in its imports.
    D) reduction in its exports.

157. Suppose that the U.S. price index for its imports rose from 100 to 120 from 2010 to 2011 and the price index for its exports remained unchanged. Which of the following statements is correct?
    A) The U.S. terms of trade worsened between 2010 and 2011.
    B) The U.S. terms of trade improved between 2010 and 2011.
    C) The U.S. terms of trade improved in 2010 and worsened in 2011.
    D) There was no change in the U.S. terms of trade between 2010 and 2011.

158. Suppose that there is an improvement in a country's terms of trade between 2010 and 2014. This improvement means that:
    A) the country can purchase more imports in 2014, with the same volume of exports as in 2010.
    B) the country can purchase more exports in 2014, with the same volume of exports as in 2010.
    C) the country needs to increase its exports in order to purchase the same volume of imports as in 2010.
    D) regarding its international trade, the country is worse off in 2014 than it was in 2010.

159. If the foreign import demand curve intersects the home country's export supply curve in its horizontal portion, then:
    A) the home country will suffer a loss from international trade.
    B) the home country will not gain from trade.
    C) the home country will gain from trade.
    D) the foreign country will not gain from trade.

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160. Home has a comparative advantage in wheat, and Foreign has a comparative advantage in cloth. Once trade occurs, Home produces 1,000 bushels of wheat, and Foreign produces 1,000 yards of cloth. The following table shows the amount of wheat that Home is willing to supply and Foreign is willing to buy at various international prices.

International Price	Home's Wheat Exports	Foreign's Wheat Imports
1 yard/1 bushel	100 bushels	900 bushels
2 yards/1 bushel	200 bushels	800 bushels
3 yards/1 bushel	300 bushels	700 bushels
4 yards/1 bushel	400 bushels	600 bushels
5 yards/1 bushel	500 bushels	500 bushels
6 yards/1 bushel	600 bushels	400 bushels
7 yards/1 bushel	700 bushels	300 bushels
8 yards/1 bushel	800 bushels	200 bushels
9 yards/1 bushel	900 bushels	100 bushels

What is the international price of wheat?

A) 1 yard/bushel
B) 3 yards/bushel
C) 5 yards/bushel
D) 7 yards/bushel

161. Home has a comparative advantage in wheat, and Foreign has a comparative advantage in cloth. Once trade occurs, Home produces 1,000 bushels of wheat, and Foreign produces 1,000 yards of cloth. The following table shows the amount of wheat that Home is willing to supply and Foreign is willing to buy at various international prices.

International Price	Home's Wheat Exports	Foreign's Wheat Imports
1 yard/1 bushel	100 bushels	900 bushels
2 yards/1 bushel	200 bushels	800 bushels
3 yards/1 bushel	300 bushels	700 bushels
4 yards/1 bushel	400 bushels	600 bushels
5 yards/1 bushel	500 bushels	500 bushels
6 yards/1 bushel	600 bushels	400 bushels
7 yards/1 bushel	700 bushels	300 bushels
8 yards/1 bushel	800 bushels	200 bushels
9 yards/1 bushel	900 bushels	100 bushels

In equilibrium, how many bushels of wheat will Foreign import?

A) 900 bushels
B) 700 bushels
C) 500 bushels
D) 300 bushels

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162. Home has a comparative advantage in wheat, and Foreign has a comparative advantage in cloth. Once trade occurs, Home produces 1,500 bushels of wheat, and Foreign produces 1,000 yards of cloth. The following table shows the amount of wheat that Home is willing to trade to acquire more cloth.

Home's Wheat Exports	Foreign's Cloth Exports
400 bushels	200 yards
550 bushels	300 yards
700 bushels	400 yards
800 bushels	500 yards
950 bushels	600 yards
1,050 bushels	700 yards
1,105 bushels	800 yards

If the international price of cloth is 1.5 bushels of wheat per yard, how many bushels of wheat will Home export to Foreign?

A) 1,050 bushels
B) 800 bushels
C) 700 bushels
D) 550 bushels

163. Home has a comparative advantage in wheat, and Foreign has a comparative advantage in cloth. Once trade occurs, Home produces 1,500 bushels of wheat, and Foreign produces 1,000 yards of cloth. The following table shows the amount of wheat that Home is willing to trade to acquire more cloth.

Home's Wheat Exports	Foreign's Cloth Exports
400 bushels	200 yards
550 bushels	300 yards
700 bushels	400 yards
800 bushels	500 yards
950 bushels	600 yards
1,050 bushels	700 yards
1,105 bushels	800 yards

If the international price of cloth is 1.5 bushels of wheat per yard, how many yards of cloth will Foreign export to Home?

A) 500 yards
B) 600 yards
C) 700 yards
D) 1,150 yards

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164. Home has a comparative advantage in wheat, and Foreign has a comparative advantage in cloth. Once trade occurs, Home produces 1,500 bushels of wheat, and Foreign produces 1,000 yards of cloth. The following table shows the amount of wheat that Home is willing to trade to acquire more cloth.

Home's Wheat Exports	Foreign's Cloth Exports
400 bushels	200 yards
550 bushels	300 yards
700 bushels	400 yards
800 bushels	500 yards
950 bushels	600 yards
1,050 bushels	700 yards
1,105 bushels	800 yards

Suppose that Home's trade price rose from 0.5 bushel of wheat per yard of cloth in 2009 to a bushel of wheat per yard of cloth in 2010. What does this movement represent in terms of Home's terms of trade?

A) It is an improvement in Home's terms of trade.
B) It is a deterioration in Home's terms of trade.
C) There is no change in Home's terms of trade.
D) The answer cannot be determined based on the information provided.

165. Home has a comparative advantage in wheat, and Foreign has a comparative advantage in cloth. Once trade occurs, Home produces 1,500 bushels of wheat, and Foreign produces 1,000 yards of cloth. The following table shows the amount of wheat that Home is willing to trade to acquire more cloth.

Home's Wheat Exports	Foreign's Cloth Exports
400 bushels	200 yards
550 bushels	300 yards
700 bushels	400 yards
800 bushels	500 yards
950 bushels	600 yards
1,050 bushels	700 yards
1,105 bushels	800 yards

Suppose that Home's trade price rose from 0.5 bushel of wheat per yard of cloth in 2009 to a bushel of wheat per yard of cloth in 2010. Which of the following statements is true?

A) Home's situation had greatly improved in 2010.
B) Home's situation had deteriorated in 2010.
C) Home's situation was the same as it was in 2009.
D) Home's situation had slightly improved in 2010.

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166. Home has a comparative advantage in wheat, and Foreign has a comparative advantage in cloth. Once trade occurs, Home produces 1,500 bushels of wheat, and Foreign produces 1,000 yards of cloth. The following table shows the amount of wheat that Home is willing to trade to acquire more cloth.

Home's Wheat Exports	Foreign's Cloth Exports
400 bushels	200 yards
550 bushels	300 yards
700 bushels	400 yards
800 bushels	500 yards
950 bushels	600 yards
1,050 bushels	700 yards
1,105 bushels	800 yards

Suppose that Home's trade price rose from 0.5 bushel of wheat per yard of cloth in 2009 to a bushel of wheat per yard of cloth in 2010. We conclude that the change in Home's export price means that Home was worse off in 2010 than it was in 2009. Which of the following statements *best* explains this conclusion?

A) Home had to export twice as much wheat to obtain a yard of cloth in 2010 as it did in 2009.
B) Home had to export half as much wheat to obtain a yard of cloth in 2010 as it did in 2009.
C) Home had to export the same amount of wheat to obtain a yard of cloth in both 2009 and 2010.
D) Home had to export three times the amount of wheat to obtain a yard of cloth in 2010 as it did in 2009.

167. In 2000, the U.S. terms of trade was one. In 2009 the U.S. export price index was 1.15 and the U.S. import price index was 1.18. Which of the following statements is the *best* interpretation of the change in the U.S. terms of trade between 2000 and 2009?

A) In 2009, the United States had to export 2% more in order to obtain the same amount of imports as in 2000.
B) In 2009, the United States could export 2% less to obtain the same of amount of imports as in 2000.
C) Prices of U.S. exports rose more rapidly than prices of U.S. imports.
D) The U.S. terms of trade improved between 2000 and 2009.

168. With other things unchanged, a rise in the average price of imports or a fall in the average price of exports will:

A) improve the terms of trade.
B) worsen the terms of trade.
C) expand the production possibilities frontier.
D) contract the production possibilities frontier.

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169. (Table: The Prices of Ghana's Exports and Imports) Suppose that the table gives values of price indices for Ghana's exports and imports in 2012 and in 2014. Did Ghana's terms of trade improve, deteriorate, or remain unchanged between 2012 and 2014?

	2012	2014
Export price	100	120
Import price	100	110

A) The terms of trade improved.
B) The terms of trade deteriorated.
C) The terms of trade remained unchanged.

170. An increase in the price of imported goods will:
A) increase the volume of imports.
B) decrease the volume of imports.
C) shift the production possibility frontier inward.
D) shift the production possibility frontier outward.

171. The Prebisch–Singer hypothesis concludes that:
A) because of unfair trading practices, labor in developing countries is exploited.
B) developing countries experience a long-run decline in their terms of trade, as the demand for primary products in higher-income countries declines relative to their demand for manufactured goods.
C) OPEC has been responsible for a slowdown in the world's standard of living.
D) technology lowers the cost of manufactured products, so developing countries should see an increase in their terms of trade.

172. The textbook authors conclude that the Prebisch–Singer hypothesis:
A) is not true.
B) is true.
C) is valid in some instances but showed no consistent trend and cannot be considered a general rule.
D) is valid only since 1995, when the World Trade Organization began its operations.

173. Several economists have hypothesized that the terms of trade for developing countries will decline over time. Which of the following might be a cause of this decline?
A) Technological progress in manufactured goods has caused their prices to fall.
B) Some developing countries are able to keep the price of their exports high by restricting supplies on the world market.
C) Increased demand for developing country exports has caused prices of developing country exports to rise.
D) The demand for primary product exports from developing countries has not risen as fast as the demand for manufactured exports of industrialized countries.

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174. What are the shapes of production possibilities frontiers in the Ricardian model?

175. In an autarkic situation, demonstrate that a country will be at its optimal production if it produces where an indifference curve is tangent to the production possibilities frontier.

176. Why is a country able to consume outside its production possibilities frontier when it engages in international trade?

177. If a country has a comparative advantage in producing rice and a comparative disadvantage in producing pencils, does the Ricardian model predict that the real wage in rice production will fall and the real wage in pencil production will rise as a result of international trade? Explain.

178. Assume that, in autarky, an economy has 150 workers and the MPL_c is two cars and the MPL_b is five boats. Demonstrate how one can derive the autarkic price of cars in this economy.

179. Suppose that:
1. Malaysia requires 1 hour of labor to produce 1 pound of rice and 2 hours of labor to produce 1 pencil;
2. Indonesia requires 2 hours of labor to produce 1 pound of rice and 4 hours of labor to produce 1 pencil;
3. each country has 10,000 hours of labor to allocate between the production of rice and pencils; and
4. in autarky, Malaysia consumes 5,000 pounds of rice and 2,500 pencils.
Which country has an absolute advantage in rice production? In pencil production?
Which country has a comparative advantage in rice production? In pencil production?
Will trade between the two countries be mutually beneficial?

180. Why does the United States import textiles from Asian nations when it has an absolute advantage in textile production?

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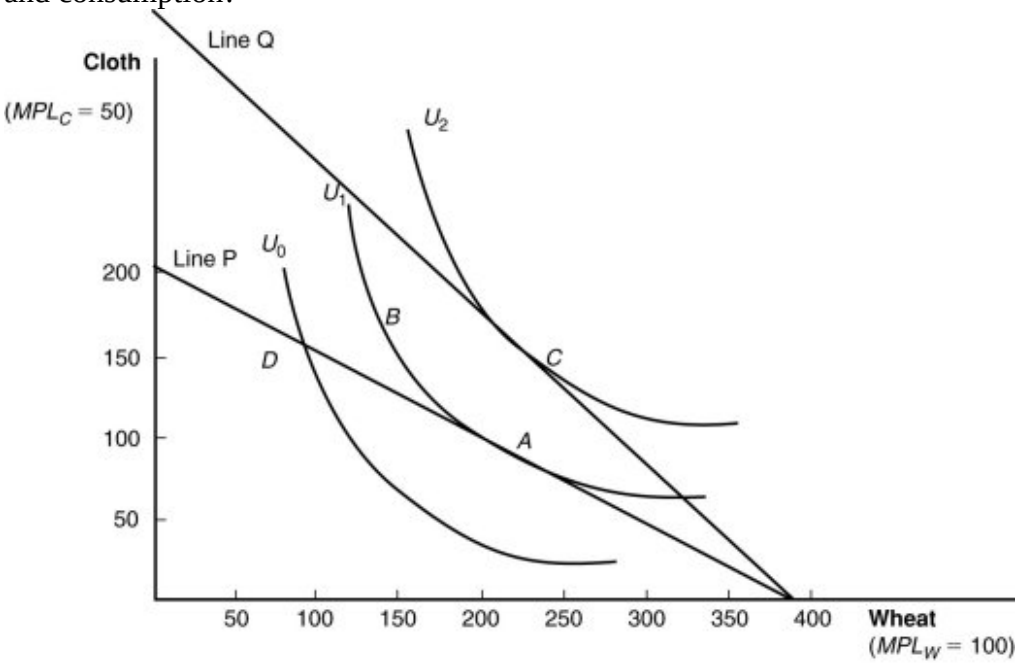
181. Use the following table to determine the absolute and comparative advantages of China and the United States in producing wheat and textiles.

Output Per Worker		
	United States	**China**
Textiles	$165,000	$27,000
Wheat	12,260 bushels	300 bushels

182. In the Ricardian model, what is expected to happen to real wages in each country as trade occurs?

	Country A	**Country B**
MPL in wheat	1 bushel	2 bushels
MPL in cloth	1 yard	1 yard
Autarkic prices	1 bushel = 1 yard	2 bushels = 1 yard
Trade prices	3/2 bushel = 1 yard	3/2 bushel = 1 yard
Real wage with trade	3/2 bushel = 1 yard	2/3 yard = 1 bushel

183. (Figure: International Trade Equilibrium) Which is the before-trade point of production and consumption?



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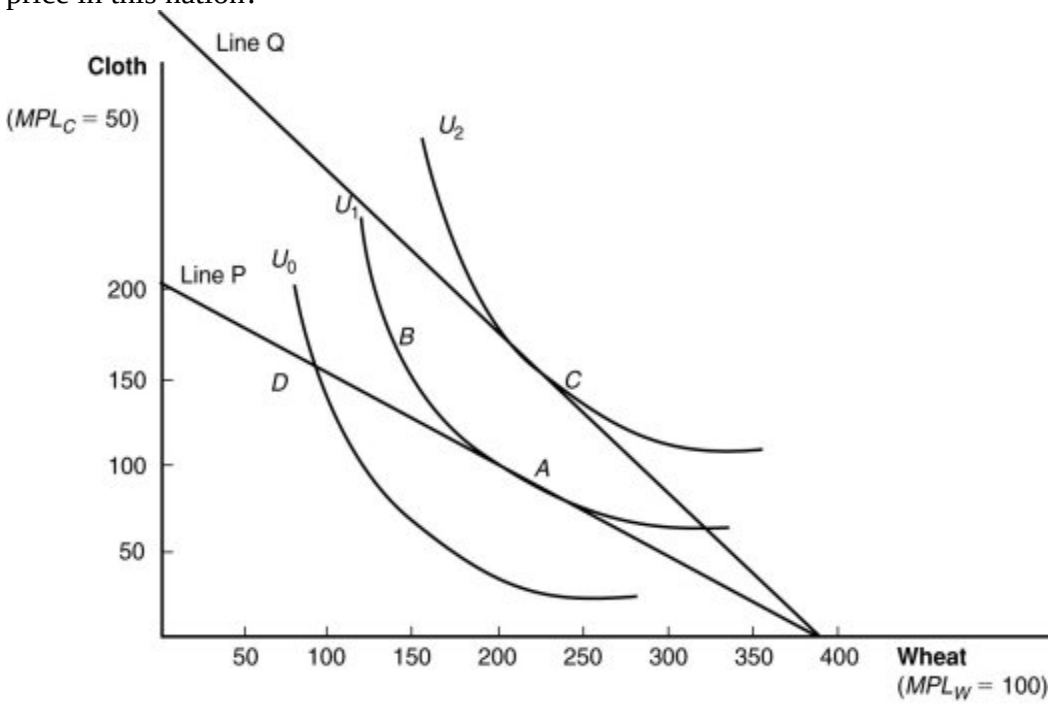
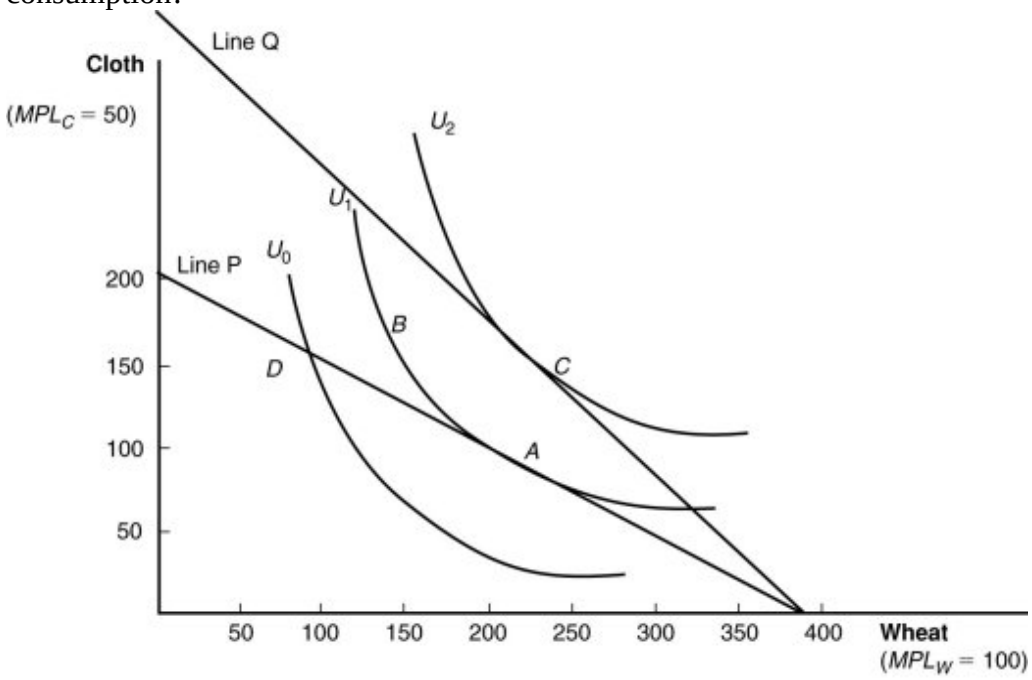
184. (Figure: International Trade Equilibrium) Which line shows the before-trade relative price in this nation?



185. (Figure: International Trade Equilibrium) Which point shows the after-trade point of consumption?



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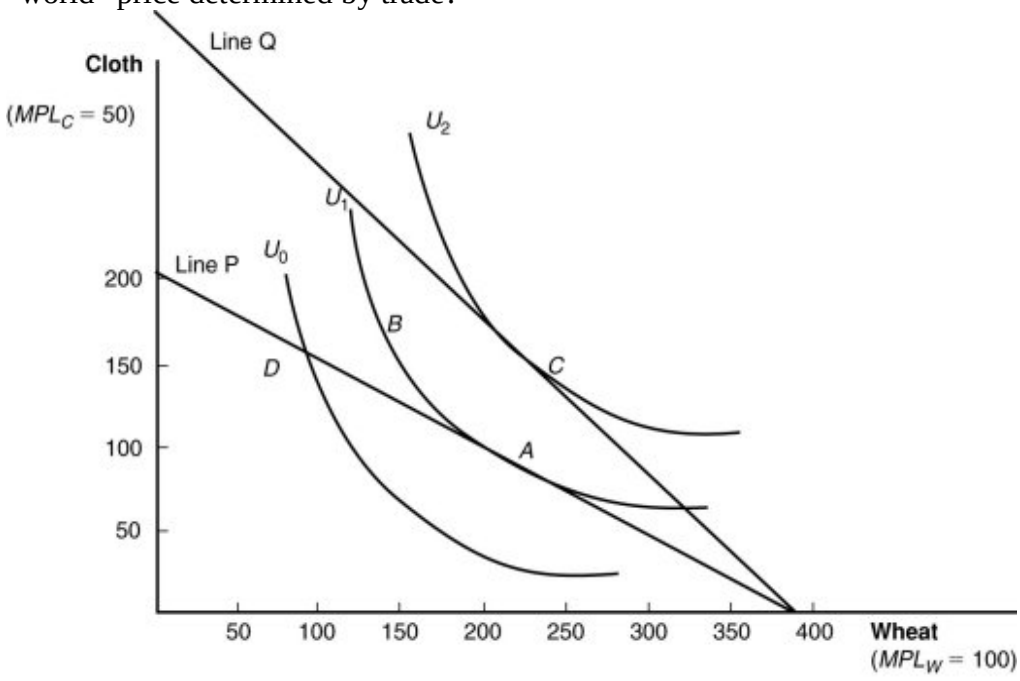
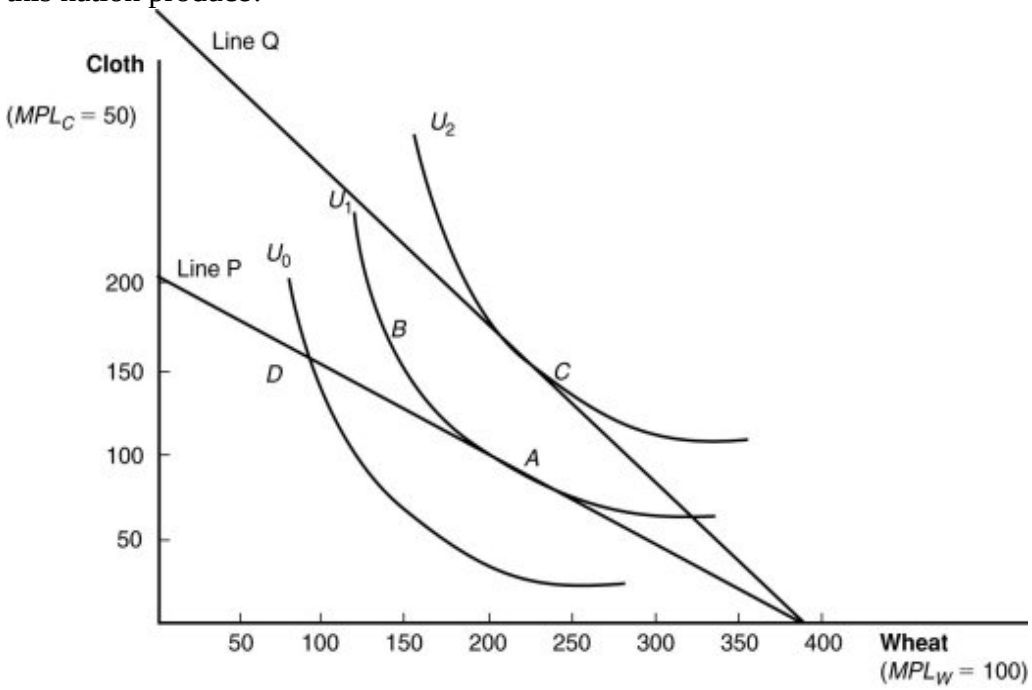
186. (Figure: International Trade Equilibrium) Which line shows the new equilibrium "world" price determined by trade?



187. (Figure: International Trade Equilibrium) Before trade, how many units of wheat will this nation produce?



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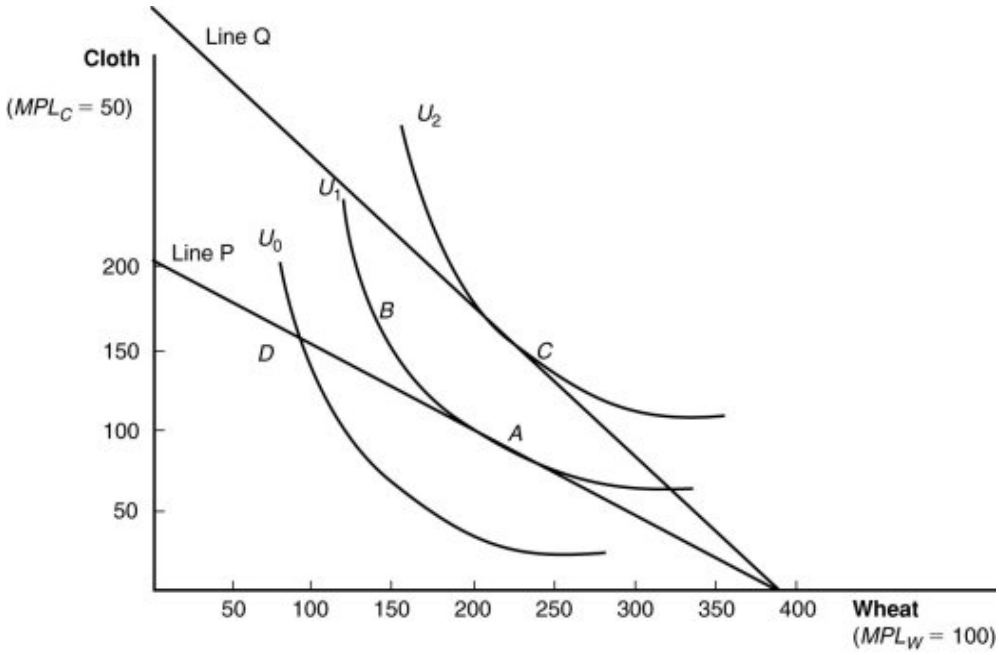
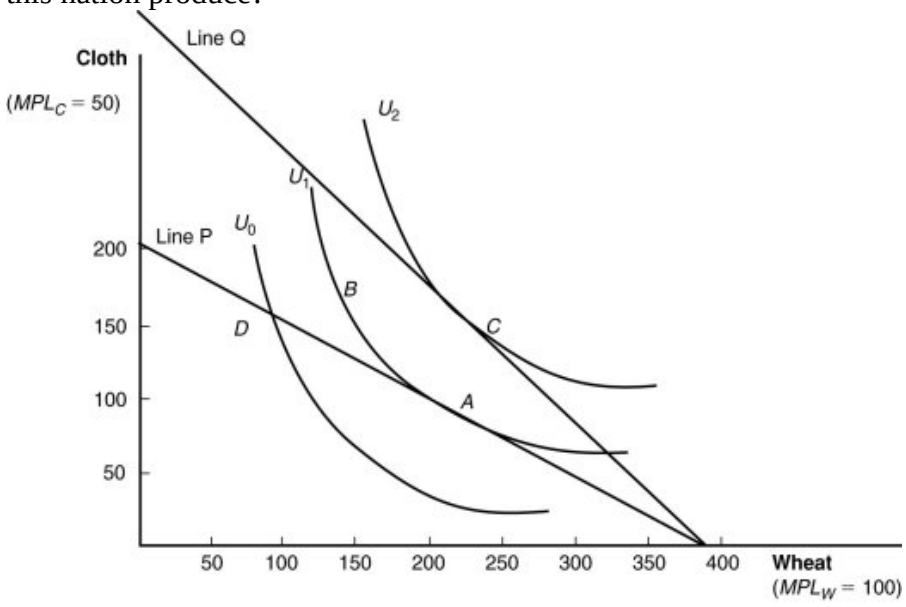
188. (Figure: International Trade Equilibrium) Before trade, how many units of wheat will this nation consume?



189. (Figure: International Trade Equilibrium) Before trade, how many units of cloth will this nation produce?



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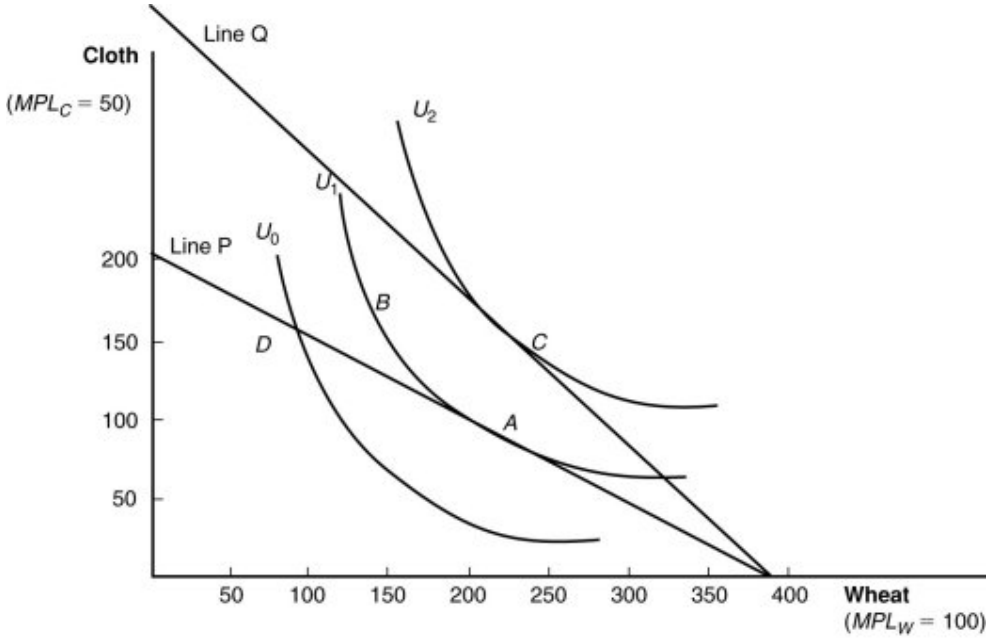
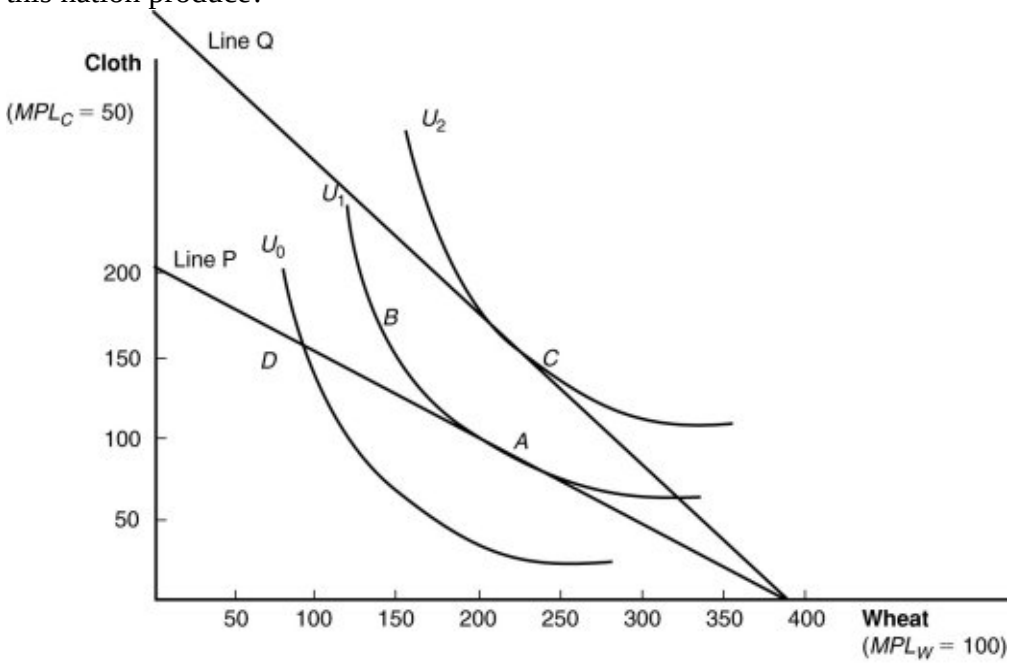
190. (Figure: International Trade Equilibrium) Before trade, how many units of cloth will this nation consume?



191. (Figure: International Trade Equilibrium) Assume that this country specializes in the good in which it has comparative advantage. After trade, how many units of wheat will this nation produce?



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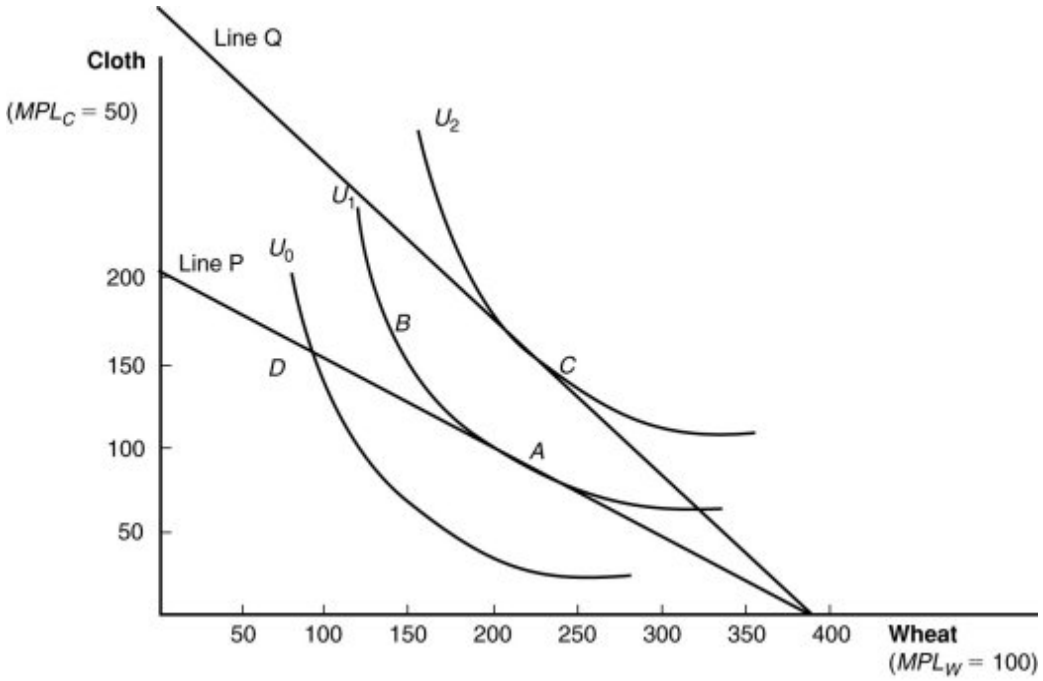
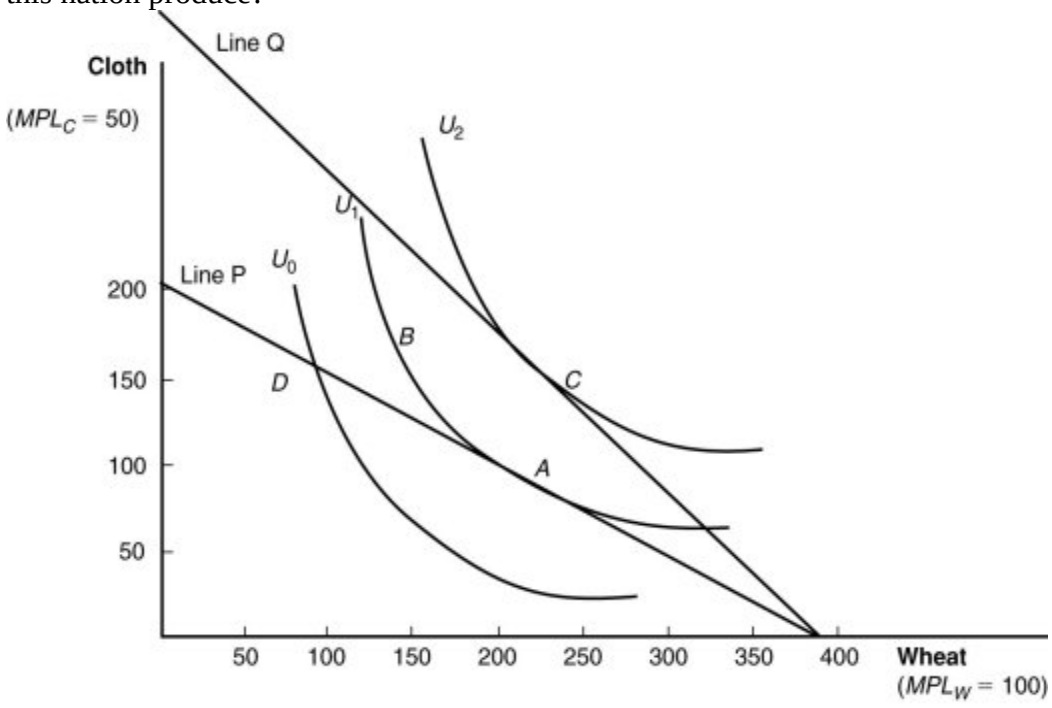
192. (Figure: International Trade Equilibrium) After trade, how many units of wheat will this nation consume?



193. (Figure: International Trade Equilibrium) Assume that the country specializes in the good in which it has comparative advantage. After trade, how many units of cloth will this nation produce?



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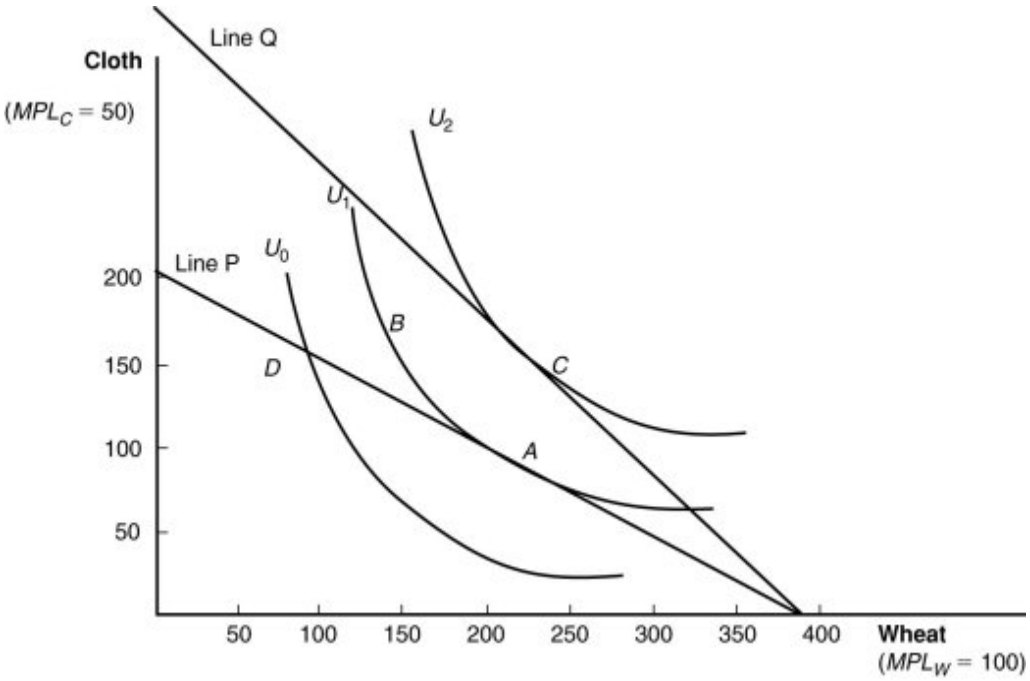
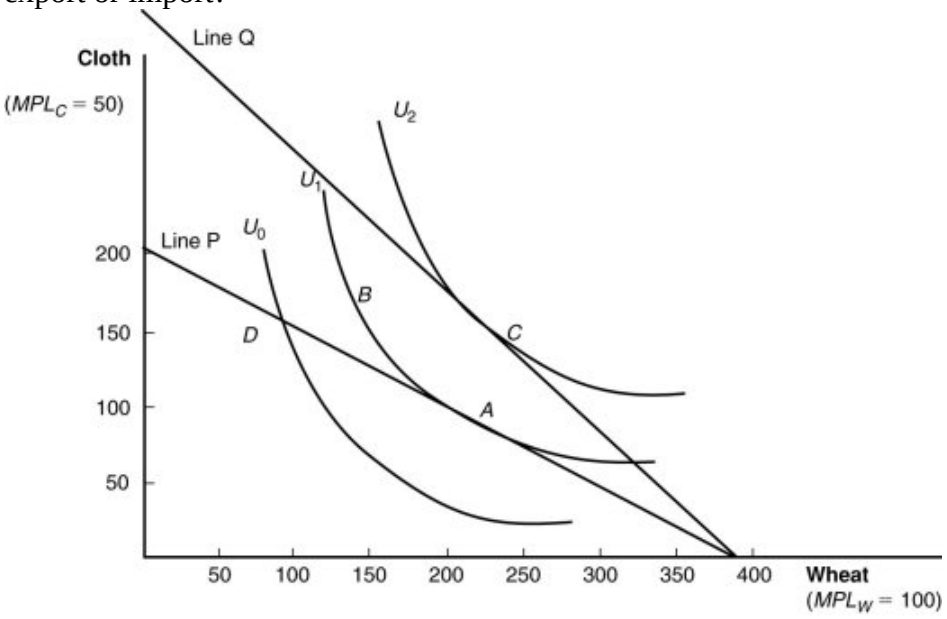
194. (Figure: International Trade Equilibrium) After trade, how many units of cloth will this nation consume?



195. (Figure: International Trade Equilibrium) How many units of wheat will this nation export or import?



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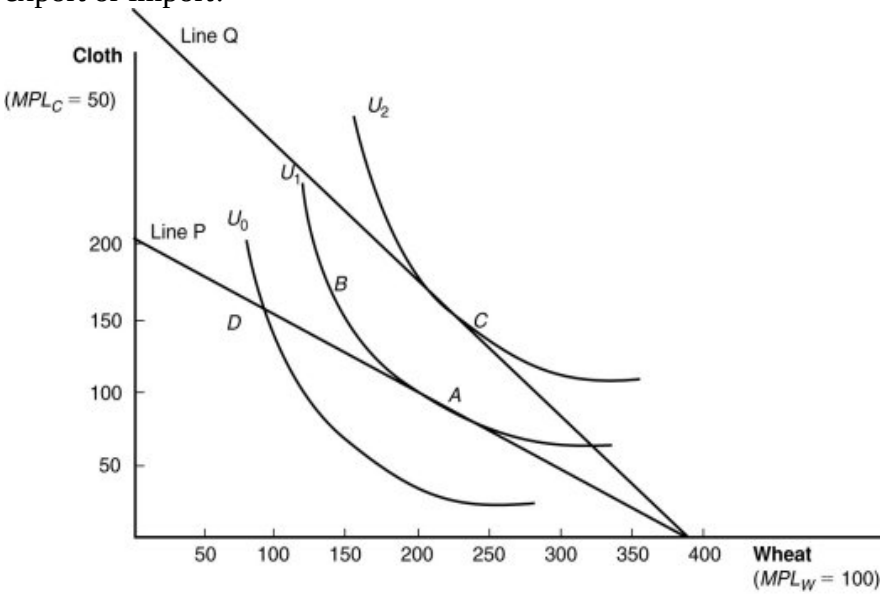
196. (Figure: International Trade Equilibrium) How many units of cloth will this nation export or import?



197. Compare the absolute advantages in U.S. and Chinese wheat and textile production to explain why the United States imports textile products from China, even though the typical U.S. textile worker is 7 to 16 times more productive than the typical Chinese textile worker.

198. Suppose that:
- Malaysia requires 1 hour of labor to produce 1 pound of rice and 2 hours of labor to produce 1 pencil;
- Indonesia requires 2 hours of labor to produce 1 pound of rice and 3 hours of labor to produce 1 pencil;
- each country has 10,000 hours of labor to allocate between the production of rice and pencils; and
- in autarky, Malaysia consumes 5,000 pounds of rice and 2,500 pencils.
- when trade occurs, the international price of rice becomes 3/5 pencils per pound of rice.

I. In Malaysia, what are the marginal productivities of labor in rice and pencil production?
II. In Indonesia, what are the marginal productivities of labor in rice and pencil production?
III. What are the autarkic prices of rice and pencils in each country?
IV. In which product will each specialize?
V. What happens to wages in each country when trade occurs?

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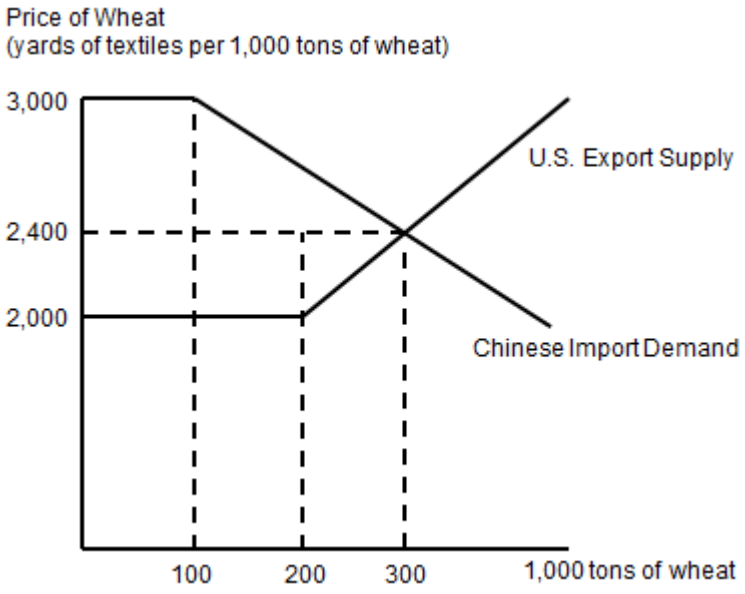
199. Suppose that the following table gives export and import price indexes for Zimbabwe in 1990, 2000, and 2014. (The base year is 1990, so all values are 100 in that year.)

Year	1990	2000	2014
Export price index	100	110	100
Import price index	100	90	110

I. How did Zimbabwe's terms of trade change between 1990 and 2000? Between 2000 and 2014? Between 1990 and 2014?
II. Do these changes represent deterioration or improvement in Zimbabwe's terms of trade?
III. What are the implications of a terms-of-trade deterioration for the Zimbabwean economy?

200. Suppose that China and the United States only trade wheat and textiles with each other. The following graph gives the U.S. supply curve for its exports of wheat to China and the Chinese demand curve for its imports of wheat from the United States.



I. How many tons of wheat did the United States produce prior to trade with China?
II. How many tons of wheat did China produce prior to trade with the United States?
III. What is the international price of wheat in U.S.–Chinese trade?
IV. What will happen to the international price of wheat and Chinese imports from the United States if there is a severe drought that reduces the size of the U.S. wheat harvest?
V. What will happen to the international price of wheat and Chinese imports if there is a severe drought in China that reduces the size of its wheat harvest?

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201. Suppose that the following table shows autarkic production and consumption in Country A and in Country B.

	Country A	Country B
Production of wheat	100 bushels	100 bushels
Production of cloth	100 yards	100 yards

I. What are the autarkic prices of wheat and cloth in each country?
II. Suppose the indifference curves of the two countries are identical. Will trade occur?
III. Suppose the indifference curves of the two countries are NOT identical, with Country A showing a marked preference for wheat and Country B a marked preference for cloth. Under these conditions, will trade occur?

202. The authors provide evidence that wages rose at roughly the same rates as labor productivity in seven countries between 1973 and 2011. In China, many observers believe that wages have been increasing faster than labor productivity in recent years. If true, what are some implications for Chinese trade patterns?

203. Consider the following table.

	Country A	Country B
Hours per bushel of wheat	5	8
Hours per yard of cloth	5	5

I. Which country has an absolute advantage in wheat production?
II. Which country has an absolute advantage in cloth production?
III. Which country has a comparative advantage in wheat production?
IV. Which country has a comparative advantage in cloth production?
V. In what range must the international price of wheat fall?
VI. Which country is likely to gain more from trade if the international price of wheat is 7/5 bushel per yard of cloth?

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Answer Key

1. D
2. B
3. D
4. C
5. D
6. D
7. B
8. B
9. A
10. A
11. B
12. A
13. A
14. D
15. B
16. B
17. A
18. C
19. A
20. C
21. D
22. A
23. C
24. B
25. D
26. C
27. A
28. C
29. A
30. C
31. A
32. C
33. D
34. C
35. A
36. A
37. C
38. B
39. D
40. B
41. A
42. D
43. C
44. C

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45. A
46. C
47. C
48. A
49. D
50. C
51. A
52. A
53. B
54. B
55. C
56. B
57. B
58. D
59. B
60. C
61. D
62. A
63. B
64. C
65. C
66. A
67. B
68. B
69. C
70. B
71. A
72. B
73. C
74. A
75. A
76. B
77. D
78. A
79. B
80. A
81. A
82. C
83. B
84. D
85. D
86. A
87. B
88. D
89. B
90. C

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91. A
92. B
93. A
94. D
95. C
96. B
97. A
98. D
99. D
100. A
101. B
102. B
103. A
104. C
105. A
106. B
107. D
108. D
109. B
110. C
111. B
112. A
113. D
114. D
115. D
116. A
117. B
118. D
119. C
120. C
121. A
122. D
123. B
124. A
125. B
126. A
127. D
128. B
129. B
130. A
131. B
132. D
133. A
134. B
135. B
136. B

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137. C
138. D
139. C
140. B
141. A
142. B
143. A
144. A
145. A
146. B
147. C
148. A
149. B
150. B
151. C
152. A
153. B
154. C
155. C
156. A
157. A
158. A
159. B
160. C
161. C
162. A
163. C
164. B
165. B
166. A
167. A
168. B
169. A
170. B
171. B
172. C
173. D
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175.
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182.

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183.
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203.

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1. Exchange rates affect:
   I. international trade flows
   II. international investment flows
   III. corporate earnings
   A) I
   B) II and III
   C) I and II
   D) I, II, and III

2. The price of a foreign currency expressed in terms of the home currency is called the:
   A) exchange rate.
   B) rate of depreciation.
   C) dollar–yen ratio.
   D) opportunity cost.

3. Normally, exchange rates are expressed as:
   A) the number of units of the currency per one ounce of gold.
   B) the GDP of one nation as a percentage of the GDP of the other.
   C) the price of one unit of foreign currency expressed in terms of the domestic currency.
   D) ratios of the value of one nation's wealth compared with the other.

4. When interpreting the meaning of an exchange rate, the first step is to always:
   A) know exactly what the exchange rate signifies in terms of which currency is the denominator.
   B) watch for ways the currency might lose value.
   C) learn about recent behavior of the exchange rate.
   D) know exactly what the rate is at any moment in time.

5. The notation used in the text for the euro–dollar exchange rate is:
   A) $FX_{€/\$}$.
   B) $FX_{\$/€}$.
   C) $E_{€/\$.}$
   D) $E_{\$/€}$.

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6. Generally, exchange rates are quoted as a single price of a unit of foreign currency rather than a ratio because:
   A) the ratio of the units of home currency to units of foreign currency is always equal to one.
   B) the denominator is always equal to one.
   C) the price is fixed by the government.
   D) the rate is adjustable in increments of 25 basis points.

7. The equation $E_{\$/£} = 2$ means that:
   A) 1 dollar buys 2 pounds.
   B) 1 dollar buys a pound.
   C) 2 pounds buy 1 dollar.
   D) 1 dollar buys 1 pound.

8. If the dollar–euro exchange rate on June 30, 2015, is $1.115 per euro, then the euro–dollar exchange rate would be:
   A) €2.45 per dollar.
   B) €0.897 per dollar.
   C) €1.225 per dollar.
   D) €1 per dollar.

9. The equation $E_{¥/£} = 100$ means that:
   A) 1 yen buys 10 pounds.
   B) 0.1 yen buys 1 pound.
   C) 100 yen buy 1 pound.
   D) 0.01 yen buys 1 pound.

10. When we look at exchange rates between two countries, what is the relationship between the exchange rate expressed in units of the domestic currency and the exchange rate expressed in units of the foreign currency?
    A) They are both equal to one.
    B) They cancel each other out.
    C) One is always the reciprocal of the other.
    D) They can never coexist.

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11. If, in 2011, $1 = 1.5 euros, and in 2016, $1 = 0.9 euros, which of the following statements would be TRUE?
    A) More American tourists will find it cheaper to travel to Europe.
    B) More Europeans will stay home as visits to the United States become more expensive.
    C) Europeans will import fewer products from the United States.
    D) Americans will import fewer products from Europe.

12. A dining table costs $3,000 in New York and the same table costs 5,000 euros in Rome. Thus, $1 is equal to:
    A) 1 euro.
    B) 2 euros.
    C) 1.67 euros.
    D) 0.6 euros.

13. (Table: Exchange Rates Across Currencies) If the exchange rate on January 1, 2016, is $1 = 144 yen, then:

Country	Price per dollar (January 1, 2015)
Canada	$1.2
Japan	120 yen
Mexico	12 pesos
India	45 rupees

    A) the dollar has appreciated 10% against the yen.
    B) the dollar has depreciated 24% against the yen.
    C) the yen has depreciated 12% against the dollar.
    D) the yen has depreciated 20% against the dollar.

14. (Table: Exchange Rates Across Currencies) Based on the information provided, which of the following statements is TRUE?

Country	Price per dollar (January 1, 2015)
Canada	$1.2
Japan	120 yen
Mexico	12 pesos
India	45 rupees

    A) 1 peso = 10 yen
    B) 1 rupee = 10 yen
    C) 1 peso = 3 rupees
    D) $1 Canadian = 35 rupees

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15. (Table: Exchange Rates Across Currencies) Based on the information provided, one Canadian dollar is equal to _____ Mexican pesos and _____ Indian rupees.

Country	Price per dollar (January 1, 2015)
Canada	$1.2
Japan	120 yen
Mexico	12 pesos
India	45 rupees

A) 10; 73.5
B) 10; 37.5
C) 12; 37.5
D) 12; 45

16. If a nation's currency buys fewer units of a foreign currency today than yesterday, we say the value of its currency has:
A) appreciated.
B) depreciated.
C) stagnated.
D) become inverted.

17. If today €1 exchanges for ¥135, and tomorrow €1 exchanges for ¥150, we say the euro has:
A) appreciated.
B) depreciated.
C) stagnated.
D) become inverted.

18. When a nation's currency appreciates, it purchases _____ units of a foreign currency and its currency is said to _____.
A) fewer; strengthen
B) more; strengthen
C) fewer; weaken
D) more; weaken

19. If one nation's currency strengthens against a foreign currency, the other nation's currency must _____ against the domestic currency.
A) strengthen
B) equalize
C) weaken
D) appreciate

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20. When the dollar declines in value against a foreign currency, it is called a(n):
    A) appreciation.
    B) depreciation.
    C) inflation.
    D) deflation.

21. In European terms, when the exchange rate for the U.S. dollar increases:
    A) the dollar has appreciated.
    B) the dollar has depreciated.
    C) the euro has appreciated.
    D) the dollar has weakened.

22. Which of the following statements is equivalent to an appreciation of the dollar relative to the euro?
    A) The dollar buys fewer euros now.
    B) The euro buys fewer dollars now.
    C) The dollar costs less.
    D) The euro buys more dollars now.

23. When the dollar "cost" of a unit of foreign currency falls, the dollar is _____ against the foreign currency.
    A) depreciating
    B) appreciating
    C) equalizing
    D) holding its own

24. If a euro costs $1.25 today, and it costs $1.50 tomorrow, what has happened to the dollar-euro exchange rate?
    A) Both the dollar and euro have depreciated.
    B) The dollar has appreciated and the euro has depreciated.
    C) The dollar has depreciated and the euro has appreciated.
    D) Both the dollar and euro have appreciated.

25. It is customary to express changes in the exchange rates of two currencies over time, as:
    A) the loss of purchasing power of one currency divided by the loss of purchasing power of the other currency.
    B) the percentage change expressed as an appreciation or depreciation of one against the other.
    C) a ratio of the absolute values (without signs).
    D) a ratio of the price of gold in each nation.

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26. In general, the percentage of appreciation of one nation's currency is equal to:
    A) its rate of growth of real GDP.
    B) its purchasing power.
    C) its population growth.
    D) the percentage of depreciation of the foreign nation's currency.

27. Slight discrepancies in the rates of appreciation versus depreciation of two currencies are related to:
    A) a mathematical quirk that percentage increases are always larger than percentage decreases because, in the first case, the denominator is smaller.
    B) the imprecise nature of the calculations.
    C) the lack of reliable information.
    D) the volatile nature of exchange rates.

28. Changes in exchange rates are usually expressed in percentage terms. The percentage rate of appreciation for one currency will be close to the rate of depreciation for the other nation whenever:
    A) the change in the rate is very small.
    B) the exchange rates are very different in quantitative terms.
    C) the change in the rate is very large.
    D) one exchange rate is 50% more than the other one at the time of the change.

29. If $E_{\$/£}$ moves from 2 to 3, this is a percentage change of:
    A) 50%.
    B) 33.3%.
    C) –33.3%.
    D) –50%.

30. If $E_{\$/£}$ increases by 20%, this is consistent with an increase from:
    A) 4 to 5.
    B) 4 to 6.
    C) 5 to 6.
    D) 4 to 7.

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31. (Table: Currency Values I) The U.S. dollar appreciated against the:

Currency	2015	2016
$1	1.5 euros	1 euro
$1	2 Brazilian reais (real)	1.5 Brazilian reais (real)
$1	2 British pounds	3 British pounds
$1	45 Indian rupees	50 Indian rupees

A) British pound and the Indian rupee.
B) euro and the Indian rupee.
C) euro and the Brazilian real.
D) euro and the Indian rupee.

32. (Table: Currency Values I) The U.S. dollar depreciated against the _____ and the _____.

Currency	2015	2016
$1	1.5 euros	1 euro
$1	2 Brazilian reais (real)	1.5 Brazilian reais (real)
$1	2 British pounds	3 British pounds
$1	45 Indian rupees	50 Indian rupees

A) euro; Brazilian real
B) Indian rupee; Brazilian real
C) British pound; euro
D) euro; Indian rupee

33. (Table: Currency Values I) The U.S. dollar appreciated against the real by:

Currency	2015	2016
$1	1.5 euros	1 euro
$1	2 Brazilian reais (real)	1.5 Brazilian reais (real)
$1	2 British pounds	3 British pounds
$1	45 Indian rupees	50 Indian rupees

A) 2.4%.
B) 25%.
C) 75%.
D) 12.4%.

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34. (Table: Currency Values I) The U.S. dollar depreciated against the euro by:

Currency	2015	2016
$1	1.5 euros	1 euro
$1	2 Brazilian reais (real)	1.5 Brazilian reais (real)
$1	2 British pounds	3 British pounds
$1	45 Indian rupees	50 Indian rupees

A) 0.6%.
B) 1%.
C) 33%.
D) 100%.

35. (Table: Currency Values I) The dollar rose against the rupee by:

Currency	2015	2016
$1	1.5 euros	1 euro
$1	2 Brazilian reais (real)	1.5 Brazilian reais (real)
$1	2 British pounds	3 British pounds
$1	45 Indian rupees	50 Indian rupees

A) 111%.
B) 11%.
C) 1%.
D) –1%.

36. (Table: Currency Values I) In 2015, how many euros would it take to buy one pound?

Currency	2015	2016
$1	1.5 euros	1 euro
$1	2 Brazilian reais (real)	1.5 Brazilian reais (real)
$1	2 British pounds	3 British pounds
$1	45 Indian rupees	50 Indian rupees

A) 0.75
B) 1.33
C) 1.5
D) 3

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37. (Table: Currency Values I) Between 2015 and 2016, how did the euro do against the British pound?

Currency	2015	2016
$1	1.5 euros	1 euro
$1	2 Brazilian reais (real)	1.5 Brazilian reais (real)
$1	2 British pounds	3 British pounds
$1	45 Indian rupees	50 Indian rupees

A) It appreciated.
B) It held steady.
C) It depreciated.
D) Not enough information is provided to know how well the euro did.

38. (Table: Currency Values I) If you want, *ceteris paribus*, to invest dollars in 2015 and then convert them back into dollars in 2016, which is the best currency to invest in?

Currency	2015	2016
$1	1.5 euros	1 euro
$1	2 Brazilian reais (real)	1.5 Brazilian reais (real)
$1	2 British pounds	3 British pounds
$1	45 Indian rupees	50 Indian rupees

A) the euro
B) the real
C) the pound
D) the rupee

39. A bilateral exchange rate is an exchange rate:
A) that has two sides: maximal and minimal.
B) that has exhibited both appreciation and depreciation.
C) that is a hybrid between fixed and floating.
D) between two currencies.

40. What is a multilateral exchange rate?
A) It is an exchange rate that is measured by using a number of different techniques.
B) It is an exchange rate that calculates the overall movement of the rate against more than just one other currency.
C) It is an exchange rate that is measured once every 10 years.
D) It is a rate that is set by the IMF for many different nations.

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41. The average of the bilateral rate changes for a nation, weighted by the importance of the trading partner, is known as the:
    A) real exchange rate.
    B) nominal exchange rate.
    C) effective exchange rate.
    D) direct exchange rate.

42. To calculate the multilateral effective exchange rate for a nation for each trading partner:
    A) add the share of trade to the percent change in the exchange rate and add the sums.
    B) divide the share of trade by the percent change in the exchange rate and add the dividends.
    C) subtract the share of trade from the percent change in the exchange rate and add the differences.
    D) multiply the share of trade by the change in the exchange rate and add the products.

43. Your textbook refers to a “basket” of currencies. What is it?
    A) a random selection of currencies
    B) currencies that are low-valued and unstable
    C) currencies that represent the average increase in value for all currencies
    D) currencies most used by the nation in its trade and other transactions, weighted by their importance

44. We use the effective exchange rate calculation to tell us:
    A) the underlying rate of inflation.
    B) how international finance affects a nation's exchange rate.
    C) how the overall international purchasing power of a nation has changed.
    D) the natural (real) exchange rate taking out the effects of inflation.

45. Suppose 80% of U.S. trade is with England and the rest is with Japan. If the dollar rises by 10% against the pound and rises by 20% against the yen, what is the percentage change in the effective exchange rate of the United States?
    A) –16%
    B) –12%
    C) –8%
    D) –4%

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46. Suppose 60% of U.S. trade is with England and the rest is with Japan. If the dollar rises by 20% against the pound but falls by 20% against the yen, what is the percentage change in the effective exchange rate of the United States?
    A) –12%
    B) –4%
    C) ±0%
    D) –8%

47. If the dollar falls by 20% against the euro and rises by 10% against the yen, which of the following values for European and Japanese trade with the United States are consistent with a 10% increase in the effective exchange rate of the United States?
    A) Europe: 33%; Japan: 66%
    B) Europe: 66%; Japan: 33%
    C) Europe: 50%; Japan: 50%
    D) None of these values is consistent with this increase.

48. The U.S. dollar's effective exchange rate since 2002 steadily weakened up to 2012, before rebounding somewhat. However, it didn't weaken as much against ALL currencies as it did against the currencies of the major developed countries (which include the pound and the euro). This could be because:
    A) the U.S. government has a strong dollar policy.
    B) the large trading partners, China and Japan, did not allow their currencies to appreciate greatly against the U.S. dollar.
    C) the rate of appreciation is always somewhat greater than the rate of depreciation.
    D) the United States does not trade with some nations, so the effective rate is biased.

49. When exchange rates change and prices stay the same:
    A) relative prices of traded goods in the two nations are unchanged.
    B) the price of foreign goods expressed in the home currency will always rise.
    C) imports get more expensive as the home currency depreciates.
    D) the price of foreign goods expressed in the home currency will always fall.

50. The fall in the U.S. dollar has not affected Chinese trade as much as that for other countries because:
    A) China has appreciated its currency.
    B) China has reduced its exports.
    C) China has depreciated its currency.
    D) China has pegged its currency to the dollar.

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51. Using exchange rates, it is possible to price-compare in different nations. If an iPod costs $90 in the United States and €45 in France, in which nation would you get the better deal when the dollar–euro exchange rate is $2/€?
    A) The iPod would be cheaper in France.
    B) The iPod would be cheaper in the United States.
    C) The iPod would cost the same in both countries.
    D) From the information provided, it is impossible to answer this question.

52. Using exchange rates, it is possible to price-compare in different nations. If an iPod costs $90 in the United States and €45 in France, in which nation would you get the better deal when the dollar–euro exchange rate is $2.50/€?
    A) The iPod would be cheaper in France.
    B) The iPod would be cheaper in the United States.
    C) The iPod would cost the same in both countries.
    D) From the information provided, it is impossible to answer this question.

53. A term that categorizes patterns of exchange rate behavior is known as:
    A) exchange rate regimes.
    B) exchange rate realms.
    C) exchange rate principles.
    D) exchange rate observations.

54. If a government wishes to limit or prohibit fluctuations in exchange rates, it will choose:
    A) to fix, or peg, the value of its currency to some base currency over a sustained period.
    B) to allow its currency to rise or fall in price, depending on a variety of supply and demand factors.
    C) to suspend purchases and sales of its currency.
    D) to allow the rate to be set by international banks.

55. A flexible or floating exchange rate system is one in which the:
    A) government closely monitors and controls the value due to trade flows.
    B) government makes no attempt to fix it against any base currency.
    C) government actively tries to achieve fluctuations in the rate.
    D) government fixes the rate against the currency of its largest trading partner.

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56. When exchange rates are limited to small fluctuations, but not totally fixed, economists refer to the situation as:
    A) essentially fixed.
    B) essentially floating.
    C) relatively floating.
    D) intermediate regimes.

57. Which of the following exchange rate systems is in the right order, from MOST control to LEAST control?
    A) floating, fixed, managed float
    B) fixed, floating, managed float
    C) managed float, floating, fixed
    D) fixed, managed float, floating

58. When exchange rates are very volatile, with a wide range of variation, the currency is said to be:
    A) in limbo.
    B) in free float.
    C) perfectly flexible.
    D) in sluggish float.

59. What is a currency band?
    A) a limit below which the currency is not allowed to fall
    B) a limit above which the currency is not allowed to rise
    C) a fixed rate regime with some small variations up or down allowed
    D) a very rigid control of the currency—no variation allowed

60. A middle-ground exchange rate regime, between fixed and floating, is NOT called:
    A) a managed float.
    B) a dirty float.
    C) limited flexibility.
    D) a free float.

61. A large and sudden currency depreciation is widely known as:
    A) a managed float.
    B) a crawling peg.
    C) an exchange rate or currency crisis.
    D) a free float.

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62. A sudden and pronounced loss of value of one nation's currency against others is known as a:
    A) currency crisis.
    B) forced devaluation.
    C) thinning of value.
    D) default.

63. An exchange rate crisis is when:
    A) the currency is stable.
    B) the value of a currency declines dramatically.
    C) the value of a currency increases dramatically.
    D) a country fixes the price of its currency.

64. A crawling peg refers to:
    A) a large and sudden currency depreciation.
    B) a fixed exchange rate regime in which the currency is adjusted very frequently to reflect market conditions.
    C) a managed or dirty float, depending on the business cycle.
    D) a drag on exchange rate adjustment caused by imperfect markets.

65. Which nation took the bold step of abandoning its own currency and adopting the U.S. dollar?
    A) China
    B) India
    C) Mexico
    D) Ecuador

66. Which European nation has kept its own currency and maintains a fixed value against the euro?
    A) the United Kingdom
    B) Belgium
    C) Denmark
    D) Russia

67. Since the mid-1990s, the Argentine peso has NOT experienced:
    A) a one-to-one peg with the U.S. dollar.
    B) a large devaluation and crisis.
    C) limited flexibility, after which it was kept in a narrow band with the dollar.
    D) a currency union.

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68. A nation that allowed its currency to steadily depreciate (crawl) over a six-year period is:
    A) France.
    B) Canada.
    C) the United Kingdom.
    D) Colombia.

69. Some nations such as Ecuador chose dollarization because:
    A) the currency was depreciating so rapidly it became nearly worthless.
    B) Ecuadorians wanted to save dollars for eventual emigration to the United States.
    C) the Ecuadorian currency was backed by gold, which was confiscated by government officials.
    D) All of these are reasons why such countries chose dollarization.

70. In 2010, Ilzetzki, Reinhart, and Rogoff classified 182 economies, comparing the:
    A) value of their currencies.
    B) percentage of women in the workforce.
    C) effectiveness of governance and institutions.
    D) flexibility of their exchange rate regimes.

71. Across the globe, exchange rate regimes are:
    A) mostly fixed.
    B) a mix of fixed and floating.
    C) mostly floating.
    D) hard to pinpoint.

72. A currency board is set up to:
    A) manage free-floating currencies.
    B) gradually eliminate currency pegs.
    C) give a peg added durability.
    D) immediately eliminate currency pegs.

73. Some nations use a currency board to manage their currencies. How does this work?
    A) It is all in the hands of international banks.
    B) The International Monetary Fund manages the currency.
    C) There is a fixed rate regime with a set of strict rules and policy guidelines to keep the currency's value stable.
    D) The currency is allowed to float, but its fluctuations are reviewed periodically by a board of economists.

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74. Eurozone countries:
    A) have no separate legal tender.
    B) are pegged to the euro.
    C) are pegged to the dollar.
    D) are fixed against a single currency.

75. If a nation abandons its own currency and decides to use another nation's currency as its own circulating currency, this is known as:
    A) euro-zoning.
    B) dollarization.
    C) a managed float.
    D) a Western regime.

76. Dollarization refers to:
    A) increased trade with the United States, resulting in a glut of dollars circulating in the domestic economy.
    B) the fall of the U.S. dollar.
    C) the dominance of the U.S. dollar in international finance.
    D) the adoption of any foreign currency as an official currency by nations outside the United States, such as El Salvador and Ecuador.

77. The foreign exchange market refers to:
    A) a physical place in the heart of New York City's financial district, where traders come to trade other currencies.
    B) a collection of all purchases and sales of one currency for another, where exchange rates are determined.
    C) the discount window of the Federal Reserve.
    D) the commodity futures market.

78. From 1992 to 2013, the volume of currency traded worldwide:
    A) slumped due to the world recession.
    B) has steadily increased.
    C) fluctuated wildly due to investor expectations.
    D) was concentrated in trades in the developing world.

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79. Which of the following correctly ranks the size of the three largest foreign currency trading centers in dollar volume?
    A) 1. Paris; 2. Miami; 3. London
    B) 1. New York; 2. Rome; 3. Chicago
    C) 1. London; 2. New York; 3. Singapore
    D) 1. Tokyo; 2. Los Angeles; 3. Paris

80. Which of the following is NOT a major foreign exchange center?
    A) London
    B) New York
    C) Tokyo
    D) Chicago

81. Foreign exchange is traded:
    A) weekly on the Internet in special auctions arranged by the Federal Reserve.
    B) continuously all over the world 24 hours a day and seven days a week.
    C) only in officially designated trading centers such as London or New York.
    D) It is traded in none of these ways or venues.

82. The spot market for foreign exchange:
    A) is a market that exists only in one place at one time.
    B) is when a person borrows to speculate in the market.
    C) are purchases and sales of currencies for immediate delivery.
    D) is the rate of exchange quoted during the next business day.

83. A spot contract is a(n):
    A) promise to purchase a foreign currency in 30 days.
    B) promise to purchase a foreign currency in 90 days.
    C) contract for the immediate exchange of currencies.
    D) agreement to sell currencies at a fixed price indefinitely.

84. The overall volume of daily currency trade was ____ in 2013.
    A) $3.2 billion
    B) $32 billion
    C) $320 trillion
    D) $5.3 trillion

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85. What percent of currency transactions involve a trade in the spot market?
    A) 30%
    B) 40%
    C) 60%
    D) 80%

86. A transaction cost associated with spot trading is:
    A) travel to and from the market.
    B) shipping costs.
    C) brokerage commissions.
    D) the spread, which is earned mostly by large banks.

87. Spreads in quotations of exchange rates are:
    A) the geographical dispersion of nations that use the currency.
    B) a measure of contagion involved in changes in exchange rates.
    C) the difference in the price the buyer pays versus the price the seller receives.
    D) the percentage of interest one pays when borrowing to purchase currencies.

88. Market spreads usually range from _____ on large contracts to _____ on small contracts.
    A) 3%; 0.5%
    B) 10%; 2%
    C) 1%; 2%
    D) 0.01%; 5%

89. The difference between the buy at and the sell at price is caused by:
    A) market friction.
    B) transaction cost.
    C) menu cost.
    D) market friction and transaction cost.

90. A derivative is a:
    A) contract derived from a spot market rate.
    B) fixed exchange rate.
    C) flexible exchange rate.
    D) contract between firms for foreign currency.

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91. Forwards, swaps, futures, and options are examples of:
    A) spot market transactions.
    B) transaction costs.
    C) market frictions.
    D) derivatives.

92. The difference between the spot contract and a forward contract is that:
    A) the former is a flexible price on the currency, and the latter is a fixed price.
    B) the former is a contract to be settled immediately, and the latter is a contract to be settled at a future agreed-upon date.
    C) the former is a derivative, and the latter is not a derivative.
    D) the former has a fixed price but the contract can be settled at a later date, and the latter is a contract to be settled immediately.

93. In which of the following categories would an agreement to trade currencies in pre-set amounts at a certain date in the future be included?
    A) an option
    B) a futures contract
    C) a forward contract
    D) a swap

94. The forward contract differs from a futures contract in that:
    A) the forward contract is to be settled immediately.
    B) the futures contract specifies a fixed amount and arranged date, whereas the forward contract can be for any amount or date.
    C) the futures contract cannot be traded in a market, whereas the forward contract can be bought in the market.
    D) forward contracts are standardized, whereas futures contracts are not standardized.

95. Foreign exchange contracts, such as futures, swaps, and options, are collectively known as:
    A) derivatives.
    B) deposits.
    C) spot contracts.
    D) spreads.

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96. The forward market is:
    A) a market that exists only in one place at one time.
    B) when a person borrows to speculate in the market.
    C) the purchases and sales of currencies for delivery at a later time—up to a year.
    D) the rate of exchange quoted during the next business day.

97. In which of the following categories would an agreement to buy or sell a certain quantity of a specified currency at a fixed price at a date 30, 60, 90, 120, or 360 days in the future be included?
    A) an option
    B) a futures contract
    C) a forward contract
    D) a swap

98. Foreign exchange swaps involve:
    A) selling one currency on the spot market and at the same time purchasing it forward.
    B) trading goods rather than money to improve efficiency.
    C) delaying payment of a spot contract until the currency is actually delivered.
    D) a promissory note with repayment in 60 days.

99. A foreign exchange option is:
    A) the right to engage in buying or selling on the spot market.
    B) the right to purchase or sell foreign currency at a specified price on a specified date in the future.
    C) when the price of foreign currency exceeds the spot rate.
    D) when a speculator must decide whether to move into the market.

100. In international finance, hedging indicates:
    A) not being able to make a commitment to buy or sell.
    B) delaying a purchase of foreign exchange, hoping the price will fall.
    C) simultaneously buying several currencies to ensure that at least one will rise in value.
    D) avoiding risk of loss by offsetting an obligation to buy a foreign currency by locking in a contract to sell it at the same time.

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101. When exchange rates are _____, agreeing to wait for one week from today to engage in an international transaction carries _____.
    A) flexible rather than fixed; less risk
    B) flexible rather than fixed; the same amount of risk
    C) flexible rather than fixed; more risk
    D) fixed rather than flexible; the same amount of risk

102. In international finance, speculation involves:
    A) not being able to make a commitment to buy or sell.
    B) taking a risk by purchasing (or selling) a foreign currency asset, holding it in anticipation of a rate increase (decrease).
    C) simultaneously buying several currencies to ensure that at least one will rise in value.
    D) avoiding risk of loss by offsetting an obligation to buy a foreign currency by locking in a contract to sell it at the same time.

103. In which of the following categories would the sale of foreign currency with a forward repurchase agreement be included?
    A) an option
    B) a futures contract
    C) a forward contract
    D) a swap

104. An agreement that gives one party the right to buy from or sell to another party a specified quantity of currency at a specified price would be included in which of the following transactions?
    A) an option
    B) a futures contract
    C) a forward contract
    D) a swap

105. Interbank trading is:
    A) a monopoly business in the United States.
    B) controlled by just 10 banks.
    C) a state-mandated business.
    D) a highly competitive market, with hundreds of banks offering services.

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106. Why does a government impose controls or restrictions on converting domestic currency to foreign currency (capital controls)?
    A) The government is trying to stop the rapid decline in value of the domestic currency.
    B) The government wants to speculate on its own currency.
    C) The government is trying to suppress international trade.
    D) The government is trying to avoid imposing taxes on citizens.

107. When a government sets limits or puts any restrictions on the international flow of currency or payments, these measures are called:
    A) forex regulation and restriction.
    B) capital controls.
    C) safeguard measures.
    D) black-market measures.

108. Why may a “black market” develop in nations in which government has imposed capital controls?
    A) All foreign currency purchases and sales are conducted and controlled by the government, and it is illegal to trade privately.
    B) Traders are trying to avoid the taxes they must pay on each transaction.
    C) The government makes a huge profit on currency trades that the private sector wants access to.
    D) None of these explains why a “black market” may develop in these nations.

109. To bypass capital controls, people who need foreign currency sometimes resort to:
    A) forward foreign exchange markets.
    B) stock markets.
    C) black markets.
    D) farmers' markets.

110. Foreign exchange market intervention refers to:
    A) actions taken by speculators to increase profits from trading.
    B) actions taken to lower currency trading risks and make the markets safer.
    C) the forgiving of penalties and other punishments for illegal foreign exchange activities.
    D) government purchases or sales of a nation's own currency in international markets to change or stabilize the value of the currency.

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111. To avoid the imposition of capital controls, a government wishing to keep its exchange rate at a certain level, may rely on:
    A) forbidding all sales or purchases of foreign currency.
    B) asking the large banks to keep the prices at a certain level.
    C) asking for loans from the International Monetary Fund (IMF).
    D) intervention in the foreign exchange market to raise or lower the exchange rate.

112. To maintain a fixed exchange rate via intervention in the markets, a government should:
    A) be ready to crack down on illegal traders.
    B) be ready to buy the home currency with foreign currency reserves when the home currency's value declines.
    C) be ready to sell the home currency when the home currency's value declines.
    D) be ready to borrow funds from international banks when the home currency's value declines.

113. Foreign exchange arbitrage refers to:
    A) the simultaneous purchase and sale of a foreign currency asset in different markets to take advantage of a price differential.
    B) actions taken to lower currency trading risks and make the markets safer.
    C) the forgiving of penalties and other punishments for illegal foreign exchange activities.
    D) government purchases or sales of a nation's own currency in international markets to change or stabilize the value of the currency.

114. Capital control is described by all of the following, EXCEPT:
    A) restricting merchandise trade.
    B) restricting the trade in foreign exchange.
    C) channeling the currency trade through the government.
    D) restricting cross-border financial transactions.

115. *Parallel markets* is another term for:
    A) government interventions.
    B) interbank trades.
    C) black markets.
    D) trade in goods and in services.

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116. Arbitrage is:
    A) capital controls.
    B) interest rate management by the central bank.
    C) exploiting profit opportunities in the market resulting from price differences.
    D) investing in junk bonds or businesses that are not ethical.

117. Whenever there is a difference in the same exchange rate offered in two markets, an arbitrageur would:
    A) wait for the markets to come to equilibrium.
    B) buy in the market where the currency is offered at the cheaper rate, and simultaneously sell the currency where the rates are higher.
    C) sell the cheaper-rate currency in the home market.
    D) not consider the trade, since prices would undoubtedly change before it could be executed.

118. Suppose $1 = 10.5 pesos in New York and $1 = 9.6 pesos in Mexico City. If you had $10,000 using arbitrage, your profits would be:
    A) $937.50.
    B) 937 pesos.
    C) 9,600 pesos.
    D) $790.

119. If the U.S. interest rate is 4% per year and the U.K. interest rate is 9% per year, then:
    A) an investor will see no reason to invest in the United Kingdom.
    B) an investor will borrow money in the United Kingdom and invest it in the United States.
    C) an investor can borrow money in the United States and invest it in the United Kingdom and profit.
    D) an investor will find that the returns are the same in both countries.

120. Arbitrage with two currencies is NOT possible when:
    A) there is an exchange rate difference in two markets.
    B) traders are familiar with markets.
    C) the exchange rates are in equilibrium, and the same is occurring in all markets.
    D) the exchange rates are extremely volatile.

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121. Suppose $1 = 1.5 euros in London and $1 = 1.2 euros in New York. Which of the following would be the right trade for you to make money?
A) You sell 1,000 euros in London and buy euros in New York.
B) You sell dollars in New York and buy dollars in London.
C) You sell dollars in London and buy dollars in New York.
D) You sell euros in London and buy dollars in New York.

122. Suppose $1 = 120 yen in New York, $1 = 2 euros in London, and one euro = 75 yen in Tokyo. A speculator with $1 million would get a profit of _____ by engaging in a 3-point arbitrage.
A) $1.20
B) 150,000 yen
C) $250,000
D) $1.25 million

123. When it is possible to trade two separate currencies for a common third currency, economists refer to profit opportunities as:
A) backward arbitrage.
B) speculation.
C) triangular arbitrage.
D) forced equilibrium.

124. Approximately how many different national currencies exist in the world today?
A) more than 100
B) more than 5,000
C) 12
D) 535

125. If 1 euro is priced at $1.25 and if 1 euro will also buy 88 Japanese yen (€1 = ¥88), in equilibrium, with no arbitrage opportunities, how much is the cross rate between the yen and the dollar (yen–dollar rate)?
A) ¥150/$
B) ¥70.4/$
C) ¥20/$
D) ¥5/$

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126. A vehicle currency is:
    A) contraband—it is used to smuggle other assets into controlled economies.
    B) a widely accepted, tradable currency that serves as a currency to use for buying or selling one's own.
    C) a currency whose value changes rapidly and erratically.
    D) a currency used to purchase imports of autos, buses, and other transportation equipment.

127. Suppose the average interest rate on euro bonds is 4%, and the average interest rate on U.S. dollar bonds is 6%. Which should the investor choose?
    A) neither—bonds have high default rates
    B) both—an investor will choose some euro bonds and some U.S. bonds to diversify
    C) the euro bond because their economies are usually more stable
    D) It is not possible to answer without information on exchange rates.

128. The forward exchange rate:
    A) allows investors to be sure of the price at which they can trade forex in the future.
    B) is the rate at which a trader can purchase currency for immediate delivery.
    C) is the rate of discount that international banks get when they purchase.
    D) is the rate that speculators consider if they are looking for bargain prices.

129. If investors can cover themselves in the forward market, they will take advantage of interest rate differentials by:
    A) buying assets (lending) denominated in the high-interest rate currency, and selling assets (borrowing) in the low-interest rate currency.
    B) removing funds from both investments.
    C) turning over their investment portfolio to an expert in one of the two nations.
    D) selling assets denominated in high-interest rate currency and buying assets in the low-interest rate currency.

130. There can be an opportunity for covered interest arbitrage if:
    A) the interest rate is low and the exchange rate is high.
    B) the forward/spot rate difference is either larger or smaller in percentage terms than the difference in the interest rates on two currencies.
    C) there is a time lag on the settlement of the transactions.
    D) the interest rate is high and the exchange rate is low.

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131. Covered interest parity refers to the situation in which:
A) interest rates are the same in both currencies.
B) spot and forward rates are the same in both currencies.
C) the forward rate between the two currencies is equal to the ratio of their returns times the spot rate between the two currencies.
D) there is an opportunity for arbitrage whenever prices are sluggish and sticky.

132. If the future rate equals the spot rate, then in equilibrium:
A) the exchange rate must depreciate.
B) interest rates should be different.
C) the exchange rate will appreciate.
D) None of these will occur.

133. Whenever nations remove capital controls on their currencies:
A) returns are equalized and arbitrage opportunities disappear.
B) there is no opportunity for trade or arbitrage, and differences in returns disappear.
C) the government sets the returns on its currency, so traders cannot make profits.
D) in those nations, because government has ensured its safety, capital is free to move.

134. Uncovered interest parity refers to:
A) borrowing in the low-interest currency and lending in the high-interest currency without covering against a change in the exchange rates.
B) foolish actions that usually are not successful.
C) activities that are designed to raise or lower interest rates but are risky.
D) the practice of depositing all of one's funds in one currency without regarding the pros and cons of such a transaction.

135. Liquidity of an asset refers to:
A) its level of risk.
B) whether it is held domestically or overseas.
C) the ease with which it can be sold.
D) its volatility.

136. The situation in which the difference in interest rates between two currencies is equal to the expected change in the spot rate over the same period is known as:
A) covered interest arbitrage.
B) covered interest parity.
C) uncovered interest parity.
D) the forward-spot reversal.

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137. As the expected future spot rate moves closer to the spot rate, uncovered interest parity indicates that:
    A) interest rates should remain constant.
    B) interest rates should converge.
    C) interest rates should diverge.
    D) The answer depends on whether the expected future spot rate is higher or lower than the spot rate.

138. In equilibrium, the expected future spot rate is equal to the:
    A) current spot rate.
    B) current interest rate.
    C) interest rate spread.
    D) current forward rate.

139. If the U.S. interest rate is 4% per year and the U.K. interest rate is 9% per year, which of the following statements is TRUE?
    A) The dollar will depreciate 4% in one year.
    B) The pound will depreciate 9% in one year.
    C) The pound will depreciate 5% in one year.
    D) The dollar will appreciate 4% in one year.

140. In equilibrium, if both uncovered and covered interest parity hold, what condition should exist?
    A) World interest rates will be equal.
    B) Rates of inflation will equalize.
    C) The forward rate will equal the expected future spot rate.
    D) The forward rate will decrease as the spot rate rises.

141. Whenever a nation's currency is expected to depreciate because of various market conditions, the following situation exists regarding its forward rate for another currency:
    A) there is a forward discount from the spot rate by the rate of depreciation.
    B) there is a forward premium from the spot rate by the rate of depreciation.
    C) there is no difference between the spot and forward rates.
    D) there is no predictable relationship between the spot and forward rates.

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142. The expected rate of currency depreciation is equal to the proportional difference between the forward rate and the spot rate. This is known as the:
    A) forward depreciation.
    B) backward depreciation.
    C) forward premium.
    D) backward premium.

143. The total rate of return on an international asset is the:
    A) spot rate plus the forward rate.
    B) rate of return on the asset plus or minus the expected capital gain or loss on currency changes.
    C) rate of return on the asset minus commissions.
    D) rate of return plus inflation minus taxes.

144. In equilibrium, the interest parity condition requires that:
    A) all rates of returns will equalize.
    B) all spot and forward rates will equalize.
    C) the home interest rate minus its expected rate of currency depreciation (against the foreign country) will equal the foreign interest rate on similar assets.
    D) all rates of returns and forward rates will equalize.

145. From uncovered interest parity, we know that when the domestic currency is expected to depreciate, the domestic interest rate should be:
    A) greater than the foreign interest rate.
    B) greater than the foreign exchange rate.
    C) less than the foreign interest rate.
    D) less than the foreign exchange rate.

146. From uncovered interest parity, we know that when the domestic interest rate is greater than the foreign one:
    A) the domestic currency is expected to appreciate.
    B) the domestic currency is expected to depreciate.
    C) the foreign currency is expected to appreciate.
    D) the foreign currency is expected to depreciate.

147. Explain in your own words the effective exchange rate and why policy makers pay more attention to it than the bilateral exchange rate.

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148. Suppose a country trades with three countries: Brazil (20% of trade), China (45%), and France (35%). Over the last year, the currency of this country has depreciated by 4% against the Brazilian real, appreciated by 3% against the Chinese yuan, and depreciated by 7% against the euro. What has happened to the effective exchange rate of the country?

149. If a pair of shoes in the United States costs $45, and a pair of the exact same shoes is sold in Mexico for 430 pesos while the exchange rate is E = $0.1100/pesos, what arbitrage opportunities exist (if any)? Ignoring transactions costs, explain how you would take advantage of this.

150. You have studied how nations have adopted a wide variety of exchange rate regimes from freely floating with almost no intervention to rigid and fixed with complete control by the government. Other nations have chosen different paths, relinquishing some or all control over their currencies. Discuss two such systems and comment on their differences.

151. What are the similarities and differences between a currency union and dollarization?

152. Assume your company has a contract to purchase 100,000 computers from a Korean company. The payment is due on receipt of the shipment and must be delivered in Korea on December 31, 2015. In July 2015, when you are arranging the contract, the computers are priced at 500,000 won each. The spot rate in July 2015 is $1 in exchange for 1,250 won.
I. Calculate the U.S. dollar price (in July 2015) of one unit of Korean currency.
II. What is the total price of the computers in dollars?
III. What is the total price of the computers in won?
IV. What would you advise your firm to do to avoid a loss on the deal if the Korean won costs 10% more compared with the U.S. dollar when payment is due in December?

153. Explain two of the four main types of derivatives used in the foreign exchange market, and why they are used.

154. In July 2015, the spot rate is $1 exchanging for 1,250 won. You are convinced that the won will appreciate by the end of the year. How might you profit if your hunch is correct?

155. What role(s) might the government play in the foreign exchange markets? Explain.

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156. Is it possible to engage in arbitrage under the following scenario? The exchange rate in New York is E = $1.25/euro, and it is E = $1.35/euro in London. Explain how you would do it.

157. Explain how a trader can exploit an arbitrage opportunity using the spot market and the forward market, after discovering a difference in interest rate returns on two currencies.

158. Explain the difference between risky and riskless arbitrage.

159. Suppose the U.S. dollar interest rate is 5% and the euro interest rate is 6%. Assume no transaction costs, fees, or commissions. In all markets, the spot rate for euros is $1.25. You believe in one year's time the spot rate for euros will be $1.30. An investor would like to invest $100,000 for one year and is willing to take on risk for a higher return.

    I. How would you advise him?
    II. What if you are incorrect and the euro rate is lower? Calculate the “break-even” exchange rate; that is, an investment that returns the same as investing $100,000 at 5%.

160. Suppose the U.S. dollar interest rate is 3%, while the interest rate in the United Kingdom is 6%. Your friend thinks he can convert his dollars, invest in the United Kingdom and convert his pounds back into dollars at the end of a year, allowing him to make a lot higher return. Assuming uncovered interest parity (UIP), explain why he is incorrect.

161. Suppose interest rates in the United States are 5.5%, while they are 3% in the euro area. Currently the dollar–euro exchange rate is at $2.50 per euro. If UIP holds, what do you expect the exchange rate to be in the future? Round to three decimals.

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Answer Key

1. D
2. A
3. C
4. A
5. C
6. B
7. B
8. B
9. C
10. C
11. D
12. C
13. D
14. A
15. B
16. B
17. A
18. B
19. C
20. B
21. A
22. B
23. B
24. C
25. B
26. D
27. A
28. A
29. A
30. C
31. A
32. A
33. B
34. C
35. B
36. A
37. A
38. A
39. D
40. B
41. C
42. D
43. D
44. C

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45. B
46. B
47. D
48. B
49. C
50. D
51. C
52. B
53. A
54. A
55. B
56. D
57. D
58. B
59. C
60. D
61. C
62. A
63. B
64. B
65. D
66. C
67. D
68. D
69. A
70. D
71. B
72. C
73. C
74. A
75. B
76. D
77. B
78. B
79. C
80. D
81. B
82. C
83. C
84. D
85. D
86. D
87. C
88. D
89. D
90. A

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91. D
92. B
93. B
94. B
95. A
96. C
97. C
98. A
99. B
100. D
101. C
102. B
103. D
104. A
105. B
106. D
107. B
108. A
109. C
110. D
111. D
112. B
113. A
114. A
115. C
116. C
117. B
118. A
119. C
120. C
121. C
122. C
123. C
124. A
125. B
126. B
127. D
128. A
129. A
130. B
131. C
132. D
133. B
134. A
135. C
136. C

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137. B
138. D
139. C
140. C
141. B
142. C
143. B
144. C
145. A
146. B
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