Multiple Choice Questions (4 points each, total 120 points)

1. Dave, a U.S. citizen buys a bicycle manufactured in China. Dave’s purchase is
   a. both a U.S. and Chinese export.
   b. both a U.S. and Chinese import.
   c. a U.S. import and a Chinese export.
   d. a U.S. export and a Chinese import.

2. A country sells more to foreign countries than it buys from them. It has
   a. a trade surplus and positive net exports.
   b. a trade surplus and negative net exports.
   c. a trade deficit and positive net exports.
   d. a trade deficit and negative net exports.

3. One year a country has negative net exports. The next year it still has negative net exports and imports have risen more than exports.
   a. its trade surplus fell.
   b. its trade surplus rose.
   c. its trade deficit fell.
   d. its trade deficit rose.

4. A country purchases $3 billion of foreign-produced goods and services and sells $2 billion dollars of domestically produced goods and services to foreign countries. It has
   a. exports of $3 billion and a trade surplus of $1 billion.
   b. exports of $3 billion and a trade deficit of $1 billion.
   c. exports of $2 billion and a trade surplus of $1 billion.
   d. exports of $2 billion and a trade deficit of $1 billion.

5. If a country has $2.4 billion of net exports and purchases $4.8 billion of goods and services from foreign countries, then it has
   a. $7.2 billion of exports and $4.8 billion of imports.
   b. $7.2 billion of imports and $4.8 billion of exports.
   c. $4.8 billion of exports and $2.4 billion of imports.
   d. $4.8 billion of imports and $2.4 billion of exports.

6. If a country had a trade surplus of $50 billion and then its exports rose by $30 billion and its imports rose by $20 billion, its net exports would now be
   a. $0 billion.
   b. $20 billion.
   c. $40 billion.
   d. $60 billion.
7. Net capital outflow equals
   a. the value of domestic assets purchased by foreigners.
   b. the value of foreign assets purchased by domestic residents.
   c. the value of domestic assets purchased by foreigners - the value of foreign assets purchased by domestic residents.
   d. the value of foreign assets purchased by domestic residents - the value of domestic assets purchased by foreigners.

8. If domestic residents of France purchase 1.2 trillion euros of foreign assets and foreigners purchase 1.5 trillion euros of French assets, then France’s net capital outflow is
   a. -.3 trillion euros, so it must have a trade deficit.
   b. -.3 trillion euros, so it must have a trade surplus.
   c. .3 trillion euros, so it must have a trade deficit.
   d. .3 trillion euros, so it must have a trade surplus.

9. Suppose that foreign citizens decide to purchase more U.S. pharmaceuticals and U.S. citizens decide to buy more stock in foreign corporations. Other things the same, these actions
   a. raise both U.S. net exports and U.S. net capital outflows.
   b. raise U.S. net exports and lower U.S. net capital outflows.
   c. lower both U.S. net exports and U.S. net capital outflows.
   d. lower U.S. net exports and raise U.S. net capital outflows.

10. Suppose that U.S. citizens purchase more cars made in Korea, and Koreans purchase more bonds issued by U.S. corporations. Other things the same, these actions
   a. raise both U.S. net exports and U.S. net capital outflows.
   b. raise U.S. net exports and lower U.S. net capital outflows.
   c. lower both U.S. net exports and U.S. net capital outflows.
   d. lower U.S. net exports and raise U.S. net capital outflows.

11. A U.S. purchase of oil from overseas paid for with foreign currency it already owned
   a. increases U.S. net exports, and increases U.S. net capital outflow.
   b. increases U.S. net exports, and decreases U.S. net capital outflow.
   c. decreases U.S. net exports, and increases U.S. net capital outflow.
   d. decreases U.S. net exports, and decreases U.S. net capital outflow.

12. If saving is greater than domestic investment, then
   a. there is a trade deficit and \( Y > C + I + G \).
   b. there is a trade deficit and \( Y < C + I + G \).
   c. there is a trade surplus and \( Y > C + I + G \).
   d. there is a trade surplus and \( Y < C + I + G \).

13. If a country has negative net capital outflows, then its net exports are
   a. positive and its saving is larger than its domestic investment.
   b. positive and its saving is smaller than its domestic investment.
   c. negative and its saving is larger than its domestic investment.
   d. negative and its saving is smaller than its domestic investment.

14. The country of Sylvania has a GDP of $900, investment of $200, government purchases of $200, and net capital outflow of -$100. What is consumption?
   a. $700
   b. $600
   c. $500
   d. $300

15. Other things the same, an increase in the foreign price level
   a. reduces the real exchange rate. This reduction could be offset by a decrease in the domestic price level.
   b. reduces the real exchange rate. This reduction could be offset by an increase in the domestic price level.
   c. increases the real exchange rate. This increase could be offset by a decrease in the domestic price level.
d. increases the real exchange rate. This increase could be offset by an increase in the domestic price level.

16. The investment component of GDP measures spending on
a. financial assets such as stocks and bonds. During recessions it declines by a relatively large amount.
b. residential construction, business equipment, business structures, and changes in inventory. During recessions it declines by a relatively large amount.
c. financial assets such as stocks and bonds. During recessions it declines by a relatively small amount.
d. residential construction, business equipment, business structures, and changes in inventory. During recessions it declines by a relatively small amount.

17. Recessions come at
a. regular intervals. During recessions consumption spending falls relatively more than investment spending.
b. regular intervals. During recessions investment spending falls relatively more than consumption spending.
c. irregular intervals. During recessions consumption spending falls relatively more than investment spending.
d. irregular intervals. During recessions investment spending falls relatively more than consumption spending.

18. According to the classical model, which of the following would double if the quantity of money doubled?
   a. prices but not nominal income
   b. nominal income but not prices
   c. both prices and nominal income
   d. neither prices nor nominal income

19. When the price level falls the quantity of
   a. consumption goods demanded rises, while the quantity of net exports demanded falls.
   b. consumption goods demanded and the quantity of net exports demanded both rise.
   c. consumption goods demanded and the quantity of net exports demanded both fall.
   d. consumption goods demanded falls, while the quantity of net exports demand rises.

20. When the price level changes, which of the following variables will change and thereby cause a change in the aggregate quantity of goods and services demanded?
   a. the real value of wealth
   b. the interest rate
   c. the value of currency in the market for foreign exchange
   d. All of the above are correct.

21. A decrease in U.S. interest rates leads to
   a. a depreciation of the dollar that leads to greater net exports.
   b. a depreciation of the dollar that leads to smaller net exports.
   c. an appreciation of the dollar that leads to greater net exports.
   d. an appreciation of the dollar that leads to smaller net exports.

22. Refer to Figure 33-4. A decrease in taxes would move the economy from C to
23. Refer to Figure 33-4. If the economy starts at A, a decrease in the money supply moves the economy
   a. to A in the long run.  b. to C in the long run.
   c. back to A in the long run. d. to D in the long run.

24. Refer to Figure 33-4. In the short run, a favorable (positive) shift in aggregate supply would move the
   economy from
   a. A to B.  b. B to C.  c. C to D.  d. D to A.

25. Refer to Figure 33-4. The shift of the short-run aggregate-supply curve from SRAS1 to SRAS2
   a. could be caused by an outbreak of war in the Middle East.
   b. could be caused by a decrease in the expected price level.
   c. causes the economy to experience an increase in the unemployment rate.
   d. causes the economy to experience stagflation.

26. Refer to Figure 33-4. If the economy starts at A, then a recession occurs at
   a. B.  b. C.  c. D.

The Stock Market Boom of 2015
Imagine that in 2015 the economy is in long-run equilibrium. Then stock prices rise more than expected and stay
high for some time.

27. Refer to Stock Market Boom 2015. Which curve shifts and in which direction?
   a. aggregate demand shifts right  b. aggregate demand shifts left
   c. aggregate supply shifts right  d. aggregate supply shifts left.

28. Refer to Stock Market Boom 2015. In the short run what happens to the price level and real GDP?
   a. both the price level and real GDP rise.  b. both the price level and real GDP fall.
   c. the price level rises and real GDP falls.  d. the price level falls and real GDP rises.

29. Refer to Stock Market Boom 2015. What happens to the expected price level and what impact does this have
   on wage bargaining?
   a. The expected price level falls. Bargains are struck for higher wages.
   b. The expected price level falls. Bargains are struck for lower wages.
   c. The expected price level rises. Bargains are struck for higher wages.
   d. The expected price level rises. Bargains are struck for lower wages.

30. Refer to Stock Market Boom 2015. In the long run, the change in price expectations created by the stock
    market boom shifts
   a. long-run aggregate supply right.  b. long-run aggregate supply left.
   c. short-run aggregate supply right.  d. short-run aggregate supply left.