1. The difference (balance) between asset exports and asset imports is called:
   A) the current account.
   B) the balance of debt.
   C) capital remainder flows.
   D) the balance on the financial account.

2. A transaction that results in a decrease (−) in its account is known as:
   A) a BOP debit.
   B) a capital flow.
   C) a BOP credit.
   D) an asset accretion.

3. When there are capital gains, such as in the real estate or stock markets, or there are exchange rate changes, we see a change in the external wealth calculation. These are known as:
   A) financial flows.
   B) investment flows.
   C) valuation effects.
   D) capital flows.

4. Which of the following statements about the relationships between the domestic and international economy is true?
   A) Domestic sales of goods and services to a foreign nation are always equal to domestic purchases of goods and services from the same nation.
   B) Total goods and services produced and sold domestically by domestic firms plus imports are equal to the total domestic production plus exports.
   C) GDP = GNE + (exports – imports).
   D) Intermediate goods and services purchased by domestic firms from foreign firms are equal to international sales of intermediate goods to foreign firms.
5. How do we handle intermediate goods and services when converting from GNE to GDP?
   A) Intermediate goods are already counted in GNE, so they do not have to be added in to GDP.
   B) Imported intermediate goods are counted in GNE, so they must be subtracted from GDP to avoid double counting.
   C) Exported intermediate goods are counted in GNE, so they must be subtracted from GDP to avoid double counting.
   D) We add (to GNE) the value of imported goods and services and subtract the value of exported goods and services to get GDP.

6. The balance of payments for any nation will always:
   A) be in deficit because nations can spend more than they produce.
   B) be in surplus because overall every nation has some wealth.
   C) balance to zero because with a double-entry accounting system any transaction always generates an equal transaction with the opposite sign.
   D) be unbalanced because at any point in time money has to be collected or goods could be in transit.

7. The term net unilateral transfers refers to:
   A) income earned abroad by a nation's own workers minus income paid to foreign non-resident workers.
   B) gifts, charitable contributions, and foreign aid.
   C) gifts, charitable contributions, and aid to foreign residents minus the same types of transfers to residents of the home nation.
   D) government subsidies to home corporations minus the same government subsidies to international corporations.

8. The difference between gross national income (GNI) and gross domestic product (GDP) is:
   A) total indirect employee costs such as health or retirement insurance
   B) income earned in addition to salaries, commissions, and bonuses
   C) income earned abroad by residents minus income paid to foreign factors of production
   D) income not subject to taxation such as capital gains, illegal earnings, or casual earnings
9. When analyzing economic situations in an open economy, one must take into account:
   A) only the production of final goods and services rather than intermediate goods or services.
   B) the relationship between domestic investment and the nominal rate of interest.
   C) the influence of international political relationships, which do not exist in a closed economy.
   D) the fact that international transactions can create an imbalance in the current account, so that GDP is not necessarily equal to GNI or GNE.

10. A nation's external wealth is the same thing as its:
    A) balance with the IMF.
    B) holdings of accounts in foreign banks.
    C) total bonds issued.
    D) set international investment position.

11. The term government saving is defined as:
    A) government saving minus taxes.
    B) after-tax disposable income minus consumption spending.
    C) the difference between tax revenue and government purchases.
    D) the inflow of investment funds from abroad.

12. Income paid to factors is called:
    A) national income.
    B) value added.
    C) net exports.
    D) the current account (CA)

13. For most countries, the savings trend over the past 30 years has been:
    A) upward.
    B) steady.
    C) downward.
    D) downward, but less than the decline in investments.
14. Net national saving \( (S = Y – C – G) \) is related to the balance on the CA in the following way (the current account identity):
A) domestic investment = net national saving = the balance on the current account – gross domestic product (GDP) – gross national expenditure (GNE).
B) Net national saving \( (S) \) = domestic investment \( (I) \) + the balance on the current account \( (CA) \).
C) Net national saving \( (S) \) = domestic investment \( (I) \) – the balance on the current account \( (CA) \).
D) Net national saving \( (S) \) + the balance on the current account \( (CA) \) + domestic investment \( (I) \) = gross domestic product (GDP).

Use the following to answer questions 15-19:

**Table: Hypothetical Irish National Income and Product Accounts Data**

<table>
<thead>
<tr>
<th>Category</th>
<th>Billions of dollars</th>
</tr>
</thead>
<tbody>
<tr>
<td>Consumption (personal consumption expenditures)</td>
<td>400</td>
</tr>
<tr>
<td>Investment (gross private domestic investment)</td>
<td>150</td>
</tr>
<tr>
<td>Government consumption (government expenditures)</td>
<td>80</td>
</tr>
<tr>
<td>Exports</td>
<td>210</td>
</tr>
<tr>
<td>Imports</td>
<td>60</td>
</tr>
<tr>
<td>Foreign income payments to domestic factors</td>
<td>20</td>
</tr>
<tr>
<td>Domestic income payments to foreign factors</td>
<td>10</td>
</tr>
<tr>
<td>Net unilateral transfers</td>
<td>5</td>
</tr>
</tbody>
</table>

15. (Table: Hypothetical Irish National Income and Product Accounts Data) The GNE is **(insert answer here)**.
   A) $900
   B) $520
   C) $630
   D) $1,800

16. (Table: Hypothetical Irish National Income and Product Accounts Data) The trade balance for Ireland is **(insert answer here)**.
   A) –$100
   B) $0
   C) $60
   D) $150
17. (Table: Hypothetical Irish National Income and Product Accounts Data) Ireland is running:
   A) a balance of trade deficit.
   B) a balance of payments surplus.
   C) a balance of trade surplus.
   D) a balance of payments deficit.

18. (Table: Hypothetical Irish National Income and Product Accounts Data) The GDP for Ireland is ______.
   A) $150
   B) $630
   C) $780
   D) $1,500

19. (Table: Hypothetical Irish National Income and Product Accounts Data) The GNI for Ireland is ______.
   A) $780
   B) $785
   C) $790
   D) $795

20. The example in the text about Ireland demonstrates that:
   A) every nation has the power to export and grow its economy through receipt of foreign investment.
   B) GNI should not be used to measure the income of domestic factors of production.
   C) a nation's GDP is not a good measure of income paid to domestic factors when payments to foreign factors are large.
   D) countries should rely heavily on foreign investment to generate economic growth and increase their GDP.

21. During the period in which a nation has a current account surplus, it is a net _____, and whenever it has a current account deficit, it is a net _____.
   A) supplier; user
   B) lender; borrower
   C) borrower; lender
   D) debtor; creditor
22. In addition to summarizing international flows of goods and services, factor inputs, and transfers, ____ includes financial flows such as deposits, purchases of stocks, bonds investment in plant and equipment, and real estate.
   A) the financial account
   B) balance of payments accounting
   C) the current account
   D) the capital account

23. A firm in one nation may purchase factor services from another nation. Payments for these services to the factors of production are called:
   A) service income payments.
   B) net income.
   C) gross income.
   D) wage and salary income.

24. A nation's external wealth is defined as:
   A) rest of the world (ROW) assets owned by the home nation minus home assets owned by foreigners.
   B) home assets owned by foreigners minus ROW assets owned by the home nation.
   C) home assets owned by foreigners plus ROW assets owned by the home nation.
   D) home assets owned by foreigners, minus home assets owned by domestic entities, minus liabilities owned by domestic entities.

25. Tracking and measuring international flows of goods and assets are based on principles of ____.
   A) economics
   B) statistics
   C) historical precedents
   D) accounting

26. To analyze the long-run constraint on international borrowing, we make simplifying assumptions to calculate changes in a nation's external wealth. Discuss these assumptions and tell why they are important to the model.

27. How would one explain the seemingly contradictory situation existing for the United States, which, despite a large external debt, enjoys being a net recipient of interest payments?
28. Suppose that a German trades a mug of beer for a glass of wine from a Frenchman. For France, this counts as a:
   A) current account credit, current account debit.
   B) financial account debit, financial account credit.
   C) capital account debit, capital account credit.
   D) financial account debit, current account debit.

29. NFIA is the same thing as:
   A) world real GDP.
   B) sales of factor services to foreigners minus purchases of factor services from foreign nations.
   C) income paid to domestic workers.
   D) exactly 20 percent of domestic GDP.

30. A deficit in the financial account means:
   A) the nation has imported more assets than it exported.
   B) the nation has exported more assets than it imported.
   C) the nation has saved more than it invested.
   D) the nation has produced more than it consumed.

31. The disposable income of a nation is known as gross national disposable income (GNDI), which can be defined as:
   A) income earned from production plus net factor income from abroad plus net unilateral transfers.
   B) income not saved and not spent.
   C) government transfers to residents plus foreign transfers to residents.
   D) income that is more than necessary to sustain life.

32. For the past 50 years, the U.S. BOP has:
   A) risen
   B) held constant.
   C) fallen.
   D) fluctuated.

33. Government budget deficits and trade deficits tend to move:
   A) independently from one another.
   B) together.
   C) in the opposite directions.
   D) independently from one another, except in recessions.
34. A country has $50 million of debt at the rate of 10%. It does not make any payments in year 1 and manages to renegotiate the interest rate to 5% at the end of year 1. The interest payment in year 2 for this country would be _______.
   A) $57.75 million  
   B) $7.75 million  
   C) $5 million  
   D) $2.75 million

35. If a country has $100 million of debt, the interest rate on the debt is 10%, and the country does not make any payments on the debt, then at the end of year 3, the debt amount would be _______.
   A) $121 million  
   B) $110 million  
   C) $133.1 million  
   D) $100 million

36. When disaster strikes a country and destroys infrastructure and businesses, it is likely that:
   A) savings will decline.  
   B) the current account (CA) will move into a deficit.  
   C) investment will decline.  
   D) savings will decline and the current account will move into a deficit.

37. International borrowing and lending involve changes in:
   A) the price level.  
   B) the interest rate.  
   C) the levels of external wealth.  
   D) the stock of gold owned by a nation at a particular time.

38. Which of the following is NOT an assumption belonging to the long-run budget constraint model?
   A) The government has a balanced budget.  
   B) Prices are perfectly flexible.  
   C) The economy is a price taker, small, and open.  
   D) The economy can borrow or lend unlimited amounts at the world real interest rate.
39. If a nation has balanced current account and its net external wealth (W) is positive:
   A) it is a net debtor and payment flows are negative.
   B) it is a net creditor and payment flows are positive.
   C) it is in balance and its payment flows are zero.
   D) it has liabilities (L) greater than assets (A).

40. Find the value of a country's external wealth at the end of 2009 if its external wealth was $1 billion at the end of 2008 and its trade balance was $500 million in 2009. Assume the world interest rate is 10% per annum.
   A) $1.5 billion
   B) $1.6 billion
   C) $0.5 billion
   D) $0.6 billion

41. What is the present value of a nation's net external wealth?
   A) It is gold, plus outstanding currency, plus foreign currency reserves in the nation.
   B) It is the present and future real GDP discounted to present value.
   C) It is the average real income per capita times the average work span times the rate of economic growth.
   D) It is the sum (discounted to the present) of future trade deficits or surpluses.

42. The long-run budget constraint indicates that, in the long run, a country's initial external wealth must be offset by (i.e., equal to):
   A) the present value of its future trade balances.
   B) the future value of its future trade balances.
   C) the current value of its future trade balances.
   D) the present value of its future external wealth.

43. What is the present value of annual payments of $1000 received in perpetuity (i.e., forever) if the world interest rate is 6%?
   A) $16,667
   B) $1,060
   C) $6,000
   D) $60
44. Suppose that the present discounted value of a stream of payments is $1000. If the yearly payment is $50, what is the interest rate?
   A) 50%
   B) 20%
   C) 5%
   D) 0.5%

45. The United States has been experiencing trade deficits on the order of $600–$800 billion during the past several years. Which of the following is an implication of these trade deficits?
   A) U.S. GDP has been larger than U.S. GNE.
   B) U.S. GDP has been smaller than U.S. GNE.
   C) U.S. net external wealth has been increasing.
   D) U.S. exports are greater than U.S. imports.

46. Economists say the United States has a favorable interest differential because:
   A) interest that the U.S. government pays on Treasury debt is unusually low.
   B) returns on foreign portfolio investment in the United States are low.
   C) returns on foreign portfolio investment in the United States are high.
   D) returns on U.S. international investments are unusually high.

47. Most experts believe that the favorable U.S. situation in world financial markets:
   A) could be transferred to other nations if they could get their economies in order.
   B) is actually even better than it appears because of the robust nature of the U.S. economy.
   C) may be exaggerated because of faulty statistics, and the U.S. net external debt may be even larger.
   D) is a direct result of the expertise of the Federal Reserve and the U.S. Treasury.

48. An assumption of the intertemporal model that is often not met in low-income nations is:
   A) that the economy is always at full employment.
   B) that prices are flexible.
   C) that a nation can borrow or lend any amount in international markets at the prevailing world real rate of interest.
   D) that the government of the nation has a balanced budget.
49. An open economy has:
   A) greater ability to smooth its consumption due to the absence of domestic shocks.
   B) greater ability to smooth its consumption due to the ability to borrow internationally.
   C) less ability to smooth its consumption due to the lower marginal product of capital.
   D) less ability to smooth its consumption to weak links present in the financial system.

50. If a nation experiences an output shock and wishes to borrow to smooth consumption, how much of the loss is the nation able to borrow and still maintain the long-run budget constraint?
   A) 100% of the output shock
   B) 20% of the output shock
   C) a percentage of the shock to GDP equal to $1/(1 + r^*)$ where $r^*$ is the world long-run real interest rate
   D) A nation in such a position is better off not to borrow because it might get into financial trouble

51. When there is a temporary shock to output (positive or negative), what happens to consumption in an open economy?
   A) It is unchanged.
   B) It changes by exactly the same amount as output.
   C) It changes by more than the temporary output gain or loss by a factor of $(1 + r^*) \div r^*$. 
   D) It changes by less than the temporary output gain or loss by a factor of $r^* \div (1 + r^*)$.

52. Events such as wars, in particular wars not financed by increases in taxes such as the U.S. Afghanistan and Iraq wars,
   A) usually involve international borrowing and an increase in external debt.
   B) can be paid for by transfers and gifts from sympathetic allies.
   C) can be financed by increasing discount operations, thereby avoiding tax increases.
   D) add to the instability of the international economy and create large spikes in GDP growth.

53. If other things remain unchanged, the present value of external wealth will increase as the world interest rate increases.
   A) True
   B) False
54. The present discounted value of all its trade balances must equal zero for each country.
   A) True
   B) False

55. The net differential on total return (capital gains plus interest) for the United States on its net external wealth since the 1980s has averaged 3.5%.
   A) True
   B) False

56. The long-run budget constraint limits the present value of a nation's total expenditures (GNE) to the present value of its GDP plus initial wealth.
   A) True
   B) False

57. If an economy can achieve consumption smoothing, it can eliminate fluctuations in GDP.
   A) True
   B) False