Chapter 12 MCQ

1. In this book, the real exchange rate, , is defined as \_\_\_\_\_\_\_\_\_\_\_?

1. the price of foreign currency in terms of domestic currency
2. the price of domestic currency in terms of foreign currency
3. the price of foreign goods in terms of domestic goods
4. the price of domestic goods in terms of foreign goods
5. the price of foreign goods in terms of domestic currency
6. the price of domestic goods in terms of foreign currency

2. In this book, the nominal exchange rate, *e*, is defined as \_\_\_\_\_\_\_\_\_\_\_?

1. the price of foreign currency in terms of domestic currency
2. the price of domestic currency in terms of foreign currency
3. the price of foreign goods in terms of domestic goods
4. the price of domestic goods in terms of foreign goods
5. the price of foreign goods in terms of domestic currency
6. the price of domestic goods in terms of foreign currency

3. In this book, eP is \_\_\_\_\_\_\_\_\_\_\_?

1. the price of foreign currency in terms of domestic currency
2. the price of domestic currency in terms of foreign currency
3. the price of foreign goods in terms of domestic goods
4. the price of domestic goods in terms of foreign goods
5. the price of foreign goods in terms of domestic currency
6. the price of domestic goods in terms of foreign currency

4. In this book,  is \_\_\_\_\_\_\_\_\_\_\_?

1. the price of foreign currency in terms of domestic currency
2. the price of domestic currency in terms of foreign currency
3. the price of foreign goods in terms of domestic goods
4. the price of domestic goods in terms of foreign goods
5. the price of foreign goods in terms of domestic currency
6. the price of domestic goods in terms of foreign currency

5. In this book, *1/e* is \_\_\_\_\_\_\_\_\_\_\_?

1. the price of foreign currency in terms of domestic currency
2. the price of domestic currency in terms of foreign currency
3. the price of foreign goods in terms of domestic goods
4. the price of domestic goods in terms of foreign goods
5. the price of foreign goods in terms of domestic currency
6. the price of domestic goods in terms of foreign currency

6. In this book,  is \_\_\_\_\_\_\_\_\_\_\_?

1. the price of foreign currency in terms of domestic currency
2. the price of domestic currency in terms of foreign currency
3. the price of foreign goods in terms of domestic goods
4. the price of domestic goods in terms of foreign goods
5. the price of foreign goods in terms of domestic currency
6. the price of domestic goods in terms of foreign currency

7. A deficit in the current account must mean that \_\_\_\_\_\_\_\_\_\_\_. Choose the correct statement.

1. net exports are negative
2. the country has negative savings
3. investments are smaller than savings
4. the country is a net borrower from foreign countries
5. the government budget shows a deficit

8. The Marshall-Lerner condition says that for a real depreciation (decrease in the real exchange rate) to lead to an larger surplus (or smaller deficit) in the current account it must be the case that \_\_\_\_\_\_\_\_\_\_\_?

1. the price elasticity of exports is larger than unity
2. the price elasticity of imports is larger than unity
3. the price elasticity of imports and exports are both larger than unity
4. the sum of the (absolute values of) the price elasticities of exports and imports must be larger than unity.

9. Which of the following statements is not correct:

If the national accounts and current account statistics of all countries were perfectly correct, \_\_\_\_\_\_\_\_.

1. the savings of all countries would sum to zero
2. the sum of the current account surpluses for all countries would sum to zero (counting a deficit as a negative surplus)
3. savings would equal investments for the world as a whole
4. net lending of all countries would sum to zero

10. A figure in this chapter suggests that the main determinant of short run fluctuations in imports is \_\_\_\_\_\_\_\_\_\_\_?

1. fluctuations in domestic aggregate demand
2. fluctuations in foreign aggregate demand
3. fluctuations in the real exchange rate

11. A figure in this chapter suggests that the main determinant of short run fluctuations in exports is \_\_\_\_\_\_\_\_\_\_\_?

1. fluctuations in domestic aggregate demand
2. fluctuations in foreign demand for imports
3. fluctuations in the real exchange rate

12. Assume that the domestic interest rate is increased one percentage unit, e.g. from 4 to 5 percent. The interest parity condition holds and the foreign interest rate and the expected future exchange rate remain unchanged. By approximately how much will the exchange rate change?

1. plus 2 percent
2. plus 1 percent
3. the exchange rate will be unchanged
4. minus 1 percent
5. minus 2 percent

13. Assume that the foreign interest rate is increased one percentage unit, e.g. from 4 to 5 percent. The interest parity condition holds and the domestic interest rate and the expected future exchange rate remain unchanged. By approximately how much will the exchange rate change?

1. plus 2 percent
2. plus 1 percent
3. the exchange rate will be unchanged
4. minus 1 percent
5. minus 2 percent

15. Which of the statements below is wrong?

The current account measures \_\_\_\_\_\_\_\_\_\_\_

1. net flow of payments to the country
2. savings minus real and financial investments of the country
3. savings minus real investments of the country
4. income minus consumption and investments of the country
5. exports minus imports plus net primary income and transfers from the rest of the world
6. public net lending plus private net lending

16. The foreign interest rate is 4 percent and the domestic currency is expected to depreciate 2 percent over the coming year. The open interest parity condition holds. What is the domestic interest rate?

1. 2 percent
2. 3 percent
3. 4 percent
4. 5 percent
5. 6 percent