Chapter 31 & 32 Review Questions ***(Answers are on the last page)***

1. The open-economy macroeconomic model examines the determination of
   a. the output growth rate and the real interest rate.
   b. unemployment and the exchange rate.
   c. the output growth rate and the inflation rate.
   d. the trade balance and the exchange rate.
2. In the open-economy macroeconomic model, the market for loanable funds equates national saving with
   a. domestic investment.
   b. net capital outflow.
   c. the sum of national consumption and government spending.
   d. the sum of domestic investment and net capital outflow.
3. In the open-economy macroeconomic model, the supply of loanable funds comes from
   a. the sum of domestic investment and net capital outflow.
   b. net capital outflow alone.
   c. domestic investment alone.
   d. None of the above is correct.
4. Other things the same, a higher real interest rate raises the quantity of
   a. domestic investment.
   b. net capital outflow.
   c. loanable funds demanded.
   d. loanable funds supplied.
5. Other things the same, an increase in the U.S. interest rate causes the quantity of loanable funds supplied to
   a. rise because net capital outflow and domestic investment rise.
   b. rise because national saving rises.
   c. fall because net capital outflow and domestic investment rise.
   d. fall because national saving falls.

6. A country has national saving of $60 billion, government expenditures of $30 billion, domestic investment of $40 billion, and net capital outflow of $20 billion. What is its supply of loanable funds?
   a. $30 billion
   b. $60 billion
   c. $70 billion
   d. $100 billion

7. In the open-economy macroeconomic model, the purchase of a capital asset by domestic residents adds to the demand for loanable funds
   a. only if the asset is located at home.
   b. only if the asset is located abroad.
   c. whether the asset is located at home or abroad.
   d. None of the above is correct.

8. If a country has a positive net capital outflow, then
   a. on net it is purchasing assets from abroad. This adds to its demand for domestically generated loanable funds.
   b. on net it is purchasing assets from abroad. This subtracts from its demand for domestically generated loanable funds.
   c. on net other countries are purchasing assets from it. This adds to its demand for domestically generated loanable funds.
   d. on net other countries are purchasing assets from it. This subtracts from its demand for domestically generated loanable funds.

9. U.S. corporation Well’s Petroleum borrows money to build an oil well in Texas and to build another in Venezuela. Borrowing for which well is included in the demand for loanable funds in the U.S.?
   a. The U.S. and Venezuela.
   b. The U.S. only.
   c. Venezuela only.
   d. Neither the U.S. or Venezuela.

10. Other things the same, an increase in the U.S. real interest rate induces
    a. Americans to buy more foreign assets, which increases U.S. net capital outflow.
    b. Americans to buy more foreign assets, which reduces U.S. net capital outflow.
    c. foreigners to buy more U.S. assets, which reduces U.S. net capital outflow.
    d. foreigners to buy more U.S. assets, which increases U.S. net capital outflow.
11. Other things the same, if the U.S. interest rate falls, then U.S. residents will want to purchase
    a. more foreign assets, which increases the quantity of loanable funds demanded.
    b. fewer foreign assets, which decreases the quantity of loanable funds demanded.
    c. more foreign assets, which increase the quantity of loanable funds supplied.
    d. fewer foreign assets, which decreases the quantity of loanable funds supplied.
12. At the equilibrium real interest rate in the open-economy macroeconomic model, the equilibrium quantity of loanable funds equals
    a. net capital outflow.
    b. domestic investment.
    c. foreign currency supplied.
    d. national saving.
13. If the demand for loanable funds shifts right, then
    a. the real interest rate and the equilibrium quantity of loanable funds both fall.
    b. the real interest rate falls and the equilibrium quantity of loanable funds rises.
    c. the real interest rate and the equilibrium quantity of loanable funds both rise.
    d. the real interest rate rises and the equilibrium quantify of loanable funds falls.
14. If net exports are negative, then
    a. net capital outflow is positive, so foreign assets bought by Americans are greater than American assets bought by foreigners.
    b. net capital outflow is positive, so American assets bought by foreigners are greater than foreign assets bought by Americans.
    c. net capital outflow is negative, so foreign assets bought by Americans are greater than American assets bought by foreigners.
    d. net capital outflow is negative, so American assets bought by foreigners are greater than foreign assets bought by Americans.
15. In the open-economy macroeconomic model, the supply of dollars in the market for foreign-currency exchange comes from
    a. net exports
    b. net capital outflow
    c. net exports + net capital outflow
    d. net exports - net capital outflow
16. Which of the following would tend to shift the supply of dollars in the market for foreign-currency exchange in the open-economy macroeconomic model to the right?
    a. The exchange rate rises.
    b. The exchange rate falls.
    c. The expected rate of return on U.S. assets rises.
    d. The expected rate of return on U.S. assets falls.
17. Other things the same, if the expected return on U.S. assets increased, the
    a. supply of dollars in the market for foreign-currency exchange shifts right.
    b. supply of dollars in the market for foreign-currency exchange shifts left.
    c. demand for dollars in the market for foreign-currency exchange shifts right
    d. demand for dollars in the market for foreign-currency exchange shifts left.
18. At a given real exchange rate, which of the following, by itself, would increase the supply of dollars in the market for foreign-currency exchange?
    a. foreign citizens want to buy more U.S. bonds
    b. U.S. citizens want to buy more foreign bonds
    c. foreign citizens want to buy more U.S. goods
    d. U.S. citizens want to buy more foreign goods

19. The real exchange rate measures the
    a. price of domestic currency relative to foreign currency.
    b. price of domestic goods relative to the price of foreign goods.
    c. rate of domestic and foreign interest.
    d. None of the above is correct.

20. In the open-economy macroeconomic model, as the exchange rate rises,
    a. desired net exports fall, so the quantity of dollars supplied rise.
    b. desired net exports fall, so the quantity of dollars demanded falls.
    c. desired net exports rise ,so the quantity of dollars supplied falls.
    d. desired net exports rise, so the quantity of dollars demanded rises.

21. If the demand for dollars in the market for foreign-currency exchange shifts right, then the exchange rate
    a. rises and the quantity of dollars exchanged rises.
    b. rises and the quantity of dollars exchanged does not change.
    c. falls and the quantity of dollars exchanged falls.
    d. falls and the quantity of dollars exchanged does not change.

22. When the U.S. real interest rate falls, owning U.S. assets becomes
    a. less attractive and so U.S. net capital outflow rises.
    b. less attractive and so U.S. net capital outflow falls.
    c. more attractive and so U.S. net capital outflow rises.
    d. more attractive and so U.S. net capital outflow falls.

23. In the open-economy macroeconomic model, which of the following increases net capital outflow?
    a. a fall in the real exchange rate, but not a fall in the real interest rate
    b. a fall in the real interest rate, but not a fall in the real exchange rate
    c. both a fall in the real exchange rate and a fall in the real interest rate
    d. neither a fall in the real exchange rate nor a fall in the real interest rate

24. If the exchange rate falls, U.S. residents pay
    a. more dollars for foreign bonds and get more dollars from interest payments.
    b. more dollars for foreign bonds but get fewer dollars from interest payments.
    c. fewer dollars for foreign bonds and also get fewer dollars from interest payments.
    d. fewer dollars for foreign bonds but get more dollars from interest payments.

25. Other things the same, if the Swedish real interest rate were to decrease, Swedish net capital outflow
    a. and net capital outflow of other countries would rise.
    b. and net capital outflow of other countries would fall.
    c. would rise, while net capital outflow of other countries would fall.
    d. would fall, while net capital outflow of other countries would rise.

26. A U.S. company wants to buy yen in order to buy Japanese bonds. In the open-economy macroeconomic model, this transaction would be part of
    a. the supply of currency in the foreign exchange market, and part of the supply of loanable funds.
    b. the demand for currency in the foreign exchange market, and part of the supply of loanable funds.
    c. the supply of currency in the foreign exchange market, and part of the demand for loanable funds.
    d. the demand for currency in the foreign exchange market, and part of the demand for loanable funds.

27. In the open-economy macroeconomic model, a decrease in the domestic interest rate shifts
    a. demand in the market for foreign-currency exchange to the right.
    b. demand in the market for foreign-currency exchange to the left.
    c. supply in the market for foreign-currency exchange to the right.
    d. supply in the market for foreign-currency exchange to the left.

1. D
2. D
3. D
4. D
5. B
6. B
7. C
8. A
9. A
10. C
11. A
12. D
13. C
14. D
15. B
16. D
17. B
18. B
19. B
20. B
21. B
22. A
23. B
24. A
25. C
26. C
27. C