

## Assignment 13 (Chapter 14)

1. According to the absorption approach, the economic circumstances that **best** warrant a currency **devaluation** is where the domestic economy faces:
  - a) Unemployment coupled with a payments deficit
  - b) Unemployment coupled with a payments surplus
  - c) Full employment coupled with a payments deficit
  - d) Full employment coupled with a payments surplus
  
2. According to the J-curve effect, when the exchange value of a country's currency **appreciates**, the country's trade balance:
  - a) First moves toward deficit, then later toward surplus
  - b) First moves toward surplus, then later toward deficit
  - c) Moves into deficit and stays there
  - d) Moves into surplus and stays there
  
3. An appreciation of the U.S. dollar tends to:
  - a) Discourage foreigners from making investments in the United States
  - b) Discourage Americans from purchasing foreign goods and services
  - c) Increase the number of dollars that could be bought with foreign currencies
  - d) Discourage Americans from traveling overseas
  
4. According to the J-curve concept, which of the following is **false**? The effects of a currency depreciation on the balance of payments are:
  - a) Transmitted primarily via the income adjusted mechanism
  - b) Likely to be adverse or negative in the short run
  - c) In the long run positive, given favorable elasticity conditions
  - d) Influenced by offsetting devaluations made by other countries
  
5. Which of the following is **true** for the J-curve effect?
  - a) It applies to the interest rate effects of currency depreciation
  - b) It applies to the income effects of currency depreciation
  - c) It suggests that demand tends to be most elastic over the long run
  - d) It suggests that demand tends to be least elastic over the long run
  
6. Assume the Canadian demand elasticity for imports equals 1.2, while the foreign demand elasticity for Canadian exports equals 1.8. Responding to a trade deficit, suppose the Canadian dollar depreciates by 10 percent. For Canada, the depreciation would lead to:
  - a) A worsening trade balance-a larger deficit
  - b) An improving trade balance-a smaller deficit
  - c) An unchanged trade balance
  - d) None of the above

7. Because of the J-curve effect and partial currency pass-through, a depreciation of the domestic currency tends to increase the size of a trade:

- a) Surplus in the short run
- b) Surplus in the long run
- c) Deficit in the short run
- d) Deficit in the long run

8. According to the Marshall-Lerner condition, a currency depreciation is **least** likely to lead to an improvement in the home country's trade balance when:

- a) Home demand for imports is inelastic and foreign export demand is inelastic
- b) Home demand for imports is elastic and foreign export demand is inelastic
- c) Home demand for imports is inelastic and foreign export demand is elastic
- d) Home demand for imports is elastic and foreign export demand is elastic

9. If foreign manufacturers cut manufacturing costs and profit margins in response to a depreciation in the U.S. dollar, the effect of these actions is to:

- a) Shorten the amount of time in which the depreciation leads to a smaller trade deficit
- b) Shorten the amount of time in which the depreciation leads to a smaller trade surplus
- c) Lengthen the amount of time in which the depreciation leads to a smaller trade deficit
- d) Lengthen the amount of time in which the depreciation leads to a smaller trade surplus

10. Complete currency pass-through arises when a 10 percent **depreciation** in the value of the dollar causes:

- a) U.S. import prices to fall by 10 percent
- b) U.S. import prices to rise by 10 percent
- c) U.S. export prices to rise by 10 percent
- d) U.S. export prices to rise by 20 percent

11. Which approach analyzes a nation's balance of payments in terms of money demand and money supply?

- a) Expenditures approach
- b) Absorption approach
- c) Elasticities approach
- d) Monetary approach

12. Which analysis considers the extent by which foreign and domestic prices adjust to a change in the exchange rate in the short run?

- a) Monetary analysis
- b) Absorption analysis
- c) Expenditures analysis
- d) Pass-through analysis

13. Assume that Ford Motor Company obtains all of its inputs in the United States and all of its costs are denominated in dollars. An appreciation of the dollar's exchange value:

- a) Enhances its international competitiveness
- b) Worsens its international competitiveness
- c) Does not affect its international competitiveness
- d) None of the above

14. Given favorable elasticity conditions, a depreciation of the lira tends to result in:

- a) Lower prices of imported products for Italy
- b) Higher prices of imported products for Italy
- c) A larger trade deficit for Italy
- d) A smaller trade surplus for Italy

15. According to the J-curve effect, a depreciation of the pound's exchange value has:

- a) No impact on a U.K. balance-of-trade deficit in the short run
- b) No impact on a U.K. balance-of-trade deficit in the long run
- c) An immediate negative effect on the U.K. balance of trade
- d) An immediate positive effect on the U.K. balance of trade

16. According to the Marshall-Lerner condition, currency depreciation has no effect on a country's trade balance if the elasticity of demand for its exports plus the elasticity of demand for its imports equals:

- a) 0.1
- b) 0.5
- c) 1.0
- d) 2.0

17. According to the Marshall-Lerner condition, currency depreciation would have a negative effect on a country's trade balance if the elasticity of demand for its exports plus the elasticity of demand for its imports equals:

- a) 0.5
- b) 1.0
- c) 1.5
- d) 2.0

18. The absorption approach suggests that which of the following causes a trade deficit to decrease following currency depreciation?

- a) A decline in domestic interest rates
- b) A rise in domestic imports
- c) A rise in government spending
- d) A decline in domestic absorption

19. According to the J-curve effect, currency depreciation:

- a) Decreases a trade deficit
- b) Increases a trade deficit
- c) Decreases a trade deficit before increasing a trade deficit
- d) Increases a trade deficit before decreasing a trade deficit

20. The Marshall-Lerner condition suggests that depreciation of the Euro leads to a worsening of France's trade account if:

- a) The elasticity of demand for French exports is 0.4 while the French elasticity of demand for imports is 0.2
- b) The elasticity of demand for French exports is 0.6 while the French elasticity of demand for imports is 0.4
- c) The elasticity of demand for French exports is 0.5 while the French elasticity of demand for imports is 0.7
- d) The elasticity of demand for French exports is 0.6 while the French elasticity of demand for imports is 0.7

21. Using the data in Table 14.1, answer the question(s).

**Table 14.1.** Hypothetical Costs of Producing an Automobile for Toyota Inc. of Japan

<b>Cost Component</b>	<b>Yen Cost</b>	<b>Dollar-Equivalent Cost</b>
Labor	1,200,000	
Materials		
Steel	800,000	
Other materials	1,600,000	
Total material costs	2,400,000	
Other costs	400,000	
Total costs	4,000,000	

Refer to Table 14.1. Assume that Toyota obtains all inputs from Japanese suppliers and that the yen/dollar exchange rate is 200 yen per dollar. The dollar-equivalent cost of a Toyota automobile equals:

- a) \$5,000
- b) \$10,000
- c) \$15,000
- d) \$20,000

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**Table 14.1.** Hypothetical Costs of Producing an Automobile for Toyota Inc. of Japan

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Total material costs	2,400,000	
Other costs	400,000	
Total costs	4,000,000	

Refer to Table 14.1. Assume that Toyota Inc. obtains all of its automobile inputs from Japanese suppliers. If the yen's exchange value appreciates from 200 yen = \$1 to 100 yen = \$1, the yen cost of a Toyota automobile equals:

- a) 4,000,000 yen
- b) 6,000,000 yen
- c) 8,000,000 yen
- d) 10,000,000 yen

23. Using the data in Table 14.1, answer the question(s).

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Refer to Table 14.1. Assume that Toyota Inc. obtains all of its automobile inputs from Japanese suppliers. If the yen's exchange value appreciates from 200 yen = \$1 to 100 yen = \$1, the dollar-equivalent cost of a Toyota automobile equals:

- a) \$10,000
- b) \$20,000
- c) \$30,000
- d) \$40,000

24. The absorption approach to currency depreciation focuses on the:

- a) Purchasing power of money
- b) Relative price effects
- c) Income effects
- d) Price elasticity of demand

25. The elasticity approach to currency depreciation emphasizes the relative price effects of depreciation and suggests that depreciation best improves a country's trade balance when the elasticities of demand for the country's imports and exports are high.

- a) True
- b) False