AP Macroeconomics –Practice Multiple Choice: International Trade and Finance

1. Which of the following best explains why many United States economists support free international trade?

(A) Workers who lose their jobs can collect unemployment compensation.
(B) It is more important to reduce world inflation than to reduce US unemployment.
(C) Workers are not affected; only businesses suffer.
(D) The long-run gains to consumers and some producers exceed the losses to other producers.
(E) Government can protect United States industries while encouraging free trade.

2. If the real interest rate in Country X increases relative to the real interest rate in Country Y and there are no trade barriers between the two countries, then for country X which of the following will be true of its capital flow, the value of its currency, and its exports?

	Capital Flow	Currency	Exports
(A)	Inflow	Appreciation	Increase
(B)	Inflow	Appreciation	Decrease
(C)	Inflow	Depreciation	Increase
(D)	Outflow	Depreciation	Increase
(E)	Outflow	Appreciation	Decrease

3. If a country has a current account deficit, which of the following must be true?

(A) It must also show a deficit in its capital account.
(B) It must show a surplus in its capital account.
(C) It must increase the purchases of foreign goods and services.
(D) It must increase the domestic interest rates on its bonds.
(E) It must limit the flow of foreign capital investment

4. With an increase in investment demand in the United States, the real interest rate rises. In this situation, the most likely change in the capital stock of the United States and in the international value of the dollar would be which of the following?

	Capital Stock in United States	International Value of the Dollar
(A)	Increase	Decrease
(B)	Increase	No change
(C)	Increase	Increase
(D)	Decrease	Increase
(E)	No change	Decrease

5. Which of the following would cause the United States dollar to increase in value compared to the Japanese yen?

(A) An increase in the money supply in the United States
(B) An increase in interest rates in the United States
(C) An increase in the United States trade deficit with Japan
(D) The United States purchase of gold on the open market
(E) The sale of $2 billion dollars' worth of Japanese television sets to the United States

6. Assume that the supply of loanable funds increases in Country X. The international value of Country X's currency and Country X's exports will most likely change in which of the following ways?

	International Value of Country X's Currency	Country X's Exports
(A)	Decrease	Decrease
(B)	Decrease	Increase
(C)	Increase	Decrease
(D)	Increase	Increase
(E)	Not change	Not change

7. An increase in Japan's demand for United States goods would cause the value of the dollar to

(A) Depreciate because of inflation
(B) Depreciate because the United States would be selling more dollars to Japan
(C) Depreciate because the United States money supply would increase as exports rise
(D) Appreciate because Japan would be buying more United States dollars
(E) Appreciate because Japan would be selling more United States dollars

8. Which of the following changes will occur to the demand for United States dollars and the international value of the dollar in the short run if investors in the United States and abroad increase their purchases of United States government bonds?

	Demand for Dollars	International Value of the Dollar
(A)	Decrease	Decrease
(B)	Decrease	Increase
(C)	Decrease	No change
(D)	Increase	Decrease
(E)	Increase	Increase

9. As nations specialize in production and trade in international markets, they can expect which of the following domestic improvements?

I. Allocation of domestic resources
II. Standard of living
III. Self-sufficiency

(A) I only
(B) II only
(C) III only
(D) I and II only
(E) I, II, and III

10. Which of the following would be most likely to occur if the United States placed high tariffs on imported goods?

(A) Workers in the United States would have more jobs in the long run.
(B) Income in the United States would be redistributed from the rich to the poor.
(C) The United States standard of living would increase.
(D) The United States economy would become less efficient.
(E) United States exports would increase.

11. What would occur if the international value of the U.S. dollar decreased?
a. U.S. exports would rise.
b. More gold would flow into the U.S.
c. U.S. demand for foreign currencies would increase.
d. The U.S. trade deficit would increase.
e. Americans would pay less for foreign goods.

12. Higher levels of consumer wealth and optimism would likely have which of the following changes in the market for loanable funds?

	MARKET FOR LOANABLE FUNDS	INTEREST RATE
(A)	Increase in supply	Rising
(B)	Increase in demand	Rising
(C)	Decrease in demand	Falling
(D)	Decrease in supply	Falling
(E)	Decrease in supply	Rising

13. Suppose that households increase the demand for U.S. Treasury bonds as financial assets. Which of the following accurately describes changes in the money market, the interest rate, and the value of the dollar in foreign currency markets?

	MONEY MARKET	INTEREST RATE	DOLLAR
(A)	Increased supply	Rising	Appreciates
(B)	Increased demand	Rising	Appreciates
(C)	Decreased demand	Falling	Appreciates
(D)	Decreased supply	Falling	Depreciates
(E)	Decreased demand	Falling	Depreciates

Use this area to create your “memory dump” page….all the graphs and formulas you might need to use on the test.