**CHAPTER 13**

1. Which of the statements below is correct according to the theory of the open economy *in the long run*?
2. **If a country has higher inflation than the rest of the world the country will have a higher nominal interest rate compared to the rest of the world**
3. If a country has higher inflation than the rest of the world the domestic real interest rate is lower than it is in other countries
4. If a country has higher inflation than the rest of the world the real interest rate is higher than it is in the rest of the world
5. If a country has higher inflation than the rest of the world the currency will appreciate (increase in value) over time
6. A country has 5 percent inflation, the trade partners have 2 percent inflation, the foreign interest rate is 4 percent, and the real exchange rate is constant. What would you expect?
7. The currency will appreciate 3 percent per year and the interest rate in the country will be 1 percent
8. **The currency will depreciate 3 percent per year and the interest rate in the country will be 7 percent**
9. The currency will appreciate 3 percent per year and the interest rate in the country will be 7 percent
10. The currency will depreciate 3 percent per year and the interest rate in the country will be 1 percent
11. The currency will have a stable value and the interest rate in the country will be 7 percent
12. With completely integrated financial markets, what is the long run effect of an increase in savings on the small open economy?
13. Production increases and foreign debt is reduced
14. Production decreases and foreign debt is reduced
15. Production increases and foreign debt is unaffected
16. **Production is unaffected and foreign debt is reduced**
17. With completely integrated financial markets, what is the long run effect of an increase in savings on the small open economy?
18. Investment increases and foreign debt is reduced
19. **Investment is unaffected and foreign debt is reduced**
20. Investment decreases and foreign debt is reduced
21. Investment increases and foreign debt is unaffected
22. According to the theory presented here, the long run interest rate differential between the small open economy and the rest of the world is equal to the rate of depreciation of the exchange rate. This is a consequence of assuming \_\_\_\_\_\_\_\_\_\_\_\_\_.
23. A constant real exchange rate
24. **Integrated financial markets (open interest parity)**
25. Open interest parity and a constant real exchange rate
26. According to the theory presented here, the rate of depreciation of the exchange rate is equal to the inflation differential between the small open economy and the rest of the world. This is a consequence of assuming \_\_\_\_\_\_\_\_\_\_\_.
27. **A constant real exchange rate**
28. Integrated financial markets (open interest parity)
29. Open interest parity and a constant real exchange rate
30. According to the theory presented here, the long run interest rate differential between the small open economy and the rest of the world is equal to the inflation differential between the small open economy and the rest of the world. This is a consequence of assuming \_\_\_\_\_\_\_\_\_.
31. A constant real exchange rate
32. Integrated financial markets (open interest parity)
33. **Open interest parity and a constant real exchange rate**
34. According to the theory presented here, the long run real interest rate in the small open economy is the same as in the rest of the world. This is a consequence of assuming \_\_\_\_\_\_\_\_\_.
35. A constant real exchange rate
36. Integrated financial markets (open interest parity)
37. **Open interest parity and a constant real exchange rate**
38. Suppose that we have completely integrated financial markets. What factors determine the real interest rate in the small open economy?
39. **Savings and investments in the rest of the world**
40. The exchange rate policy of the small open economy
41. Savings and investments in the small open economy
42. Monetary policy in the rest of the world
43. Monetary policy in the small open economy
44. With completely integrated financial markets, what is the long run effect of an increase in savings in the small open economy?
45. Production increases
46. The currency appreciates in real terms (domestic goods become relatively more expensive)
47. **Exports increase**
48. Imports increase
49. Investment increases
50. With completely integrated financial markets, what is the long run effect of an increase in government expenditure in the small open economy?
51. Production increases
52. **The currency appreciates in real terms (domestic goods become relatively more expensive)**
53. Exports increase
54. Imports decrease
55. Investment decreases
56. When we compare savings rates (S/Y) and investment rates (I/Y) across countries, what do we find?
57. A strong positive correlation between S/Y and I/Y
58. **A weak positive correlation between S/Y and I/Y**
59. A strong negative correlation between S/Y and I/Y
60. A weak negative correlation between S/Y and I/Y
61. No correlation between S/Y and I/Y
62. Let us assume that there are no international transfers. Then the *savings* of an open economy are equal to \_\_\_\_\_\_\_\_\_\_
63. GDP plus net primary income from abroad minus consumption and investment
64. GDP minus consumption
65. GDP minus consumption and investment
66. **GDP plus net primary income from abroad minus consumption**
67. Net primary income plus net exports
68. Let us assume that there are no international transfers. Then the *current account* of an open economy is equal to \_\_\_\_\_\_\_\_\_\_\_\_\_
69. **GDP plus net primary income from abroad minus consumption and investment**
70. GDP minus consumption
71. GDP minus consumption and investment
72. GDP plus net primary income from abroad minus consumption
73. Primary income plus net exports
74. In the long run, which of the following variables is affected by the monetary policy of the small open economy?
75. The real exchange rate
76. Net exports
77. The current account
78. The real interest rate
79. **The nominal interest rate**