**Solution Key of Assignment Questions**

**Course: International Economics**

**(Lecture : 1 to 20)**

**Answer 1**: (D) The balance of payments involves the flow of money in and out of the country. The Fed increasing the money supply has nothing to do with international trade.

**Answer 2**: (B) The balance of payments measures all money flows, not just those dealing with imports and exports. If the total amount of dollar transactions was equal in terms of a country's debits and credits, no money need change hands.

**Answer 3**: (A) An export is considered a credit because exported goods and services bring money into a country.

**Answer 4**: (D) Whereas the balance of trade involves the flow of money in and out of a country via trade, the merchandise trade balance measures the actual products imported and exported.

**Answer 5**: (D) The income earned on foreign investments do not represent the exchange of a tangible product, therefore, it is considered a service.

**Answer 6**: (B) A unilateral transfer occurs when there is an actual exchange of a good or service between two countries. This is not happening when income is made from a foreign investment.

**Answer 7**: (D) Exports and imports involves the exchanging of money for goods and services. A unilateral trade transfer does not involve money, the goods are simply given to without receiving money in turn. Both together are called the balance on current account.

**Answer 8**: (C) Financial capital is the money used to purchase capital, (buildings, machines and tools). Because all money invested in capital has to come from savings, capital accounts refer to financial assets

**Answer 9**: (A) Capital in this sense means financial capital. When more money enters a country then leaves the country, there is a surplus in the capital account.

**Answer 10**: (D) Current *account* includes all transactions in currently produced goods and services plus net unilateral transfers. It can be negative, reflecting a current account deficit; positive, reflecting a current account surplus; or zero.

**Answer 11**: (A) Exports and imports measure goods and services, not just goods. If exports are greater than imports, a country has positive net exports. More money is entering a country than leaving a country via trade.

**Answer 12**: (A) Due to shifting of private expenditure from imports to domestic one.

**Answer 13**: (B) Not permanently.

**Answer 14:** (C) In an interdependent model, changes in income of other country effects the current account balance of another country.

**Answer 15**: (A)

**Answer 16**: (B)

**Answer 17**: (A) Let dN =0 and solve $dN_1^a+m_2dY_2-m_1dY_1$ in a two country interdependent model.

**Answer 18**: (A)

**Answer 19**: (B)

**Answer 20**: (A)

**Answer 21**: (B)

**Answer 22**: (B)

**Answer 23**: (A)

**Answer 24**: (A) In case of depreciation, $\dot{\pi}$ >0 in case of depreciation.

**Answer 25**: (D) If one American dollar is worth two French francs, the exchange rate is two to one.

**Answer 26**: (B) The value of a major country's currency is determined by the supply and demand of that currency on the world market. If the demand is greater than the quantity supplied, the value will increase; if the demand is less than the quantity supplied, the value of the currency will decline on the world market.

**Answer 27**: (A) The term *appreciate* means that something becomes more valuable; the term *depreciate*, means something is worth less than previously. If the dollar becomes more valuable in relation to the British pound, it will take fewer dollars when exchanging these two currencies.

**Answer 28**: (B) If it takes more dollars to exchange for British pounds than used to be the case, British products will become more expensive to Americans because when exchanging dollars for pounds, fewer dollars will be received. This is because a country's products can only be bought with that country's currency.

**Answer 29**: (C) The balance of payments is the measure of all money coming into a country as compared to the total flow of money out of the country.

**Answer 30**: B After the devaluation, it is often observed that the trade balance initially deteriorates for a while before getting improved.

**Answer 31**: (A) If Y < Y*(full employment level), then X – M ↑ obtains through increasing Y with A unchanged, i.e. by producing more to sell to foreigners.

**Answer 32**: (A) The value of the American dollar on the world market is determined by the same demand and supply forces that determine the value of anything in the market. In a free market, a lower quantity of a product translates into a higher price for that product.

**Answer 33**: (C) If you buy one currency with another currency and the value of the currency you bought increases relative to the one you sold, the difference is a net gain for you. If you do this professionally, you are called an arbitrageur.

**Answer 34**: (A) If a person buys a French franc with American dollars, for example, and then buys American dollars with the French francs at a time when the value of the Franc has increased in relation to the dollar, the person profits from the change in currency values.

**Answer 35**: (D) The word *float* means that a country's currency is allowed to fluctuate according to market forces. This is compared to a fixed exchange rate; the situation where the government will try to determine the value of its currency.

**Answer 36**: (C) A country's central bank can increase the value of its currency on the world market by buying the currency, it can decrease the value on the world market by selling the currency. Buying and selling involves exchanging one currency for the other.

**Answer 37**: **(D)** When there is an increase in the exchange rate of a country's currency it means that more of that country's currency is needed when exchanging for another country's currency. A country cannot devalue its currency if it is a floating currency.

**Answer 38**: (D) The value on the international market of major currencies are basically determined by market forces. However, there are things a country can do to influence the demand or supply of the currency, thus influencing the value of the currency on the world market.

**Answer 39**: (A)

**Answer 40**: (D) Regional trade blocs is an attempt of several countries to ban together and act as if they were one country as far as trade is concerned.

**Answer 41**: (D)

**Answer 42**: (D)

**Answer 43**: (B) Capital flow is a function of the differential interest rates between domestic and foreign countries. Higher interest rates give higher returns.

**Answer 44**: (B)

**Answer 45**: (A)

**Answer 46**: (D)

**Answer 47**: (A)

**Answer 48**: (C)

**Answer 49**: (C)

**Answer 50:** (A)