Name: ________________________ Class: ___________________ Date: __________ ID: A

AP Macro Unit 3: Int'l Trade and Finance

Multiple Choice
Identify the letter of the choice that best completes the statement or answers the question.

____ 1. The overall U.S. balance of payments
- a. shows a deficit
- b. shows a surplus
- c. is the merchandise trade balance
- d. equals exports minus imports
- e. shows how deficits in one account are exactly offset by surpluses in other accounts

____ 2. Restricting imports of Brazilian shoes will
- a. raise the price of both Brazilian and domestically produced shoes
- b. raise the price of Brazilian shoes but lower the price of domestically produced shoes
- c. lower the price of Brazilian shoes but raise the price of domestically produced shoes
- d. lower the price of both Brazilian and domestically produced shoes
- e. benefit the producers of shoes in Brazil

____ 3. Which of the following best expresses the benefit from international trade?
- a. With trade, each country can concentrate on producing those goods and services that it produces most efficiently.
- b. With trade, a country can increase its political involvement on a global scale.
- c. Increased U.S. trade will improve high-tech exports but not agricultural exports.
- d. Increased trade will increase U.S. exports and decrease U.S. imports.
- e. Increased trade implies that exports of goods and services will always equal imports of goods and services.

____ 4. For each watch Denmark produces, it gives up the opportunity to make 50 pounds of cheese. Germany can produce one watch for every 100 pounds of cheese it produces. Which of the following is true with regard to opportunity costs in the two countries?
- a. The opportunity cost of producing watches is lower in Denmark.
- b. The opportunity cost of producing cheese is lower in Denmark.
- c. The opportunity cost of producing watches is identical in both countries.
- d. It is impossible to compare opportunity costs because the two countries use different currencies.
- e. In Germany the opportunity cost of producing one pound of cheese is one watch.

____ 5. The basis of the benefits of specialization is
- a. comparative advantage
- b. absolute advantage
- c. size of country
- d. identical production costs between two countries
- e. self-sufficiency

____ 6. Comparative advantage is determined by
- a. the amount of resources needed to produce a good
- b. the money cost of producing any good
- c. the opportunity cost of producing any good
- d. absolute advantage and production possibilities combined
- e. the level of demand for a good

____ 7. U.S. auto workers experience structural unemployment because of the popularity of foreign cars. Which argument is a labor union **most** likely to present to Congress when it lobbies for trade restrictions?
a. national defense argument
b. infant industry argument
c. antidumping argument
d. loss of domestic jobs argument
e. declining industry argument

____ 8. Which of the following is *not* a problem with trade restrictions?
a. the high cost of rent-seeking activities such as lobbying
b. the high cost of enforcement
c. the unintended effects on related industries
d. the inability to save U.S. jobs in the short run in industries that compete with imports
e. the possibility of retaliation

____ 9. The losers when the United States institutes trade restrictions include
a. U.S. consumers of imported goods, U.S. producers who use imported intermediate goods, and, if other countries retaliate, U.S. exporters
b. U.S. producers of goods that compete with imported goods only
c. U.S. consumers of imported goods and U.S. producers of goods that compete with imported goods
d. all U.S. producers of all goods and U.S. exporters
e. only U.S. exporters

____ 10. A nation has an unfavorable balance of trade when
a. it has a surplus in its balance of payments
b. it has a deficit in its balance of payments
c. the value of its imports of goods is greater than the value of its exports of goods
d. its current account is in surplus and its capital account is in deficit
e. it has high tariffs

____ 11. Which of the following is *not* true about the U.S. trade balance since 1979?
a. The balance of trade has been in deficit.
b. During recessions the balance is usually flat.
c. The balance of trade has been in surplus.
d. When the economy expands, the demand for imports expands.
e. When the economy expands, the trade balance worsens.

____ 12. Which of the following is *not* considered as a unilateral transfer?
a. income earned from foreign investments
b. foreign aid
c. personal gifts to friends or family abroad
d. institutional charitable donations
e. government transfers to foreign residents

____ 13. When an American buys a Swedish financial asset,
a. both c and d
b. the U.S. balance of goods and services worsens
c. the U.S. capital account balance declines
d. the U.S. balance of payments worsens
e. the U.S. trade balance worsens

____ 14. In the U.S. balance of payments, direct investment by Americans in foreign securities is included in which of the following?
 a. U.S. official reserve assets
 b. the capital account
 c. the current account
 d. U.S. government assets abroad
 e. merchandise trade balance

____ 15. Which one of the following is *not* true?
 a. An exchange rate is the price of one currency in terms of another.
 b. An exchange rate is the means by which the price of a good in one country is translated into the price to the buyer in another country.
 c. The cost of a foreign good in dollars will depend on the current exchange rate.
 d. The exchange rate will affect the willingness of foreign buyers and sellers to trade with each other.
 e. The exchange rate is the price of a currency in terms of another currency for exchanges of goods and services but not for financial transactions.

____ 16. If the U.S. dollar appreciates, it means that
 a. the value of the U.S. dollar has decreased
 b. the value of foreign exchange has increased
 c. fewer U.S. dollars are required to purchase foreign exchange
 d. more U.S. dollars are required to purchase foreign exchange
 e. exports will fall immediately

____ 17. If on Tuesday you can buy 125 yen per U.S. dollar and on Wednesday you can buy 120 yen per U.S. dollar,
 a. both the U.S. dollar and the yen have appreciated
 b. both the U.S. dollar and the yen have depreciated
 c. the U.S. dollar has appreciated and the yen has depreciated
 d. the U.S. dollar has depreciated and the yen has appreciated
 e. the yen has appreciated and the U.S. dollar has remained constant

____ 18. If the exchange rate changes from 1 Euro per U.S. dollar to 1.2 Euros per U.S. dollar, the Euro has
 a. appreciated, since its value has increased
 b. appreciated, since the price of U.S. dollars has increased
 c. appreciated, making U.S. goods cheaper in Euros
 d. depreciated, since its value has declined
 e. depreciated, since its value has increased

____ 19. Foreign nations' demand for dollars increases as
 a. Americans travel abroad
 b. foreigners purchase American goods
 c. Americans purchase foreign goods
 d. Americans buy foreign stocks or bonds
 e. Americans send cash gifts abroad

____ 20. If a foreign currency becomes more expensive in United States dollars, we would expect
 a. U.S. exports to increase
 b. U.S. imports to increase
 c. U.S. exports to remain constant
 d. U.S. exports to decrease
 e. the quantity of foreign currency demanded in the United States to rise

____ 21. If the U.S. dollar appreciates in the foreign exchange market,
a. American goods will become more expensive for foreign buyers and foreign goods will be cheaper for Americans
b. American goods will become less expensive for foreign buyers and foreign goods will be more expensive for Americans
c. American goods will become more expensive for foreign buyers and foreign goods will be more expensive for Americans
d. American goods will become cheaper for foreign buyers and foreign goods will be cheaper for Americans
e. neither the price of U.S. exports nor the price of U.S. imports will change

____ 22. Under a floating system, exchange rates are determined by supply and demand in the foreign exchange market without government intervention.
a. True
b. False

____ 23. An increase in the U.S. demand for foreign exchange will
a. decrease the price of foreign exchange
b. decrease the value of the U.S. dollar
c. increase the value of the U.S. dollar
d. make foreign goods less expensive in U.S. dollars
e. make U.S. goods more expensive in foreign exchange

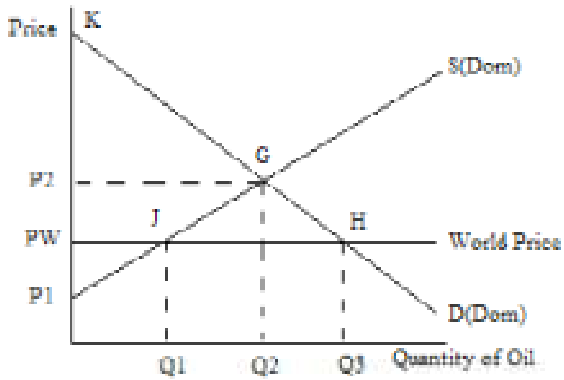
____ 24. Those who simultaneously buy and sell currency to take advantage of exchange rate differences are called
a. speculators
b. hedgers
c. entrepreneurs
d. arbitrageurs
e. underwriters

____ 25. Suppose the exchange rate is such that 1 U.S. dollar equals 5.5 French francs in New York and 5.1 French francs in Paris. An arbitrageur would sell U.S. dollars
a. in New York and buy French francs in Paris
b. in Paris and buy French francs in New York
c. in New York while buying them in Paris
d. in Paris while buying them in New York
e. at the same price in both cities

Name: ________________________ **ID: A**

Essay - Answer on your own sheet of paper.

26. **Free Response: (10pts)**



The Graph above shows the demand for oil by U.S. residents, the supply of oil by U.S. producers and the world price of oil. Use the labeling to the graph to answer the following questions.

(a) Identify the following before international trade occurs.
- (i) Price of oil in the U.S. market. (1pt)
- (ii) Quantity of oil produced in the U.S. (1pt)

(b) Now assume that the U.S. begins to import oil at the world market price of PW. Identify the quantity imported by the U.S. (2pts)

(c)Identify the consumer surplus in the U.S. market for each of the following:
- (i) Before trade. (1pt)
- (ii) After trade. (1pt)

(d) Identify the producer surplus in the U.S. market for each of the following:
- (i) Before trade. (1pt)
- (ii) After trade. (1pt)

(e) Identify the net gain in total surplus from trade. (2pts)

27. **Free Response: (5pts)**

Given Exchange Rates

Year 1 $1 equals 350Yen

Year 2 $1 equals 400Yen

(a) Describe the effect the change in the exchange rate from above will have on US tourism to Japan. (1pt)

(b) How many dollars equal 1Yen? (2pts)

(c) How will the value of the dollar affect the balance of trade between the U.S. and Japan? (2pts)

28. **Free Response (10pts)**

Given: domestic and imported shoes are perfect subsitutes and there has been a tariff placed in imported shoes.

(a) Using a correctly labeled graph, show the effect on the following
- (i) Price of imported shoes (2pts)
- (ii) Output of imported shoes (2pts)
- (iii) Price of domestic with trade and no tariff (2pts)
- (iv) Price of domestic shoes with the tariff (2pts)
- (v) Output of domestic shoes with the tariff (2pts)