Subject: International Economics (4 credits) Class:
Name:

Quick Test

1. Every international transaction automatically enters the balance of payments

A) once either as a credit or as a debit.
B) twice, once as a credit and once as a debit.
C) once as a credit.
D) twice, both times as debit.
E) None of the above.

2. How do we allocate statistical discrepancy among the current, capital, and financial accounts?

A)We have no way of knowing exactly how to allocate this discrepancy.
B)Depend on the degree of certainty by which we attribute to these accounts.
C)Divide it evenly amongst the three accounts.
D)Depend on the convention adopted by the specific financial institution.
E)Statistical discrepancy signals human errors made when dealing with financial accounts.

3. The capital account of the balance of payments includes all of the following **except:**

A) direct foreign investment
B) purchases and sales of government securities
C) bank loan to foreign corporations
D) dividends and interest received from foreign investment

4. A current account balance-of-payments surplus implies an

A) excess of exports over imports of goods and services
B) excess of imports over exports of goods and services
C) excess of exports over imports of goods, services, and unilateral transfers
D) excess of imports over exports of goods, services and unilateral transfers

5. A nation's net foreign investment position will worsen or decline if it's balance of payments shows

A) current account deficit
B) current account surplus
C) goods and services account deficit
D) goods and services account surplus

6. What is the exchange rate between the dollar and the British pound if a pair of American jeans costs 60 dollars in New York and 30 Pounds in London?
A) 1.5 dollars per British pound
B) 0.5 dollars per British pound
C) 2.5 dollars per British pound
D) 3.5 dollars per British pound
E) 2 dollars per British pound

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7. Which one of the following statements is the most accurate?
   A) A depreciation of a country's currency makes its goods cheaper for foreigners.
   B) A depreciation of a country's currency makes its goods more expensive for foreigners.
   C) A depreciation of a country's currency makes its goods cheaper for its own residents.
   D) A depreciation of a country's currency makes its goods cheaper.
   E) None of the above.

8. A foreign exchange swap
   A) is a spot sale of a currency.
   B) is a forward repurchase of the currency.
   C) is a spot sale of a currency combined with a forward repurchase of the currency.
   D) is a spot sale of a currency combined with a forward sale of the currency.
   E) None of the above.

9. The following is an example of Radio Shack hedging its foreign currency risk:
   A) needing to pay 9,000 yen per radio to its suppliers in a month, Radio Shack makes a forward-exchange deal to buy yen.
   B) needing to pay 9,000 yen per radio to its suppliers in a month, Radio Shack makes a forward-exchange deal to sell yen.
   C) needing to pay 9,000 yen per radio to its suppliers in a month, Radio Shack buys yen at a spot-exchange 1 month from now.
   D) needing to pay 9,000 yen per radio to its suppliers in a month, Radio Shack sells yen at a spot-exchange 1 month from now.
   E) None of the above.

10. The action of arbitrage is
   A) the process of buying a currency cheap and selling it dear.
   B) the process of buying a currency dear and selling it cheap.
   C) the process of buying and selling currency at the same price.
   D) the process of selling currency at different prices in different markets.
   E) None of the above

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