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

4. An increase in the trade surplus of a small open economy could be the result of:

A. a domestic tax cut.

B. an increase in government spending.

C. an increase in the world interest rate.

D. the implementation of an investment tax-credit provision

5. Holding other factors constant, legislation to cut taxes in an open economy will:
A. increase national saving and lead to a trade surplus.
B. increase national saving and lead to a trade deficit.
C. reduce national saving and lead to a trade surplus.
D. reduce national saving and lead to a trade deficit.

6. If the real exchange rate depreciates from 1 Japanese good per U.S. good to 0.5 Japanese good per U.S. good, then U.S. exports ______ and U.S. imports ______.
A. increase; increase
B. decrease; decrease
C. increase; decrease
D. decrease; increase

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.

8. If the purchasing-power parity theory is true, then:
A. the net exports schedule is very steep.
B. all changes in the real exchange rate result from changes in price levels.
C. all changes in the nominal exchange rate result from changes in price levels.
D. changes in saving or investment influence only the real exchange rate.

9. The law of one price is enforced by:

A. governments. B. producers. C. consumers. D. arbitrageurs.

1. If s is the rate of job separation, f is the rate of job finding, and both rates are constant, then the unemployment rate is approximately:

A. f/(f + s). B. (f + s)/f. C. s/(s + f). D. (s + f)/s.

2. If the steady-state rate of unemployment equals 0.10 and the fraction of employed workers who lose their jobs each month (the rate of job separation) is 0.02, then the fraction of unemployed workers who find jobs each month (the rate of job findings) must be:

A. 0.02. B. 0.08. C. 0.10. D. 0.18.

3. When there is structural unemployment, the real wage is:

A. rigid at a level below the market-clearing level.

B. rigid at the market-clearing level.

C. rigid at a level above the market-clearing level. D. flexible.

4. Permitting a lower minimum wage for teenagers would likely:

A. raise teenage unemployment. B. raise teenage wages overall.

C. prevent teenagers from getting job experience.

D. raise unemployment among unskilled adults.

5. When insiders have a much greater impact on the wage bargaining process than do outsiders, the negotiated wage is likely to be ______ the equilibrium wage.

A. much greater than B. much less than C. almost equal to D. about one-half of

6. Paying efficiency wages helps firms reduce the problem of moral hazard by:
A. generating additional profits that can be used to improve working conditions.
B. keeping labor unions from organizing workers in the firm.
C. encouraging unsupervised workers to maintain a high level of productivity.
D. providing an incentive for the best-qualified workers to remain with the firm.

7. All of the following are possible explanations for the trends in the U.S. unemployment rate in the last half of the twentieth century and early twenty-first century except:
A. the changing composition of the U.S. work force.
B. sectoral shifts.
C. a generally increasing real value of the minimum wage.
D. the links between unemployment and productivity.

8. Assume that a country experiences a reduction in productivity that shifts the labor demand curve downward and to the left. If the labor market were always in equilibrium, this would lead to:
A. a lower real wage and a rise in unemployment.
B. a lower real wage and no change in unemployment.
C. a lower real wage and less unemployment.
D. no change in real wage or in unemployment.