TOBB-ETU, Economics Department

Macroeconomics II (IKT 234)

Open Economy - Practice Questions 2

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1-) Assume that the price levels in two countries are constant. In this situation, we know that

a-) neither the real nor the nominal exchange rate can change.

b-) the real exchange rate can change, while the nominal exchange rate is constant

c-) the nominal exchange rate can change, while the real exchange rate is constant.

d-) the real and nominal exchange rate must move together, changing by the same percentage.

2-) In order for an individual to be indifferent between holding foreign or domestic bonds,

a-) the Marshall-Lerner condition must hold.

b-) the foreign and domestic interest rates must be equal.

c-) the expected rate of depreciation of the domestic currency is zero.

d-) the interest parity condition must hold.

3-) As the economy moves up and to the left along the IS curve, which of the following will occur when exchange rates are flexible?

a-) investment spending decreases

b-) the domestic currency appreciates

c-) net exports decline

d-) all of the above

4-) In an open economy under flexible exchange rates, a reduction in consumer confidence that causes a reduction in consumption will cause which of the following?

a-) an appreciation of the domestic currency

b-) a depreciation of the domestic currency

c-) a reduction in net exports

d-) none of the above

5-) In an open economy under flexible exchange rates, expansionary monetary policy will always cause

a-) an increase in output.

b-) an increase in exports.

c-) a reduction in the exchange rate, E.

d-) all of the above

6-) An increase in domestic demand will have which of the following effects in an open economy?

a-) a positive effect on the trade balance and a positive effect on financial account balance

b-) a negative effect on the trade balance and a positive effect on financial account balance

c-) a positive effect on the trade balance and a negative effect on financial account balance

d-) a negative effect on the trade balance and a negative effect on financial account balance

7-) Which of the following will always cause an increase in net exports?

a-) a reduction in domestic output

b-) an increase in the real exchange rate

c-) an increase in government spending

d-) an increase in investment-

8-) In a flexible exchange rate regime, an increase in the foreign interest rate (i^*) will cause

a-) the Interest Parity curve to shift to the left/up.

b-) the Interest Parity curve to shift to the right/down.

c-) a movement along the Interest Parity curve.

d-) neither a shift nor movement along the Interest Parity curve.

9-) In a flexible exchange rate regime, an increase in the expected exchange rate will cause

a-) the Interest Parity curve to shift to the left/up.

b-) the Interest Parity curve to shift to the right/down.

c-) a movement along the Interest Parity curve.

d-) neither a shift nor movement along the Interest Parity curve.

10-) In a flexible exchange rate regime, an increase in the expected exchange rate will cause

a-) a depreciation of the exchange rate

b-) an increase in output.

c-) a reduction in net exports.

d-) all of the above

11-) In a flexible exchange rate regime, a monetary expansion will cause

a-) an appreciation of the exchange rate

b-) an increase in output.

c-) a reduction in net exports.

d-) all of the above

12-) In a flexible exchange rate regime, a fiscal expansion will cause

a-) an increase in net exports.

b-) an increase in output.

c-) a reduction in the interest rate

d-) all of the above

13-) In a flexible exchange rate regime, assume central bank uses interests rates as a monetary policy pool. A reduction in interest rates will cause

a-) an increase in the money supply

b-) a decrease in output.

c-) an increase in net exports.

d-) A and C

14-) In an open economy, an increase in the country's risk will cause

a-) a depreciation of the exchange rate

b-) an increase in imports.

c-) a reduction in net exports.

d-) all of the above

15-) For this question, assume that there is a simultaneous tax increase and monetary expansion. In a flexible exchange rate regime, we know with certainty that

a-) the exchange rate and output would both increase.

b-) the exchange rate would increase and output would decrease.

c-) the exchange rate would decrease.

d-) the exchange rate would decrease and output would increase.

16-) Suppose a government wishes to increase Y and leave NX unchanged. The government, therefore, should:

a-) increase G

b-) increase T and increase M

c-) increase G and increase M

d-) increase ε

17-) For this question, assume that policy makers are pursuing a fixed exchange rate regime. Now suppose that an increase in stock market wealth causes an increase in consumption. Which of the following will tend to occur in a fixed exchange rate regime?

a-) an increase in Y

b-) an increase in the money supply

c-) no change in the domestic interest rate

d-) all of the above

18-) Suppose a country switches from a fixed to a flexible exchange rate. Which of the following will occur as a result of this change?

a-) monetary policy will become a more effective tool for changing output.

b-) a given change in government spending will now have a greater effect on output.

c-) both fiscal and monetary policy will become more effective in changing GDP.

d-) both fiscal and monetary policy will become completely ineffective in changing GDP.

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1-) Assume policy makers in a fixed exchange rate regime decide to peg the exchange rate at a lower level. This is called

a-) a devaluation.

b-) a revaluation.

c-) a depreciation.

d-) an appreciation.

2-) A common argument for fixed exchange rates is that they

a-) give central banks greater freedom in adjusting their economy's level of output.

b-) forever free the central bank from have to adjust the exchange rate to fundamental changes in the economy.

c-) make trade more costly, and thus encourage domestic citizens to buy domestically produced output.

e-) none of the above

3-) In practice, under the European Monetary System (EMS), a member country

a-) could never change its interest rate.

b-) could change its interest rate only if other countries changed theirs as well.

c-) must apply to a special European Commission in order to change its interest rate.

d-) had complete freedom in choosing the interest rate it wanted.

4-) Which exchange rate system does not require monetary reserves for official exchange rate intervention?

a-) floating exchange rates

b-) pegged exchange rates

c-) managed floating exchange rates

d-) dual exchange rates

5-) The exchange rate system that best characterizes the present international monetary arrangement used by industrialized countries is:

a-) freely fluctuating exchange rates

b-) adjustable pegged exchange rates

c-) managed floating exchange rates

d-) pegged or fixed exchange rates

6-) A drawback of a floating exchange rate system is:

a-) Inflation can be “exported” from one country to another.

b-) Monetary policy is ineffective.

c-) Variability of exchange rates can be excessive.

d-) None of the answers.

7-) Which of the following statements about fixed exchange rate systems is not correct?

a-) The government may run out of foreign exchange while attempting to fix its exchange rate.

b-) Fixed exchange rates refer to the case where the government pegs the exchange rate at a fixed level.

c-) If a country lowers the value of its currency, it has devalued the currency.

d-) They are all correct

8-) A foreign exchange intervention with an offsetting open market operation that leaves the monetary base unchanged is called

a-) a money neutral foreign exchange intervention.

b-) an exchange rate feedback rule.

c-) an unsterilized foreign exchange intervention.

d-) a sterilized foreign exchange intervention.

9-) Under a "crawling peg" system, a country’s exchange rate

a-) is fixed except for small, surprise changes.

b-) changes at a predetermined rate against the dollar or some other major currency.

c-) can fluctuate within a narrow band.

d-) can change, but the changes are kept secret from the public.

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1-) D 2-) D 3-) D 4-) B 5-) D 6-) B 7-) A 8-) A

9-) B 10-) C 11-) B 12-) B 13-) D 14-) A 15-) C

16-) C 17-)D 18-)A

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1-) A 2-) D 3-) B 4-) A 5-) C 6-) C 7-) D 8-) D 9-) B