University of Colorado at Boulder

Department of Economics

ECON 4423: INTERNATIONAL FINANCE

Term Test 1
Fall 2005

Name: Answer Key

Student ID: ____________________________

Instructions:
• This test is 1 hour in length.
• You may use a hand calculator
• No Cell Phones
• Answer all questions.
• Section 1: Multiple Choice.
• Section 2: Problems.
• This test is x pages long (including cover).
Section 1: Multiple Choice

- Each question is worth 5 points, for a total of 45 points.

1. GDP is supposed to measure
   A. the volume of production within a country’s borders.
   B. the volume of services generated within a country’s borders.
   C. the volume of production of a country’s output.
   D. GNP plus depreciation.
   E. None of the above.

   Answer: A

2. GNP equals GDP
   A. minus net receipts of factor income from the rest of the world.
   B. plus receipts of factor income from the rest of the world.
   C. minus receipts of factor income from the rest of the world.
   D. plus net receipts of factor income from the rest of the world.
   E. None of the above.

   Answer: D

3. In open economies,
   A. saving and investment are necessarily equal.
   B. as in a closed economy, saving and investment are not necessarily equal.
   C. saving and investment are not necessarily equal as they are in a closed economy.
   D. saving and investment are necessarily equal contrary to the case of a closed economy.
   E. None of the above.

   Answer: C

4. A country’s current account
   A. balance equals the change in its net foreign wealth.
   B. balance equals the change in its foreign wealth.
   C. surplus equals the change in its foreign wealth.
   D. deficit equals the change in its foreign wealth.
   E. None of the above.

   Answer: A

5. 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

   Answer: E
6. An appreciation of a country’s currency
   A. decreases the relative price of its exports and lowers the relative price of its imports.
   B. raises the relative price of its exports and raises the relative price of its imports.
   C. lowers the relative price of its exports and raises the relative price of its imports.
   D. raises the relative price of its exports and lowers the relative price of its imports.
   E. None of the above.

   Answer: D

7. Which one of the following statements is the most accurate?
   A. The dollar rate of return on euro deposits is the euro interest rate plus the rate of depreciation of the dollar against the euro.
   B. The dollar rate of return on euro deposits is approximately the euro interest rate minus the rate of depreciation of the dollar against the euro.
   C. The dollar rate of return on euro deposits is the euro interest rate minus the rate of depreciation of the dollar against the euro.
   D. The dollar rate of return on euro deposits is approximately the euro interest rate plus the rate of appreciation of the dollar against the euro.
   E. The dollar rate of return on euro deposits is approximately the euro interest rate plus the rate of depreciation of the dollar against the euro.

   Answer: E

8. Which of the following statements is the most accurate?
   A. A rise in the interest rate offered by dollar deposits causes the dollar to appreciate.
   B. A rise in the interest rate offered by dollar deposits causes the dollar to depreciate.
   C. A rise in the interest rate offered by dollar deposits does not affect the U.S. dollar.
   D. For a given euro interest rate and constant expected exchange rate, a rise in the interest rate offered by dollar deposits causes the dollar to appreciate.
   E. None of the above.

   Answer: D

9. Which one of the following statements is the most accurate?
   A. A rise in the average value of transactions carried out by a household or a firm causes its demand for money to fall.
   B. A reduction in the average value of transactions carried out by a household or a firm causes its demand for money to rise.
   C. A rise in the average value of transactions carried out by a household or a firm causes its demand for money to rise.
   D. A rise in the average value of transactions carried out by a household or a firm causes its demand for nominal money to rise.
   E. A rise in the average value of transactions carried out by a household or a firm causes its demand for real money to rise.

   Answer: E