

DO NOT WRITE ON THIS TEST!

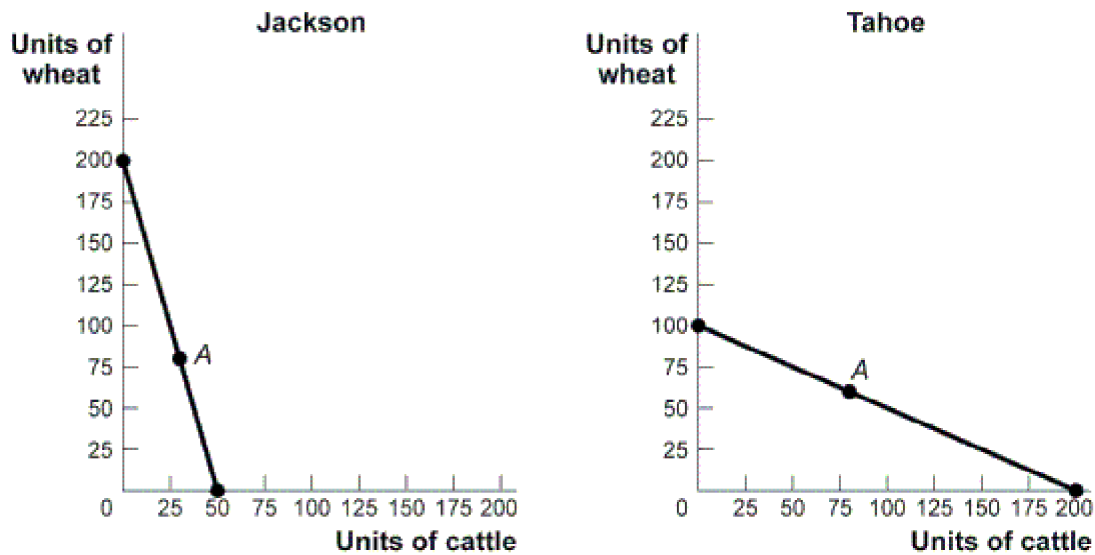
Practive Int'l Test (Unit 8)

Multiple Choice

Identify the choice that best completes the statement or answers the question.

- _____ 1. Who wrote *The Wealth of Nations*, a book that many credit with establishing economics as a discipline?
- A. Karl Marx
 - B. David Ricardo
 - C. Adam Smith
 - D. John Maynard Keynes
 - E. John Stuart Mill
- _____ 2. Increases in total output realized when individuals specialize in particular tasks and trade are known as:
- A. the gains from trade.
 - B. the profits obtained from sales of a good or service.
 - C. marginal analysis.
 - D. a trade-off.
 - E. foreign exchange.
- _____ 3. Overall, trade between China and the United States will:
- A. benefit the U.S. more than China.
 - B. benefit China more than the United States.
 - C. neither help, nor hurt, these nations.
 - D. hurt both countries.
 - E. benefit both countries.
- _____ 4. An economy that has the lowest opportunity cost for producing a particular good is said to have a(n):
- A. technological advantage.
 - B. comparative advantage.
 - C. production possibility curve.
 - D. increasing opportunity cost.
 - E. absolute advantage.

Figure 4-3: Production Possibility Curve for Jackson and Tahoe



- _____ 5. Use “**Production Possibility Curve for Jackson and Tahoe**” **Figure 4-3**. The figure shows the production possibility curves for two countries, Jackson and Tahoe. Without trade, Jackson produces and consumes 30 units of cattle and 80 units of wheat, while Tahoe produces and consumes 80 units of cattle and 60 units of wheat. Based on this information:
- Jackson has a comparative advantage in the production of cattle.
 - Tahoe has a comparative advantage in the production of wheat.
 - Jackson has an absolute advantage in the production of cattle.
 - Tahoe has an absolute advantage in the production of wheat.
 - Jackson has a comparative advantage in the production of wheat.
- _____ 6. Use “**Production Possibility Curve for Jackson and Tahoe**” **Figure 4-3**. The figure shows the production possibility curves for two countries, Jackson and Tahoe. Without trade, Jackson produces and consumes 30 units of cattle and 80 units of wheat, while Tahoe produces and consumes 80 units of cattle and 60 units of wheat. With complete specialization according to comparative advantage, the two nations' production of wheat will:
- remain constant.
 - increase by 120 units.
 - increase by 60 units.
 - decrease by 60 units.
 - increase by 200 units.
- _____ 7. Use “**Production Possibility Curve for Jackson and Tahoe**” **Figure 4-3**. The figure shows the production possibility curves for two countries, Jackson and Tahoe. Without trade, Jackson produces and consumes 30 units of cattle and 80 units of wheat, while Tahoe produces and consumes 80 units of cattle and 60 units of wheat. If both nations specialize completely in the good of their comparative advantage and Jackson exports 120 units of wheat to Tahoe for 60 units of cattle, then the new consumption point for Jackson after trade is _____ units of wheat and _____ units of cattle.
- 120; 30
 - 120; 60
 - 80; 60
 - 200; 100
 - 60; 80

- _____ 8. Use “**Production Possibility Curve for Jackson and Tahoe**” **Figure 4-3**. The figure shows the production possibility curves for two countries, Jackson and Tahoe. Without trade, Jackson produces and consumes 30 units of cattle and 80 units of wheat, while Tahoe produces and consumes 80 units of cattle and 60 units of wheat. Assume each nation specializes completely, based on comparative advantage and the price of 1 unit of cattle equals 2 units of wheat. If Jackson exports 120 units of wheat to Tahoe, Tahoe will export _____ units of cattle to Jackson.
- 120
 - 60
 - 240
 - 200
 - 180
- _____ 9. Use “**Production Possibility Curve for Jackson and Tahoe**” **Figure 4-3**. The figure shows the production possibility curves for two countries, Jackson and Tahoe. Without trade, Jackson produces and consumes 30 units of cattle and 80 units of wheat, while Tahoe produces and consumes 80 units of cattle and 60 units of wheat. Assume that each nation specializes completely, based on comparative advantage and the price of 1 of unit cattle equals 2 units of wheat. If Jackson exports 120 units of wheat to Tahoe, then the new consumption point for Tahoe after trade is _____ units of wheat and _____ units of cattle.
- 120; 140
 - 120; 60
 - 60; 120
 - 400; 200
 - 120; 120

The table shows the maximum amounts of machinery and petroleum that the United States and Mexico can produce if they only produce one good. Both nations face constant costs of production.

Countries	Machinery (units)	Petroleum (units)
United States	80	40
Mexico	60	180

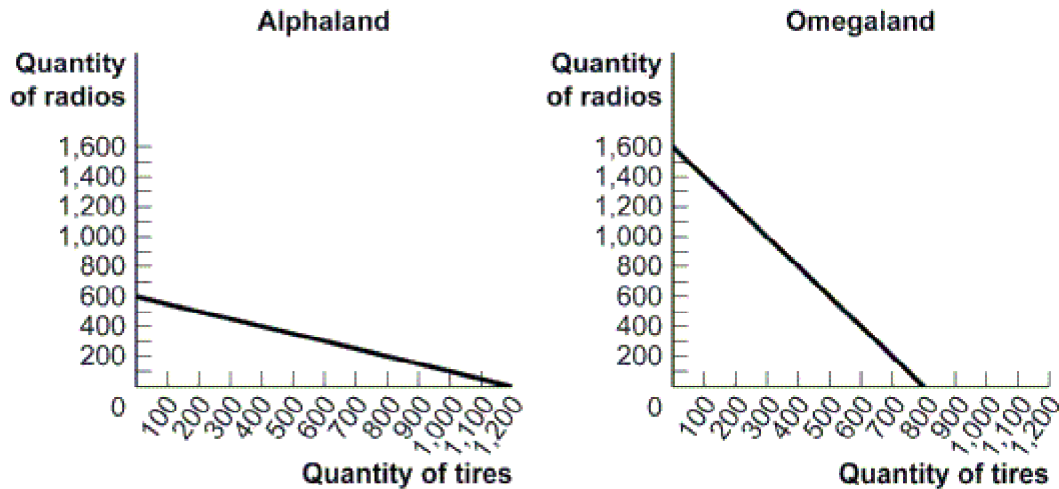
Table 4-5: Production Possibilities for Machinery and Petroleum

- _____ 10. Use **Table 4-5**. Which of the following is true?
- The opportunity cost of petroleum is less in the United States than in Mexico.
 - The opportunity cost of petroleum is more in the United States than in Mexico.
 - Petroleum costs are the same in the United States and in Mexico.
 - Machinery costs are the same in the United States and in Mexico.
 - The opportunity cost of machinery is less in Mexico than in the United States.
- _____ 11. Use **Table 4-5**. Which of the following is true?
- The opportunity cost of machinery is more in the United States than in Mexico.
 - Machinery costs are the same in the United States and in Mexico.
 - The opportunity cost of machinery is less in the United States than in Mexico.
 - The opportunity cost of petroleum is less in the United States than in Mexico.
 - Petroleum costs are the same in the United States and in Mexico.

- _____ 12. Use **Table 4-5**. The opportunity cost in the United States of producing 40 units of machinery is _____ units of petroleum.
- A. 80
 - B. 60
 - C. 40
 - D. 20
 - E. 2
- _____ 13. Use **Table 4-5**. The opportunity cost in the United States of producing 30 units of petroleum is _____ units of machinery.
- A. 60
 - B. 80
 - C. 100
 - D. 120
 - E. 20
- _____ 14. Use **Table 4-5**. The opportunity cost in Mexico of producing 40 units of machinery is _____ units of petroleum.
- A. 30
 - B. 90
 - C. 120
 - D. 270
 - E. 180
- _____ 15. Use **Table 4-5**. The opportunity cost in Mexico of producing 150 units of petroleum is _____ units of machinery.
- A. 50
 - B. 70
 - C. 90
 - D. 160
 - E. 10
- _____ 16. Use **Table 4-5**. The United States has a comparative advantage in _____ and Mexico has a comparative advantage in _____.
- A. both goods; neither good
 - B. neither good; both goods
 - C. machinery; neither good
 - D. petroleum; machinery
 - E. machinery; petroleum
- _____ 17. Use **Table 4-5**. Both the United States and Mexico will gain from trade if one unit of machinery trades for _____ of petroleum.
- A. 5 units
 - B. 4 units
 - C. 1 unit
 - D. 0.2 unit
 - E. 6 units

18. Use **Table 4-5**. Both the United States and Mexico will gain from trade if one unit of machinery trades for _____ of petroleum.
- A. 2 units
 - B. 4 units
 - C. 6 units
 - D. 8 units
 - E. 5 units.

Figure 4-4: Alphaland and Omegaland



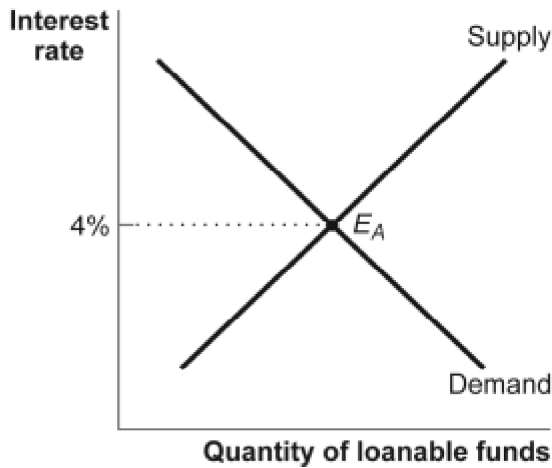
19. Use the “**Alphaland and Omegaland**” **Figure 4-4**. The opportunity cost of producing 1 tire in Alphaland is _____ radio(s), while the opportunity cost of producing 1 tire in Omegaland is _____ radio(s).
- A. 1/2; 2
 - B. 2; 1
 - C. 600; 800
 - D. 800; 1,200
 - E. 2; 1/2
20. Use the “**Alphaland and Omegaland**” **Figure 4-4**. The opportunity cost of producing 1 radio in Alphaland is:
- A. 1/2 tire.
 - B. 1 tire.
 - C. 2 tires.
 - D. 6 tires.
 - E. 12 tires.
21. Use the “**Alphaland and Omegaland**” **Figure 4-4**. The opportunity cost of producing 1 radio in Omegaland is:
- A. 1/2 tire.
 - B. 1 tire.
 - C. 2 tires.
 - D. 6 tires.
 - E. 3 tires.

- _____ 22. Use the “**Alphaland and Omegaland**” **Figure 4-4**. Alphaland has a comparative advantage in producing _____, while Omegaland has a comparative advantage in producing _____.
- A. both radios and tires; neither good
 - B. neither good; both radios and tires
 - C. radios; tires
 - D. tires; radios
 - E. tires; neither good
- _____ 23. Use the “**Alphaland and Omegaland**” **Figure 4-4**. If Alphaland and Omegaland specialize in the production of the good of their comparative advantage, the two nations together will produce _____ tires and _____ radios.
- A. 600; 800
 - B. 800; 1,200
 - C. 1,200; 1,600
 - D. 800; 600
 - E. 1,600; 1,200
- _____ 24. Use the “**Alphaland and Omegaland**” **Figure 4-4**. If Alphaland specializes in the production of the good of its comparative advantage, it will produce:
- A. 600 radios.
 - B. 800 radios.
 - C. 800 tires.
 - D. 600 tires.
 - E. 1,200 tires.
- _____ 25. Use the “**Alphaland and Omegaland**” **Figure 4-4**. If Omegaland specializes in the production of the good of its comparative advantage, it will produce:
- A. 800 radios.
 - B. 1,600 radios.
 - C. 800 tires.
 - D. 1,200 tires.
 - E. 1,200 radios
- _____ 26. Use the “**Alphaland and Omegaland**” **Figure 4-4**. Both nations will gain from trade when 1 tire trades for:
- A. $1/3$ radio.
 - B. $1/2$ radio.
 - C. $1\frac{1}{2}$ radios.
 - D. 2 radios.
 - E. $2\frac{1}{2}$ radios
- _____ 27. Goods and services that are produced in a foreign country but consumed domestically are called:
- A. exports.
 - B. imports.
 - C. investment goods.
 - D. consumer durables.
 - E. consumer nondurables.

- _____ 28. When a Japanese investor buys stock in General Motors, which of the following balance of payments accounts is affected?
- A. current account
 - B. financial account
 - C. reserve account
 - D. foreign exchange account
 - E. balance of trade account
- _____ 29. If the United States exports \$100 billion of goods and services and imports \$150 billion of goods and services and there is no other factor income or transfers, the balance on the current account is:]
- A. \$250 billion.
 - B. -\$250 billion.
 - C. \$50 billion.
 - D. -\$50 billion.
 - E. \$350 billion.
- _____ 30. The quantity of U.S. dollars demanded in the currency market depends in part on:
- A. foreign purchases of U.S. goods and services.
 - B. U.S. purchases of foreign goods and services.
 - C. U.S. investment in foreign companies.
 - D. U.S. purchases of foreign assets.
 - E. U.S. direct aid to foreign governments.
- _____ 31. The balance between spending flowing into a country from other countries and spending flowing out of that country to other countries is the:
- A. singular account.
 - B. euro/dollar account.
 - C. universal exchange account.
 - D. balance of payments.
 - E. government's budget balance.
- _____ 32. A country has a financial account surplus if the balance on the:
- A. financial account is negative.
 - B. financial account is positive.
 - C. current account is zero.
 - D. current account is positive.
 - E. financial account is zero.

Exports of goods and services	\$1425 billion
Imports of goods and services	\$1800 billion
Income receipts from abroad	\$420 billion
Income receipts to foreigners	\$400 billion
Transfers	\$0
Table 41-2: Balance of Payment	

- _____ 33. Use **Table 41-2**. Refer to the table which provides the information for a country's balance of payment. In this case, the country's balance of payments on goods and services is:
- A. \$375 billion.
 - B. -\$375 billion.
 - C. \$4,045 billion.
 - D. \$355 billion.
 - E. -\$425 billion.
- _____ 34. Use **Table 41-2**. The country's balance of payments on the current account is:
- A. \$355 billion.
 - B. -\$395 billion.
 - C. \$375 billion.
 - D. -\$355 billion.
 - E. -\$400 billion.
- _____ 35. Use **Table 41-2**. The country's balance of payments on financial account is:
- A. \$0.
 - B. \$375 billion.
 - C. -\$355 billion.
 - D. \$425 billion.

Figure 41-1: The Loanable Funds Model in the U.S. Market

- _____ 36. Use the “**The Loanable Funds Model in the U.S. Market**” **Figure 41-1**. If the actual interest rate is greater than 4% in the U.S. market, then the quantity supplied of loanable funds will be _____ the quantity of loanable funds demanded.
- greater than
 - less than
 - equal to
 - unrelated to
 - rising up to
- _____ 37. Use the “**The Loanable Funds Model in the U.S. Market**” **Figure 41-1**. If the actual interest rate is less than 4% in the U.S. market, then the quantity supplied of loanable funds will be _____ the quantity of loanable funds demanded.
- greater than
 - less than
 - equal to
 - unrelated to
 - falling down to
- _____ 38. If asset owners in Japan and the United States consider Japanese and U.S. assets as good substitutes for each other and the U.S. interest rate is 5% and the Japanese interest rate is 2%, then all of the following will occur EXCEPT:
- financial inflows will reduce the U.S. interest rate.
 - financial outflows will increase the Japanese interest rate.
 - the interest rate gap between the United States and Japan will be eliminated.
 - loanable funds will be exported from the U.S. to Japan
 - the interest rate in the United States will equal the interest rate in Japan.

- _____ 39. Suppose that the value of the euro fell from \$1.47 on January 1, 2009 to \$1.40 on January 12, 2009. This implies that:
- A. The euro depreciated and the dollar appreciated during this period of time.
 - B. The dollar depreciated and the euro appreciated during this period of time.
 - C. The euro depreciated and there is insufficient information about the dollar's value during this period of time.
 - D. The euro appreciated and there is insufficient information about the dollar's value during this period of time.
 - E. Both the euro and dollar appreciated during this period of time.

Scenario 42-1: Exchange Rates

The value of a euro, the currency for most of Europe, goes from $1\text{€} = \text{US}\$1.25$ to $1\text{€} = \text{US}\$1.50$.

- _____ 40. Use **Scenario 42-1**. The euro has:
- A. depreciated.
 - B. appreciated.
 - C. been devalued.
 - D. not been affected for use in international trade.
 - E. fallen in value relative to the dollar.
- _____ 41. Use **Scenario 42-1**. The dollar has:
- A. depreciated.
 - B. appreciated.
 - C. been revalued.
 - D. not been affected for use in international trade.
 - E. risen in value relative to the euro.
- _____ 42. Use **Scenario 42-1**. The exchange rate for the dollar has changed from:
- A. 0.25€ to 0.50€.
 - B. 1.25€ to 1.50€.
 - C. 0.80€ to 0.67€.
 - D. 0.67€ to 0.80€.
 - E. 1€ to 2€.
- _____ 43. Use **Scenario 42-1**. French exports to the United States will:
- A. be cheaper.
 - B. be more easily afforded by consumers in the U.S.
 - C. be unaffected.
 - D. increase in quantity.
 - E. be more expensive.
- _____ 44. Use **Scenario 42-1**. In Germany, exports to the U.S.:
- A. will increase, and imports from the U.S. will decrease.
 - B. and imports from the U.S. will increase.
 - C. will decrease, and imports from the U.S. will increase.
 - D. and imports from the U.S. will decrease.
 - E. will be unaffected while imports from the U.S. will fall.

- _____ 45. Use **Scenario 42-1**. In the United States, exports to Europe:
- A. will increase, and imports from Europe will decrease.
 - B. and imports from Europe will increase.
 - C. will decrease, and imports from Europe will increase.
 - D. and imports from Europe will decrease.
 - E. will increase, while imports from Europe will be unaffected.
- _____ 46. If the exchange rate is $\$1 = \text{¥}110$, a \$20,000 Ford truck costs _____ in Japan.
- A. ¥20,000
 - B. ¥18,182
 - C. ¥2,200,000
 - D. ¥3,000,000
 - E. ¥4.400,000
- _____ 47. When the U.S. dollar appreciates relative to the Canadian dollar, then:
- A. Canadian goods become more expensive here.
 - B. American goods become more expensive in Canada.
 - C. the US will tend to buy more from Canada.
 - D. the US will sell more goods to Canada.
 - E. the US will import fewer goods from Canada.
- _____ 48. If the U.S. dollar depreciates, all other things being equal, then:
- A. the U.S. financial account is in surplus.
 - B. the U.S. financial account is in deficit.
 - C. it falls in value compared to some other currency.
 - D. the U.S. current account is in deficit.
 - E. imports from other nations will fall.
- _____ 49. Suppose that Europeans begin to view the United States as a more attractive investment opportunity. Which of the following is likely to be the next series of events?
- A. a depreciation of the dollar, which will raise U.S. exports
 - B. an appreciation of the dollar, which will discourage Europeans from buying American goods and services
 - C. a depreciation of the dollar, which will lower U.S. exports
 - D. a depreciation of the dollar, which will make Europeans buy more American products
 - E. an appreciation of the dollar, which will discourage Americans from buying European goods.
- _____ 50. In the foreign exchange market, an increase in the rate of return available in the European Union, all other things equal, will shift the _____ and the euro will _____.
- A. supply curve of the U.S. dollar to the left; depreciate
 - B. supply curve for the euro to the right; depreciate
 - C. demand curve for the euro to the left; depreciate
 - D. demand curve for the U.S. dollar to the right; appreciate
 - E. demand curve for the euro to the right; appreciate

Practive Int'l Test (Unit 8)
Answer Section

MULTIPLE CHOICE

1. ANS: C	PTS: 1	SKL: Fact-Based
2. ANS: A	PTS: 1	SKL: Definitional
3. ANS: E	PTS: 1	SKL: Critical Thinking
4. ANS: B	PTS: 1	SKL: Definitional
5. ANS: E	PTS: 1	SKL: Analytical Thinking
6. ANS: C	PTS: 1	SKL: Analytical Thinking
7. ANS: C	PTS: 1	SKL: Analytical Thinking
8. ANS: B	PTS: 1	SKL: Analytical Thinking
9. ANS: A	PTS: 1	SKL: Analytical Thinking
10. ANS: B	PTS: 1	SKL: Critical Thinking
11. ANS: C	PTS: 1	SKL: Critical Thinking
12. ANS: D	PTS: 1	SKL: Critical Thinking
13. ANS: A	PTS: 1	SKL: Critical Thinking
14. ANS: C	PTS: 1	SKL: Critical Thinking
15. ANS: A	PTS: 1	SKL: Critical Thinking
16. ANS: E	PTS: 1	SKL: Analytical Thinking
17. ANS: C	PTS: 1	SKL: Analytical Thinking
18. ANS: A	PTS: 1	SKL: Analytical Thinking
19. ANS: A	PTS: 1	SKL: Critical Thinking
20. ANS: C	PTS: 1	SKL: Critical Thinking
21. ANS: A	PTS: 1	SKL: Critical Thinking
22. ANS: D	PTS: 1	SKL: Analytical Thinking
23. ANS: C	PTS: 1	SKL: Analytical Thinking
24. ANS: E	PTS: 1	SKL: Analytical Thinking
25. ANS: B	PTS: 1	SKL: Critical Thinking
26. ANS: C	PTS: 1	SKL: Analytical Thinking
27. ANS: B	PTS: 1	SKL: Definitional
28. ANS: B	PTS: 1	SKL: Fact-Based
29. ANS: D	PTS: 1	SKL: Critical Thinking
30. ANS: A	PTS: 1	SKL: Fact-Based
31. ANS: D	PTS: 1	SKL: Definitional
32. ANS: B	PTS: 1	SKL: Definitional
33. ANS: B	PTS: 1	SKL: Critical Thinking
34. ANS: D	PTS: 1	SKL: Critical Thinking
35. ANS: B	PTS: 1	SKL: Critical Thinking
36. ANS: A	PTS: 1	SKL: Critical Thinking
37. ANS: B	PTS: 1	SKL: Critical Thinking
38. ANS: D	PTS: 1	SKL: Critical Thinking
39. ANS: A	PTS: 1	

40.	ANS: B	PTS: 1	SKL: Critical Thinking
41.	ANS: A	PTS: 1	SKL: Critical Thinking
42.	ANS: C	PTS: 1	SKL: Critical Thinking
43.	ANS: E	PTS: 1	SKL: Analytical Thinking
44.	ANS: C	PTS: 1	SKL: Analytical Thinking
45.	ANS: A	PTS: 1	SKL: Analytical Thinking
46.	ANS: C	PTS: 1	SKL: Critical Thinking
47.	ANS: B	PTS: 1	SKL: Critical Thinking
48.	ANS: C	PTS: 1	SKL: Critical Thinking
49.	ANS: B	PTS: 1	SKL: Critical Thinking
50.	ANS: E	PTS: 1	SKL: Critical Thinking