Econ102 Chapter 25 Practice Questions

MULTIPLE CHOICE. Choose the one alternative that best completes the statement or answers the question.

1. The exchange rate is the
   A) percentage change in the volume of currency exchanges.
   B) volume of currency exchanged between importers and exporters.
   C) average rate at which foreign currencies are exchanged.
   D) price at which one currency exchanges for another currency.
   E) rate of currency appreciation or depreciation.

2. If the Canadian dollar depreciates, it means that
   A) one Canadian dollar buys less foreign currency.
   B) inflation has eroded the purchasing power of Canadian money.
   C) Canada's exchange rate falls.
   D) both A and C are correct.
   E) all of the above are true.

3. Suppose that the Canadian dollar exchanges for 1.05 U.S. dollars and also for 0.65 Euros. A U.S. dollar exchanges for
   A) 0.68 Euros. B) 0.40 Euros. C) 1.00 Euro. D) 1.70 Euros. E) 0.62 Euros.

Refer to the table below to answer the following questions.

Table 25.1.1

Currency	2009 Exchange Rate	2010 Exchange Rate
EU euro	2 euros/dollar	3 euros/dollar
Japanese yen	120 yen/dollar	90 yen/dollar

4. Refer to Table 25.1.1. Between 2009 and 2010, the yen
   A) will have appreciated in value versus the euro if the euro has a high weight in CERI.
   B) must have depreciated in value versus the euro.
   C) must have appreciated in value versus the euro.
   D) will have appreciated in value versus the euro if the euro has a lower weight in CERI.
   E) may or may not have appreciated in value versus the euro.

5. Which of the following factors influence the demand for Canadian dollars?
   A) The exchange rate and the world demand for Canadian exports.
   B) Interest rates in Canada and other countries, and the expected future exchange rate.
   C) The world demand for Canadian exports and Canadian demand for imports.
   D) Both A and B.
   E) Both B and C.

6. The law of supply of foreign exchange tells us that other things remaining the same,
   A) the higher the exchange rate, the greater is the quantity of Canadian dollars supplied.
   B) the higher the exchange rate, the greater is the supply of Canadian dollars
   C) the lower the exchange rate, the smaller is the supply of Canadian dollars.
   D) the lower the exchange rate, the greater is the quantity of Canadian dollars supplied.
   E) the lower the exchange rate, the greater is the supply of Canadian dollars.

7. Which one of the following shifts the demand curve for dollars rightward?
   A) The dollar is expected to appreciate.
   B) A decrease in the demand for Canadian goods by foreigners.
   C) U.S. interest rates rise.
   D) The dollar is expected to depreciate.
   E) An increase in the demand for foreign goods by Canadians.

8. Which of the following quotations best describes purchasing power parity?
   A) "The expected depreciation of the Canadian dollar is currently lowering demand for it."
   B) "The market feeling is that the Canadian dollar is overvalued and will likely depreciate."
   C) "The price of bananas is the same in Canada and the United States, adjusting for the exchange rate."
   D) "The recent high Canadian interest rate has increased demand for the Canadian dollar."
   E) None of the above.

9. Suppose the interest rate in Canada rises and the interest rate in Japan remains the same. Interest rate parity implies that given equal risk
   A) the yen is expected to appreciate against the dollar.
   B) the yen is expected to depreciate against the dollar.
   C) Canadian financial investments are less profitable.
   D) the inflation rate is higher in Japan.
   E) Japanese financial investments are less profitable.

10. Suppose you think that the Canadian dollar exchange rate will depreciate against the U.S. dollar over the next month. What should you do now in anticipation of profit?
    A) Sell U.S. dollars.
    B) Buy U.S. dollars.
    C) Sell Canadian dollars.
    D) Buy Canadian dollars.
    E) Do both B and C.

11. Which of the following exchange rate policies uses a target exchange rate, but allows the target to change?
    A) fixed exchange rate
    B) moving target
    C) crawling peg
    D) flexible exchange rate
    E) none of the above

Refer to the figure below to answer the following questions.

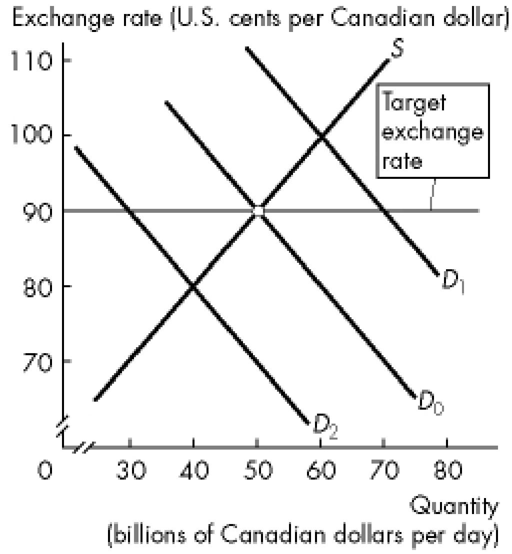

Figure 25.3.1

12. In Figure 25.3.1, suppose the demand for dollars *temporarily* increases so that the demand curve shifts to D_1. To maintain the target exchange rate, the Bank of Canada
    A) must lower the target exchange rate.
    B) must violate interest rate parity but not purchasing power parity.
    C) must raise the target exchange rate.
    D) sells dollars.
    E) buys dollars.

13. The Bank of Canada ________.
    A) has no influence on the exchange rate
    B) follows a flexible exchange rate policy, although the Bank's actions can impact the exchange rate
    C) sells Canadian dollars to the United States in an attempt to depreciate the Canadian dollar and increase Canadian exports to the United States
    D) buys Canadian dollars from the United States in an attempt to depreciate the Canadian dollar and increase Canadian exports to the United States
    E) alternates between a flexible, fixed, and crawling peg exchange rate policy depending on economic conditions

14. If the current account is in surplus and the capital and financial account is also in surplus, then the official settlements account balance is
    A) zero.
    B) positive.
    C) probably close to zero, but could be either negative or positive.
    D) negative.
    E) equal to the sum of the current account and the capital account.

15. NX =

A) $(S + I) - (T + G)$.

B) $(S - I) + (G - T)$.

C) $C + I + G$.

D) $(G - T) + (I - S)$.

E) $(T - G) + (S - I)$.

16. Which one of the following transactions would be recorded as a positive entry in the Canadian balance of payment accounts?

A) A Canadian tourist spends $3,000 while visiting France.

B) A Canadian tourist spends $3,000 while visiting Banff.

C) A Canadian corporation sends interest payments on outstanding bonds to U.S. citizens.

D) A Canadian citizen purchases a U.K. government bond.

E) A French tourist spends $3,000 while visiting Banff.

17. If Northland is currently a net lender and a debtor nation,

A) its accounting system must be in error if it shows the nation to be a net lender and a debtor nation at the same time.

B) its debts must be currently growing.

C) it has loaned more than it borrowed from the rest of the world this year, but borrowed more than it loaned during its history.

D) it has loaned more than it borrowed from the rest of the world this year and has loaned more than it borrowed during its history.

E) it has borrowed more from the rest of the world than it loaned this year and also borrowed more than it loaned during its history.

18. The current account records

A) current consumption expenditure.

B) current investment.

C) net exports, net interest income and net transfers.

D) net value of Canadian investments and foreign investments.

E) current government expenditure.

19. Canada's balance of payments accounts are the

A) current account, capital and financial account, and net interest account.

B) official settlements account, current account, and net interest account.

C) capital and financial account, current account, and merchandise trade account.

D) current account, capital and financial account, and official settlements account.

E) capital and financial account, official settlements account, and merchandise trade account.

1. D
2. D
3. E
4. C
5. D
6. A
7. A
8. C
9. B
10. E
11. C
12. D
13. B
14. D
15. E
16. E
17. C
18. C
19. D