

Sample Exam Questions for Chapter 16

1. A nation experiences *internal* balance if it achieves:
 - a. Full employment
 - b. Price stability
 - c. Full employment and price stability**
 - d. Unemployment and price instability
2. A nation experiences *overall* balance if it achieves:
 - a. Balance-of-payments equilibrium, full employment, and price stability**
 - b. Balance-of-payments equilibrium, maximum productivity, and price stability
 - c. Full employment, price stability, and no change in its money supply
 - d. Full employment, price stability, and maximum productivity
3. Which policy is an *expenditure-switching* policy?
 - a. Increase in the money supply
 - b. Decrease in government expenditures
 - c. Increase in business and household taxes
 - d. Decrease in import tariffs**
4. An *expenditure-reducing* policy would consist of a decrease in:
 - a. The par value of a currency
 - b. Government expenditures**
 - c. Import duties
 - d. Business or household taxes
5. Given fixed exchange rates, assume Mexico initiates *contractionary* monetary and fiscal policies to combat inflation. These policies will also:
 - a. Reduce a balance-of-payments surplus
 - b. Reduce a balance-of-payments deficit**
 - c. Increases both imports and exports
 - d. Decrease both imports and exports
6. The appropriate *expenditure-switching* policy to correct a balance-of-payments *deficit* is:
 - a. Contractionary monetary policy
 - b. Expansionary fiscal policy
 - c. Currency devaluation**
 - d. Currency revaluation
7. Suppose the United States faces domestic inflation and a balance-of-payments surplus. Should the United States *revalue* the dollar, one would expect the:
 - a. Inflation to become more severe—surplus to become less severe
 - b. Inflation to become less severe—surplus to become less severe**
 - c. Inflation to become less severe—surplus to become more severe
 - d. Inflation to become more severe—surplus to become more severe
8. Suppose Brazil faces domestic inflation and a balance-of-payments deficit. Should Brazil *devalue* its currency, one would expect the:
 - a. Inflation to become more severe—deficit to become less severe**
 - b. Inflation to become more severe—deficit to become more severe
 - c. Inflation to become less severe—deficit to become less severe
 - d. Inflation to become less severe—deficit to become more severe

9. A problem that economic policymakers confront when attempting to promote both internal and external balance for the nation is that monetary or fiscal policies aimed at the domestic sector also have impacts on:
 - a. Trade flows only
 - b. Capital flows only
 - c. Both trade flows and capital flows**
 - d. Neither trade flows nor capital flows

10. Under a system of floating exchange rates, which of the following policies promotes internal balance for a nation?
 - a. Fiscal policy
 - b. Monetary policy**
 - c. Both fiscal policy and monetary policy
 - d. Neither fiscal policy nor monetary policy

11. Concerning the pursuit of internal balance under a fixed exchange-rate system:
 - a. Fiscal policy is successful in promoting internal balance, while monetary policy is unsuccessful**
 - b. Monetary policy is successful in promoting internal balance, while fiscal policy is unsuccessful
 - c. Both fiscal policy and monetary policy are successful in promoting internal balance
 - d. Neither fiscal policy nor monetary policy are successful in promoting internal balance

12. Under a fixed exchange-rate system, an *expansion* in the domestic money supply leads to a:
 - a. Trade-account deficit and a capital-account surplus
 - b. Trade-account deficit and a capital-account deficit**
 - c. Trade-account surplus and a capital-account surplus
 - d. Trade-account surplus and a capital-account deficit

13. Under a fixed exchange-rate system, a *contractionary* fiscal policy leads to a:
 - a. Trade-account deficit and a capital-account surplus
 - b. Trade-account deficit and a capital-account deficit
 - c. Trade-account surplus and a capital-account surplus
 - d. Trade-account surplus and a capital-account deficit**

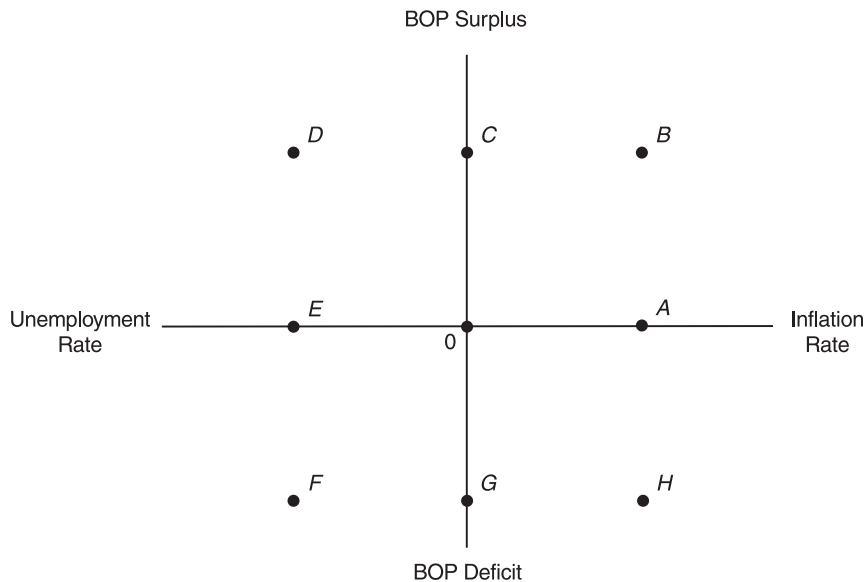
14. Under a fixed exchange-rate system, a *contractionary* fiscal policy leads to a *worsening* in a nation's balance-of-payments position if the resulting:
 - a. Trade-account deficit more than offsets the capital-account surplus
 - b. Trade-account deficit more than offsets the capital-account deficit
 - c. Capital-account deficit more than offsets the trade-account surplus**
 - d. Capital-account deficit more than offsets the trade-account deficit

True/False

- | | |
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| T | 1. A nation realizes its internal balance its economy achieves full employment and price stability. |
| T | 2. A nation realizes external balance when its balance of payments is in equilibrium. |
| F | 3. Economic policymakers have typically adopted expenditure-increasing policies to combat inflation and expenditure-reducing policies to combat recession. |

- F 4. currency devaluation and revaluation are considered to be expenditure-changing policies since they alter a country's aggregate demand for goods and services.

Figure 16.1. *Position of the U.S. Economy*



- T 5. Refer to Figure 16.1. The economy achieves overall balance at point 0 .
- F 6. Refer to Figure 16.1. At point A , the economy realizes internal balance but not external balance.
- T 7. Refer to Figure 16.1. At point C , the economy realizes internal balance with a balance-of-payments surplus.
- F 8. Under floating exchange rates, fiscal policy is effective in promoting internal balance while monetary policy is ineffective.
- F 9. With fixed exchange rates, an expansionary monetary policy leads to an improvement in a country's trade account and capital account.
- F 10. With fixed exchange rates, an increase in government spending results in an improvement in a country's trade account but a worsening in its capital account.
- F 11. With fixed exchange rates, a restrictive monetary policy results in a worsening of a country's trade account and capital account.
- T 12. With fixed exchange rates, a restrictive fiscal policy will improve a country's balance-of-payments position if the resulting trade-account surplus exceeds the capital-account deficit.