For each multiple choice question, choose the correct alternative.

1. A nation experiences *internal* balance if it achieves:
   a. full employment and payments balance.
   b. payments balance and price stability.
   c. full employment and price stability.
   d. full employment payments balance and price stability.

2. A nation experiences *external* balance if it achieves:
   a. a constant balance in its international gold stocks.
   b. productivity levels equal to those of its trading partners.
   c. a percentage change in its money supply equal to those of its trading partners.
   d. equilibrium in its balance of payments.

3. Most industrial countries generally consider the most important economic goal to be:
   a. external balance.
   b. internal balance.
   c. maximum economic growth.
   d. maximum growth in labor productivity.

4. Which policies are *expenditure-changing* policies?
   a. Currency devaluation and revaluation.
   b. Import quota and tariff changes.
   c. Monetary and fiscal policy changes.
   d. Controls on wages and prices.

5. Given fixed exchange rates, assume Mexico initiates *contractionary* monetary and fiscal policies to combat inflation. These policies will also:
   a. reduce a trade balance surplus.
   b. reduce a trade balance deficit.
   c. increase both imports and exports.
   d. increase imports but decrease exports.
   e. have opposing effects on the capital account balance.

6. The appropriate expenditure-switching policy to correct a balance-of-payments *surplus* is:
   a. currency revaluation.
   b. currency devaluation.
   c. expansionary monetary policy.
   d. contractionary fiscal policy.

7. Suppose the United States faces domestic recession and a balance-of-payments deficit. Should the United States devalue the dollar, one would expect the:
   a. recession to become less severe-deficit to become less severe.
   b. recession to become more severe-deficit to become less severe.
   c. recession to become less severe-deficit to become more severe.
   d. recession to become more severe-deficit to become more severe.

8. Suppose the United States faces domestic inflation and a balance-of-payments surplus. Should the United States *revalue* the dollar, one would expect the:
   a. inflation to become more severe-surplus to become less severe.
   b. inflation to become less severe-surplus to become less severe.
   c. inflation to become less severe-surplus to become more severe.
   d. inflation to become more severe-surplus to become more severe.
9. Under a system of fixed exchange rates, a nation seeking internal balance can rely on:
   a. fiscal policy.
   b. monetary policy.
   c. both fiscal policy and monetary policy.
   d. Neither fiscal policy nor monetary policy.

10. Under a system of floating exchange rates, a nation seeking internal balance can rely on:
    a. fiscal policy.
    b. monetary policy.
    c. both fiscal policy and monetary policy.
    d. Neither fiscal policy nor monetary policy.

11. Under a fixed exchange rate system, internal balance can be promoted:
    a. effectively with fiscal policy, whereas monetary policy is ineffective.
    b. effectively with monetary policy, whereas fiscal policy is ineffective.
    c. effectively with both fiscal policy and monetary policy.
    d. effectively with neither fiscal policy nor monetary policy.

12. Under a fixed exchange-rate system, an expansion in the domestic money supply leads to:
    a. a current account trade-deficit and a capital-account surplus.
    b. a current account trade-deficit and a capital-account deficit.
    c. a current account trade-surplus and a capital-account surplus.
    d. a current account trade-surplus and a capital-account deficit.

13. Under a fixed exchange-rate system, a contractionary fiscal policy leads to a:
    a. current account trade-deficit and a capital-account surplus.
    b. current account trade-deficit and a capital-account deficit.
    c. current account trade-surplus and a capital-account surplus.
    d. current account trade-surplus and a capital-account deficit.

14. Under a fixed exchange-rate system, an expansionary fiscal policy leads to an improvement in a nation's balance-of-payments position if the resulting:
    a. current account trade-deficit more than offsets the capital-account surplus.
    b. current account trade-deficit more than offsets the capital-account deficit.
    c. capital account surplus more than offsets the current account trade-deficit.
    d. capital account surplus more than offsets the current account trade-surplus.

15. Under a fixed exchange-rate system, a contractionary fiscal policy leads to a worsening in a nation's balance-of-payments position if the resulting:
    a. current account trade-deficit more than offsets the capital-account surplus.
    b. current account trade-deficit more than offsets the capital-account deficit.
    c. capital account deficit more than offsets the current account trade-surplus.
    d. capital account deficit more than offsets the current account trade-deficit.

16. At the ___________________, the United States agreed to raise domestic oil prices to world levels, while Germany and Japan agreed to initiate expansionary fiscal policies.

17. At the ___________________, the Group-of-Five nations agreed to intervene in the currency markets to promote a depreciation in the U.S. dollar's exchange value.
d. Tokyo Summit of 1962.
Quiz Ans. - Ch 17
Answers

1. c
2. d
3. b
4. c
5. b
6. a
7. a
8. b
9. a
10. b
11. a
12. b
13. d
14. c
15. c
16. a
17. a