TOBB-ETU, Economics Department

Macroeconomics II (IKT 234)

Closed and Open Economies in the Medium Run

Intro 1 - Practice Questions (Ozan Eksi)

A CLOSED ECONOMY

1-) In the classical model with fixed output, the supply and demand for goods and services are balanced by:

a-) government spending.

b-) taxes.

c-) fiscal policy.

d-) the interest rate.

2-) In a closed economy, Y-C-G equals:

a-) national saving.

b-) private saving.

c-) public saving.

d-) financial saving.

3-) In a closed economy, if national saving is lower than the investment demand, real interest rate.

a-) falls

b-) increases.

c-) stays the same

d-) first drops, then increases

4-) In a closed economy, an increase in government spending will lead to ... in the real interest rate and ... in private saving.

5-) According to the Fisher effect, the nominal interest rate moves one-for-one with changes in the:

a-) inflation rate.

b-) expected inflation rate.

c-) ex ante real interest rate.

d-) ex post real interest rate

6-) Let the following equations characterize an economy:

$Y = C + I + G$

$Y = 200$

$C = 23 + 0.8(Y - T)$

$I = 50 - 9r$

$G = 60$

$T = 40 + 0.1Y$

a-) Calculate national saving, private saving, and public saving.

b-) Determine the equilibrium interest rate.

7-) If production remains the same and all prices double, then real GDP

a-) and nominal GDP are both constant

b-) is constant and nominal GDP is reduced by half.

c-) is constant and nominal GDP doubles.

d-) doubles and nominal GDP is constant

8-) According to the quantity equation, if M increases by 5 percent and V increases by 2 percent, then

a-) real income increases by approximately 3 percent.

b-) nominal income increases by approximately 7 percent

c-) the price level increases by approximately 3 percent.

d-) the price level increases s by approximately 7 percent

9-) The real return on holding money on your pocket is:

a-) minus the nominal interest rate.

b-) minus the real interest rate.

c-) the inflation rate.

d-) minus the inflation rate.

10-) The return on holding money on your pocket is:

a-) minus the nominal interest rate.

b-) minus the real interest rate.

c-) zero.

d-) minus the inflation rate.

AN OPEN ECONOMY

INTRODUCTORY DEFINITIONS

1-) An economy that interacts with other economies is known as

a-) an export economy.

b-) a friendly economy.

c-) an open economy.

d-) a balanced trade economy.

2-) Equilibrium in an open economy is characterized by

a-) net exports = net capital outflow.

b-) net exports + net capital outflow = savings.

c-) domestic investment + net capital outflow = savings.

d-) Both a and c are correct.

3-) Which of the following statements is true about a country with a trade deficit?

a-) Net exports are negative

b-) Net capital outflow must be positive

c-) Exports exceed imports.

d-) Net exports are positive

4-) If domestic saving exceeds domestic investment, then the extra saving will be used to:

a-) make loans to the government.

b-) make loans to foreigners.

c-) repay the national debt.

d-) repay loans to the Federal Reserve.

5-) In a country with a "small open economy", the real interest rate will always be:

a-) above the world real interest rate.

b-) below the world real interest rate.

c-) equal to the world real interest rate.

d-) equal to the world nominal interest rate.

6) The group of financial institutions through which savers can indirectly lend to borrowers are called _ while the ones through which savers can lend directly to borrowers are called _ .

a-) financial intermediaries; financial markets.

b-) financial markets; financial intermediaries.

c-) financial markets; open markets.

d-) financial intermediaries; open markets.

7-) A large and sudden movement of capital out of a country is called

a-) a capital inflow.

b-) capital flight.

c-) a trade deficit.

d-) a trade surplus.

8) Capital flight is often caused by

a-) political stability.

b-) shifts away from the industrial sector and towards the service sector.

c-) political instability.

d-) policies of the International Monetary Fund

10-) The phrase "twin deficits" refers to

a-) a country's trade deficit and its government budget deficit.

b-) the fact that if a country has a trade deficit, its trading partners must also have trade deficits.

c-) the equality of a country's saving deficit and its investment deficit.

d-) a country's trade deficit and its net capital outflow deficit.

REAL AND NOMİNAL EXCHANGE RATES

1-) If the exchange rate changes from 3 Brazilian reals per euro to 4 reals per euro,

a-) none of these answers

b-) the euro has appreciated

c-) the euro has depreciated

d-) the euro could have appreciated or depreciated depending what happened to relative prices in Brazil and the Eurozone countries.

2-) If the real exchange rate (foreign currency/home currency) is high, foreign goods:

a-) and domestic goods are both relatively expensive.

b-) and domestic goods are both relatively cheap.

c-) are relatively expensive and domestic goods are relatively cheap.

d-) are relatively cheap and domestic goods are relatively expensive.

3-) The percentage change in the nominal exchange rate (foreign currency/home currency) equals the percentage change in the real exchange rate plus the:

a-) foreign inflation rate minus the domestic inflation rate.

b-) domestic inflation rate minus the foreign inflation rate.

c-) foreign exchange rate minus the domestic exchange rate.

d-) domestic interest rate minus the foreign interest rate.

4-) Suppose the money supply in Mexico grows more quickly than the money supply in the USA. We would expect that

a-) The Mexican peso should appreciate relative to the US dollar.

b-) the Mexican peso should depreciate relative to the US dollar.

c-) none of these answers

d-) the Mexican peso should maintain a constant exchange rate with the US dollar because of purchasing power parity.

ARBITRAGE AND PURCHASING POWER PARITY

1-) When people take advantage of differences in prices for the same good by buying it where it is cheap and selling it where it is expensive, it is known as

a-) arbitrage.

b-) purchasing power parity.

c-) net capital outflow.

d-) currency appreciation.

2-) If the purchasing-power parity theory is true, then:

a-) the net exports schedule is very steep.

b-) all changes in the real exchange rate result from changes in price levels.

c-) all changes in the nominal exchange rate result from changes in price levels.

d-) changes in saving or investment influence only the real exchange rate.

3-) The doctrine of purchasing-power parity:

a-) is a completely accurate description of the real world.

b-) would be entirely accurate if only goods were traded.

c-) would be entirely accurate if all consumers had the same preferences.

d-) provides a reason to expect that movements in the real exchange rate will typically be small or temporary.

4-) Suppose the inflation rate over the last 20 years has been 10 percent in the UK, 7 percent in Japan, and 3 percent in the USA. If purchasing power parity holds, which of the following statements is true?

a-) the value of the dollar should have fallen compared to the value of the pound and the yen.

b-) the yen should have risen in value compared to the pound and fallen compared to the dollar

c-) the yen should have fallen in value compared to the pound and risen compared to the dollar.

d-) the value of the pound should have risen compared to the value of the yen and the dollar.

TRADE POLICY

1-) A tariff is a

a-) tax on goods produced domestically.

b-) tax on exported goods.

c-) tax on imported goods.

d-) limit placed on the quantity of goods that a country can import.

2-) An export subsidy should have the opposite effect of

a-) a government budget deficit.

b-) capital flight.

c-) an increase in private saving.

d-) a tariff.

3-) Which of the following statements about trade policy is true?

a-) A country's trade policy has no impact on the size of its trade balance

b-) none of these answers

c-) A restrictive import quota decreases a country's net exports.

d-) A restrictive import quota increases a country's net exports.

4-) In response to an import quota

a-) exports increase by more than imports.

b-) imports increase by more than exports.

c-) imports and exports are unaffected, but the government collects revenues.

d-) imports and exports are both reduced but net exports are unchanged

5-) An effective policy to reduce a trade deficit in a small open economy would be to:

a-) increase tariffs on imports.

b-) impose stricter quotas on imported goods.

c-) increase government spending.

d-) increase taxes.

6-) In a small open economy, if consumers shift their preferences toward Chinese clothing, then net exports:

a-) fall and the real exchange rate falls.

b-) fall but the real exchange rate remains unchanged.

c-) remain unchanged but the real exchange rate falls.

d-) and the real exchange rate remain unchanged.

CHANGES IN DOMESTIC DEMAND

1-) In a small open economy, policies that increase:

a-) investment tend to cause a trade surplus.

b-) investment tend to cause a trade deficit.

c-) saving do not affect the trade balance.

d-) saving tend to cause a trade deficit.

2-) In a small open economy, when the government reduces taxes, domestic demand increases but domestic production remains unchanged. Therefore, the price of domestic goods relative to foreign goods (which is the equilibrium real exchange rate):

a-) rises and net exports fall.

b-) rises and net exports rise.

c-) falls and net exports fall.

d-) falls and net exports rise.

3-) Holding other factors constant, legislation to cut taxes in an open economy will:

a-) increase national saving and lead to a trade surplus.

b-) increase national saving and lead to a trade deficit.

c-) reduce national saving and lead to a trade surplus.

d-) reduce national saving and lead to a trade deficit.

4-) An increase in the trade deficit of a small open economy could be the result of:

a-) an increase in taxes.

b-) an increase in government spending.

c-) a decrease in the world interest rate.

d-) the expiration of an investment tax-credit provision.

5-) Consider a small open economy. If large foreign countries increase their domestic government purchases, this policy will tend to increase:

a-) investment in the small open economy.

b-) saving in the small open economy.

c-) net exports by the small open economy.

d-) imports by the small open economy.

6-) An appreciation (an increase) of the real exchange rate in a small open economy could be the result of:

a-) an increase in government spending.

b-) an increase in taxes.

c-) a decrease in the world interest rate.

d-) the expiration of an investment tax-credit provision

A CLOSED ECONOMY

1-) d 2-) a 3-) b 4-) no change...an increase 5-) b 6-) b 7-) c

AN OPEN ECONOMY

INTRODUCTORY DEFINITIONS: 1-) c 2-) d 3-) a 4-) b 5-) c 6-) a 7-) b 8-) c 10-) a

REAL AND NOMİNAL EXCHANGE RATES: 1-) b 2-) d 3-) a 4-) b

ARBITRAGE AND PURCHASING POWER PARITY: 1-) a 2-) c 3-) d 4-) b

TRADE POLICY: 1-) c 2-) d 3-) a 4-) d 5-) d 6-) c

CHANGES IN DOMESTIC DEMAND: 1-) b 2-) a 3-) d 4-) b 5-) c 6-) a