

Assignment 2: Due day. Next Wednesday in Class

Hand in only Answer

Last Name _____

First Name _____

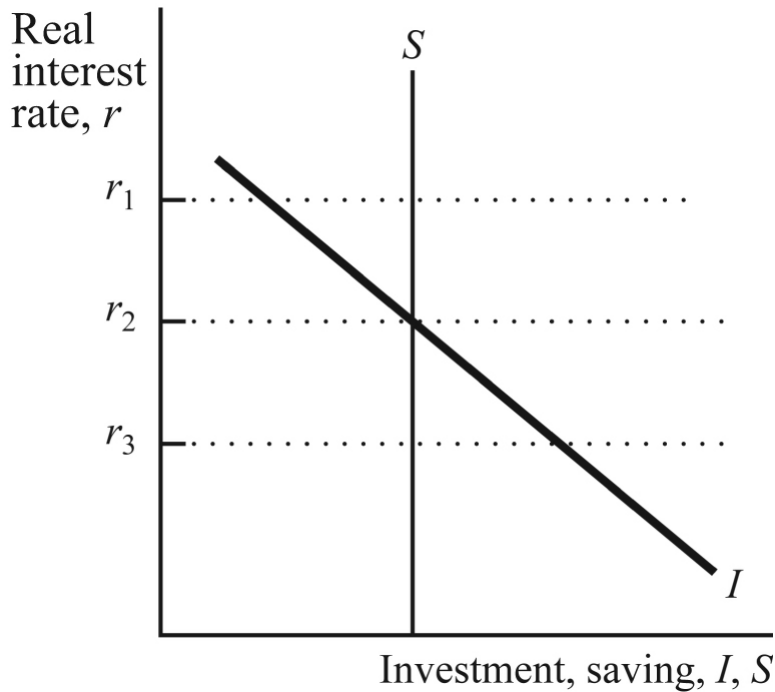
Chapter 5			
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Chapter 6			
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Chapter 5

1. If net capital outflow is positive, then:
 - A) exports must be positive.
 - B) exports must be negative.
 - C) the trade balance must be positive.
 - D) the trade balance must be negative.
2. In a small open economy, if exports equal \$5 billion and imports equal \$7 billion, then there is a trade _____ and _____ net capital outflow.
 - A) deficit; negative
 - B) surplus; negative
 - C) deficit; positive
 - D) surplus; positive
3. If a U.S. corporation sells a product in Canada and uses the proceeds to purchase a product manufactured in Canada, then U.S. net exports _____ and net capital outflows _____.
 - A) increase; increase
 - B) decrease; decrease
 - C) do not change; do not change
 - D) do not change; increase

Use the following to answer question 4:

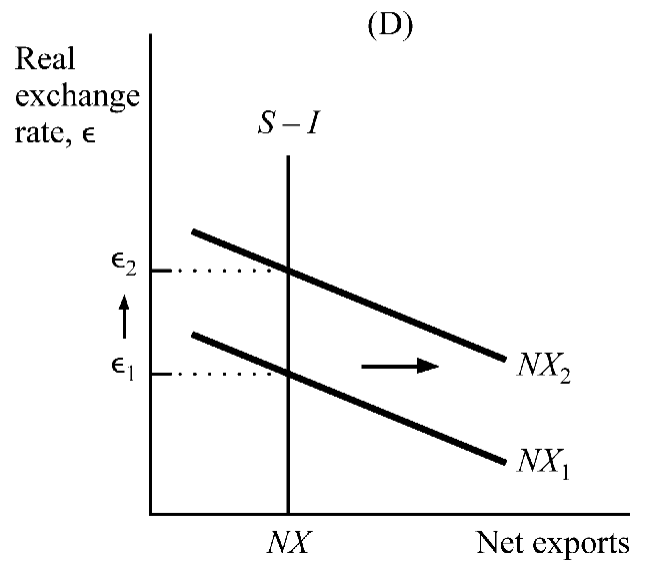
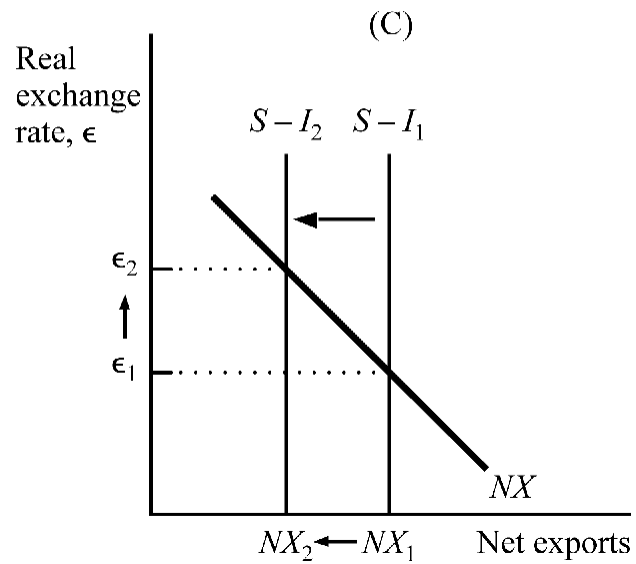
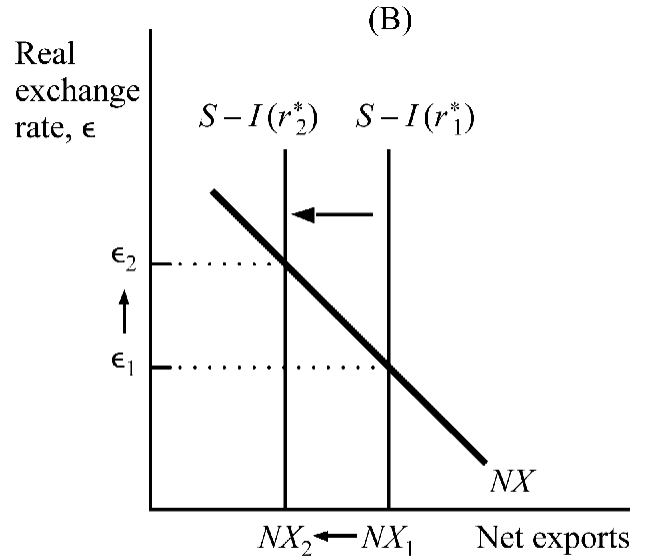
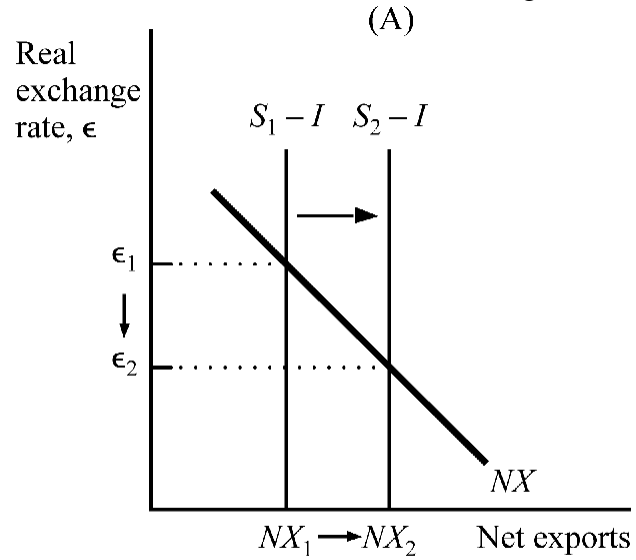
Exhibit: Saving and Investment in a Small Open Economy



4. (Exhibit: Saving and Investment in a Small Open Economy) In a small open economy, if the world interest rate is r_1 , then the economy has:
- A) a trade surplus.
 - B) balanced trade.
 - C) a trade deficit.
 - D) negative capital outflows.
5. In an open economy:
- A) a trade deficit is always good.
 - B) a trade deficit is always bad.
 - C) a trade deficit may be good or bad.
 - D) a trade surplus is always bad.
6. The real exchange rate:
- A) measures how many Japanese yen one really gets for a U.S. dollar.
 - B) is equal to the nominal exchange rate multiplied by the domestic price level divided by the foreign price level.
 - C) is equal to the nominal exchange rate multiplied by the foreign price level divided by the domestic price level.
 - D) is the price of a domestic car divided by the price of a foreign car.
7. In a small open economy, if the government encourages investment, say through an investment tax credit, investment:
- A) increases and is financed through an increase in national saving.
 - B) increases and is financed through an increase in exports.
 - C) increases and is financed through an inflow of foreign capital.
 - D) does not increase; the interest rate rises instead.

Use the following to answer questions 8-9:

Exhibit: Policies Influence Real Exchange Rate



8. (Exhibit: Policies Influence Real Exchange Rate) Which of the graphs illustrates the impact on the real exchange rate of contractionary fiscal policies abroad?
- A) (A)
 - B) (B)
 - C) (C)
 - D) (D)
9. (Exhibit: Policies Influence Real Exchange Rate) Which of the graphs illustrates the impact on the real exchange rate of protectionist trade policies?
- A) (A)
 - B) (B)
 - C) (C)
 - D) (D)
10. One consequence of high inflation is a(n):
- A) appreciating nominal exchange rate.
 - B) appreciating real exchange rate.
 - C) depreciating nominal exchange rate.
 - D) depreciating real exchange rate.

Chapter 6

1. One reason for unemployment is that:
 - A) it takes time to match workers and jobs.
 - B) all jobs are identical.
 - C) the labor market is always in equilibrium.
 - D) a laid-off worker can immediately find a new job at the market wage.

2. Unemployment caused by the time it takes workers to search for a job is called _____ unemployment.
 - A) frictional
 - B) structural
 - C) efficiency
 - D) insider

3. Frictional unemployment is inevitable because:
 - A) different sectors do not shift.
 - B) the economy needs to be lubricated.
 - C) workers never quit their jobs to change careers.
 - D) the demand for different goods always fluctuates.

4. All of the following policies were adopted by government in an attempt to reduce the natural rate of unemployment *except*:
 - A) unemployment insurance.
 - B) government employment agencies.
 - C) public retraining programs.
 - D) the Illinois bonus program for unemployment insurance claimants who found jobs quickly.

5. All of the following are causes of structural unemployment *except*:
 - A) minimum-wage laws.
 - B) the monopoly power of unions.
 - C) unemployment insurance.
 - D) efficiency wages.

6. All of the following statements about minimum-wage workers in the United States are correct *except*:
 - A) Minimum-wage workers are more likely to be male.
 - B) Minimum-wage workers are more likely to work part time.
 - C) Minimum-wage workers are more likely to be less educated.
 - D) Minimum-wage workers are more likely to be young.

7. One efficiency-wage theory implies that firms pay high wages because:
- A) this practice increases the problem of moral hazard.
 - B) in wealthy countries, it is important to pay workers high wages to improve their health.
 - C) the more a firm pays its workers, the greater their incentive to stay with the firm.
 - D) paying high wages promotes adverse selection.
8. Policies to substantially reduce unemployment should be targeted at:
- A) the short-term unemployed.
 - B) the long-term unemployed.
 - C) discouraged workers.
 - D) insiders and outsiders.
9. Entry into and exit from the labor force are important to the determination of the unemployment rate because:
- A) more than one-half of the unemployed have only recently entered the labor force.
 - B) most of the unemployed are young workers still looking for their first job.
 - C) discouraged workers are counted as part of the labor force.
 - D) almost one-half of all spells of unemployment end in the unemployed person's withdrawal from the labor market.
10. Discouraged workers are individuals who:
- A) have jobs that do not match their skills (e.g., a PhD driving a taxi cab).
 - B) have been unemployed for more than 26 weeks.
 - C) call themselves unemployed but are not seriously looking for a job.
 - D) want a job but have given up looking for one.
11. In recent years, Europe has experienced _____ unemployment than the United States, and employed Europeans work _____ hours than employed Americans.
- A) more; more
 - B) more; fewer
 - C) less; fewer
 - D) less; more