

6. Open Economy—International Trade and Finance

Starter Quiz ·

AP Macroeconomics

Name: _____ Score: _____

1. The balance of payments records:

- ☐ only exports
- ☐ only the government budget
- ☐ all money flowing into and out of a country
- ☐ the money supply

2. An exchange rate is:

- ☐ the price of one currency in terms of another
- ☐ the price of gold
- ☐ the inflation rate
- ☐ the interest rate on savings

3. Currencies are bought and sold in the foreign _____ market.

4. If a country raises its interest rates (others steady), its currency tends to:

- ☐ stay exactly fixed
- ☐ depreciate, as investors flee
- ☐ appreciate, as foreign investors buy it to hold its bonds
- ☐ disappear

5. Net exports equal exports minus _____.

6. International capital flows are driven mainly by differences in:

- ☐ real interest rates between countries
- ☐ the price of gold
- ☐ the weather
- ☐ population size

7. Importing more goods than you export gives a current account _____.

8. When a currency becomes more valuable and buys more foreign currency, it has _____.

9. Demand for US dollars comes mainly from:

- ☐ falling US interest rates
- ☐ Americans buying foreign goods
- ☐ the US government printing money
- ☐ foreigners buying US exports and assets

10. Contractionary monetary policy, by raising interest rates, tends to weaken a currency.

- ☐ True ☐ False

AP Macroeconomics

1. all money flowing into and out of a country

It is the full record of cross-border money flows.

2. the price of one currency in terms of another

It says how much of one currency buys another.

3. exchange

The foreign exchange (forex) market.

4. appreciate, as foreign investors buy it to hold its bonds

Higher bond returns attract foreign money, raising currency demand.

5. imports

$NX = \text{exports} - \text{imports}$.

6. real interest rates between countries

Money moves toward the highest real return.

7. deficit

More money leaves for imports than arrives from exports.

8. appreciated

More foreign currency per unit = appreciation.

9. foreigners buying US exports and assets

To buy US goods or assets, foreigners need dollars first.

10. False

False. Higher interest rates attract foreign financial capital, which must buy the currency, so it tends to appreciate.