CHAPTER 7
OPEN ECONOMIES

1. Which type(s) of economies interact with other economies?
   a. only closed economies
   b. only open economies
   c. closed economies and open economies
   d. neither closed nor open economies
2. Foreign-produced goods and services that are sold domestically are called
   a. imports.
   b. exports.
   c. net imports.
   d. net exports.
3. Net exports of a country are the value of
   a. goods and services imported minus the value of goods and services exported.
   b. goods and services exported minus the value of goods and services imported.
   c. goods exported minus the value of goods imported.
   d. goods imported minus the value of goods exported.
4. Which of the following both raise net exports?
   a. exports rise, imports rise
   b. exports rise, imports fall
   c. imports rise, exports rise
   d. imports rise, exports fall
5. 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.
6. One year a country has positive net exports. The next year it still has positive but larger net exports
   a. its trade surplus fell.
   b. its trade surplus rose.
   c. its trade deficit fell.
   d. its trade deficit rose
7. Oceania buys $40 of wine from Escudia and Escudia buys $100 of wool from Oceania. Supposing this is the only trade that these countries do. What are the net exports of Oceania and Escudia in that order?
   a. $140 and $140
   b. $100 and $40
   c. $60 and -$60
   d. None of the above is correct.

8. If U.S. exports are $300 billion and U.S. imports total $350 billion, which of the following is correct?
   a. The U.S. has a trade surplus of $350 billion.
   b. The U.S. has a trade surplus of $50 billion.
   c. The U.S. has a trade deficit of $350 billion.
   d. The U.S. has a trade deficit of $50 billion.

Argentinean Trade Flows			
Goods		Services	
Purchased Abroad	$40 billion	Purchased Abroad	$20 billion
Sold Abroad	$10 billion	Sold Abroad	$25 billion

9. **Refer to Table 31-1.** What are Argentina's exports?
   a. $60 billion
   b. $35 billion
   c. $10 billion
   d. None of the above are correct.

10. **Refer to Table 31-1.** What are Argentina's imports?
    a. $60 billion
    b. $35 billion
    c. $40 billion
    d. None of the above are correct.

11. **Refer to Table 31-1.** What are Argentina's net exports?
    a. $30 billion
    b. $5 billion
    c. -$5 billion
    d. -$25 billion
12. Bob traps lobsters in Maine and sells them to a restaurant in Egypt. Other things the same, these sales
    a. increase U.S. net exports and has no effect on Egyptian net exports.
    b. increase U.S. net exports and decrease Egyptian net exports.
    c. decrease U.S. net exports and have no effect on Egyptian net exports.
    d. decrease U.S. net exports and increase Egyptian net exports.
13. A firm in the United Kingdom hires a firm in the U.S. to train its managers. By itself this transaction
    a. increases U.S. imports and decreases U.S. net exports.
    b. increases U.S. imports and increases U.S. net exports.
    c. increases U.S. exports and decreases U.S. net exports.
    d. increases U.S. exports and increases U.S. net exports.
14. Net capital outflow is defined as the purchase of
    a. foreign assets by domestic residents minus the purchase of domestic assets by foreign residents.

b. foreign assets by domestic residents minus the purchase of foreign goods and services by domestic residents.
c. domestic assets by foreign residents minus the purchase of domestic goods and services by foreign residents.
d. domestic assets by foreign residents minus the purchase of foreign assets by domestic residents.

15. Which of the following is an example of U.S. foreign direct investment?
    a. A Swedish car manufacturer opens a plant in Tennessee.
    b. A Dutch citizen buys shares of stock in a U.S. company.
    c. A U.S. based restaurant chain opens new restaurants in China.
    d. A U.S. citizen buys stock in companies located in Japan.
16. Mary, a U.S. citizen, buys stock in an Italian railroad. This purchase is an example of
    a. investment for Mary and U.S. foreign direct investment.
    b. investment for Mary and U.S. foreign portfolio investment.
    c. saving for Mary and U.S. foreign direct investment.
    d. saving for Mary and U.S. foreign portfolio investment.
17. Bob, a Greek citizen, opens a restaurant in Chicago. His expenditures
    a. increase U.S. net capital outflow and have no affect on Greek net capital outflow.
    b. increase U.S. net capital outflow and increase Greek net capital outflow.
    c. increase U.S. net capital outflow, but decrease Greek net capital outflow.
    d. decrease U.S. net capital outflow, but increase Greek net capital outflow.
18. Which of the following is correct?
    a. $NCO = NX$
    b. $NCO + I = NX$
    c. $NX + NCO = Y$
    d. $Y = NCO - I$
19. Net capital outflow
    a. is always greater than net exports.
    b. is always less than net exports.
    c. is always equal to net exports.
    d. could be any of the above.
20. 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 $Y < C + I + G$.
21. When Ghana sells chocolate to the United States, U.S. net exports
    a. increase, and U.S. net capital outflow increases.
    b. increase, and U.S. net capital outflow decreases.
    c. decrease, and U.S. net capital outflow increases.
    d. decrease, and U.S. net capital outflow decreases.

22. A Mexican flour mill buys wheat from the United States and pays for it with pesos. Other things the same, Mexican
    a. net exports increase, and U.S. net capital outflow increases.
    b. net exports increase, and U.S. net capital outflow decreases.
    c. net exports decrease, and U.S. net capital outflow increases.
    d. net exports decrease, and U.S. net capital outflow decreases.
23. Bolivia buys railroad engines from a U.S. firm and pays for them with Bolivianos (Bolivian currency). By itself, this exchange
    a. increases both U.S. net exports and U.S. net capital outflow.
    b. decreases both U.S. net exports and U.S. net capital outflow.
    c. increases U.S. net exports and does not affect U.S. net capital outflow.
    d. None of the above is correct.
24. If business opportunities in a country become relatively less attractive relative to those of other countries, then
    a. both its net exports and net capital outflows fall.
    b. both its net exports and net capital outflows rise.
    c. its net exports fall and its net capital outflows fall.
    d. its net exports rise and its net capital outflows fall
25. Which of the following equations is correct?
    a. $S = I + C$
    b. $S = I - NX$
    c. $S = I + NCO$
    d. $S = NX - NCO$.