

# Econ 140 Practice Test

for 2012 delete questions

• 27-29

35-38

41-42

✓ 50

**Econ 140 The World Economy  
Final Exam**

Please answer any **50** of the following 52 questions. Delete 2.

1. Suppose that investors discover that there are serious problems in Korea's financial system. What would this do to international capital flows?  
\_\_\_\_\_
2. How would these capital flows affect demand or supply in Korea's foreign exchange market?  
\_\_\_\_\_
3. Assuming that the Korean won was initially pegged at a roughly equilibrium level, its currency would now become:
  - a) \_\_\_\_ overvalued
  - b) \_\_\_\_ undervalued
  - c) \_\_\_\_ stay at equilibrium
4. If Korea's balance of payments was initially in equilibrium, it would become a
  - a) \_\_\_\_ surplus
  - b) \_\_\_\_ deficit
  - c) \_\_\_\_ zero
  - d) \_\_\_\_ can't tell
5. If Korea abandoned its peg its currency would
  - a) \_\_\_\_ appreciate
  - b) \_\_\_\_ depreciate
  - c) \_\_\_\_ remain constant
  - d) \_\_\_\_ can't tell

6. Under freely floating exchange rates, if a country has net capital inflows then in equilibrium its current account would be in

- a) \_\_\_ surplus
- b) \_\_\_ deficit
- c) \_\_\_ zero
- d) \_\_\_ can't tell

7. Under the gold standard, if a country runs a balance of payments deficit its money supply would

- a) \_\_\_ rise
- b) \_\_\_ fall
- c) \_\_\_ remain constant
- d) \_\_\_ can't tell

8. because

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9. Under classical or monetarist assumptions, this would lead to what adjustments in the domestic economy

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10. Under Keynesian assumptions, how would the domestic economy adjust?

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11. How would these Keynesian adjustments affect the balance of trade:

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12. Under Keynesian assumptions, the cost of using domestic macro policy to correct a trade deficit would be higher for a

- a) \_\_\_ small open economy
- b) \_\_\_ large, relatively closed economy
- c) \_\_\_ no difference

13. because

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14. A devaluation is like a \_\_\_\_\_ on exports and a \_\_\_\_\_ on imports (1/2 point each.)

15. What is a necessary condition for a devaluation to improve the trade balance?

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16. What type of exchange rate regime was adopted in the Bretton Woods system?

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17. Under this system what should a country do if it faced a temporary balance of payments disequilibrium?

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18. What should it do if it faced a fundamental disequilibrium?

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19. Give a consideration that would affect how much an exchange rate change would affect domestic prices

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20. Under flexible exchange rates, high capital mobility would make domestic monetary policy

- a) \_\_\_\_ stronger
- b) \_\_\_\_ weaker
- c) \_\_\_\_ no effect

21. because

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22. In the Great Depression if a country devalued how would this affect domestic employment (if any)?

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23. How would the devaluation affect employment abroad?

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24. With confidence in a country's policies, how would running a budget deficit affect international capital flows?

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25. With high capital mobility how would the budget deficit affect the country's currency under flexible exchange rates?

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26. How, if at all, would these developments affect the country's trade balance?

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27. Under fixed exchange rates, domestic disturbances would tend to be

- a) \_\_\_ spread out internationally
- b) \_\_\_ bottled up domestically
- c) \_\_\_ No effect compared with flexible rates

Under a fixed exchange rate, how would an increase in domestic income affect a country's trade balance if this were due to

28. An increase in aggregate supply

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29. An increase in aggregate demand

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30. "If Estonia has a fixed exchange rate and the US has a flexible rate, than one these countries must be making a mistake." Briefly comment.

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31. In a world of high capital mobility which of the following types of exchange rate regimes is likely to be more crisis prone

- a) \_\_\_\_\_ fixed rates
- b) \_\_\_\_\_ adjustable peg
- c) \_\_\_\_\_ floating rates

32. because

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33. For a country with a balance of payments deficit, to keep its exchange rate from changing what would it have to do in the foreign exchange market?

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34. To keep this action from changing the domestic money supply what would the country have to do?

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Part II Trade

35. According to the specific factors theory, who gains from an increase in exports

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36. Who loses?

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How, if any would these answers change according to the H-O theory?

37. gains

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38. loses

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39. Briefly explain the concept of producer surplus

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40. What, if anything, can we say about the costs of a tariff to consumers relative to the costs to national economic efficiency?

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41. A given increase in tariffs will have a less adverse effect on national economic welfare if foreign supply is

- a) \_\_\_ elastic
- b) \_\_\_ inelastic
- c) \_\_\_ makes no difference

42. The national efficacy costs of a given tariff will be greater if domestic demand is

- a) \_\_\_ elastic
- b) \_\_\_ inelastic
- c) \_\_\_ makes no difference

43. Briefly explain the concept of optimal tariff

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44. An equivalent quota would hurt national economic welfare more if the domestic industry

- d) \_\_\_\_\_ is competitive
- e) \_\_\_\_\_ has monopoly power
- f) \_\_\_\_\_ makes no difference

45. "Putting on a VER is just plain stupid. It costs national economic welfare more than either a tariff or a quota." Briefly comment.

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46. According to the specificity principle to increase domestic production for infant industry or national defense reasons its more efficient to use a

- a. \_\_\_\_\_ tariff
- b. \_\_\_\_\_ subsidy
- c. \_\_\_\_\_ no difference

47. Briefly explain the infant government argument for tariffs.

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48. How, if at all, could the formation of a free trade area hurt economic efficiency?

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49. Under what conditions, if any, would the imposition of an antidumping duty increase national economic welfare?

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50. How did US oil import quotas increase or reduce <sup>or</sup> national security?

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51. The tragedy of the common analysis is more relevant to

- a. \_\_\_ anti dumping duties
- b. \_\_\_ infant industry protection
- c. \_\_\_ global warming
- d. \_\_\_ none of the above

52. What type of trade theory best explains the lobbying surrounding the recent US steel tariffs?

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