Student name:\_\_\_\_\_\_\_\_\_\_

**TRUE/FALSE - Write 'T' if the statement is true and 'F' if the statement is false.
1)** U.S. military use of steel is nearly half of total U.S. steel production.

 ⊚ true
 ⊚ false

**2)** U.S. producers of steel were harmed as a result of a U.S. tariff placed on steel in early 2018.

 ⊚ true
 ⊚ false

**3)** Economic analysis generally supports a country’s use of tariffs if imports harm an industry or firm vital to national security.

 ⊚ true
 ⊚ false

**4)** An important feature of the European Union (EU) is that it operates as a customs union, which eliminates tariffs on trade between the EU member countries and imposes a common set of tariffs on imports from outside countries.

 ⊚ true
 ⊚ false

**5)** The exchange rate is a key price that affects international trade flows of goods and services and international financial flows.

 ⊚ true
 ⊚ false

**6)** National sovereignty means that no one person or group is in charge of the international economy.

 ⊚ true
 ⊚ false

**7)** Evidence shows that the Chinese yuan was substantially overvalued against the U.S. dollar in mid-2005.

 ⊚ true
 ⊚ false

**8)** During 2001-2004, the European Union had a large trade surplus with China.

 ⊚ true
 ⊚ false

**9)** If the dollar per pound exchange rate changes from $1.50 per pound to $2 per pound, it implies that the dollar has appreciated against the pound.

 ⊚ true
 ⊚ false

**10)** Under a fixed exchange-rate system, the revaluation of the local currency against the dollar would result in an improvement in the country’s trade balance with the United States.

 ⊚ true
 ⊚ false

**11)** People usually migrate within their own country more readily than they emigrate abroad.

 ⊚ true
 ⊚ false

**12)** A country cannot set its own policies toward the international movement of productive resources.

 ⊚ true
 ⊚ false

**13)** Although financial capital is relatively mobile as an input, it is subject to a "home bias" in which people prefer to invest within their own country.

 ⊚ true
 ⊚ false

**MULTIPLE CHOICE - Choose the one alternative that best completes the statement or answers the question.
14)** In 2018, why did the United States impose temporary safeguard tariffs beginning at 30 percent on imports of solar panels and up to 50 percent on imports of washing machines?

 A) The United States wanted to ensure that it remained a net exporter of washing machines and solar panels.
 B) The U.S. International Trade Commission found that rising imports had harmed U.S. firms in these industries.
 C) Because of growing U.S. demand for washing machines and solar panels, the United States government saw the opportunity to increase government revenue and imposed tariffs on these products.
 D) The United States government imposed tariffs on washing machines and solar panels in retaliation for other countries’ tariffs on U.S. exports of durable goods.

**15)** What was the rationale the United States used to justify imposing tariffs of 25 percent on imports of steel and 10 percent on imports of aluminum in 2018?

 A) The tariffs on steel and aluminum were in retaliation for China and Mexico imposing tariffs on U.S. exports of pork and other products to those countries.
 B) The United States government wanted to protect the steel and aluminum industries until firms in those industries achieved lower production costs associated with scale economies.
 C) The U.S. Department of Commerce found that imports of steel and aluminum threatened United States national security.
 D) The United States government determined that China, a major exporter of steel and aluminum to the United States, was able to charge a lower price in the U.S. market because of government subsidies provided to Chinese steel and aluminum producers.

**16)** In July 2018 President Trump acted on recommendations from the Commerce Department and imposed 25 percent tariffs on 818 Chinese products exported to the United States in retaliation for the Chinese government’s

 A) support of North Korea’s nuclear weapons program.
 B) nationalization of U.S. firms located in China.
 C) direct foreign investment in the United States.
 D) unfair policies and practices toward U.S. intellectual property such as patents, copyrights, and trade secrets.

**17)** What is an effect of a tariff on steel imports to the United States?

 A) Foreign consumers benefit from the effective world-wide increase in the price of steel.
 B) U.S. consumers benefit from the increased production of better-quality steel in the United States.
 C) U.S. steel producers benefit as the product’s price rises and domestic production increases.
 D) U.S. steel workers lose because the increase in the price of steel results in decreased production and unemployment in the steel industry.

**18)** If a country is concerned about protecting a particular industry for national security reasons, which of the following policies is most effective from an economic standpoint?

 A) Voluntary export restraints on countries exporting goods to the United States
 B) Targeted government subsidies
 C) Protectionist tariffs
 D) Import licensing

**19)** Which of the following is NOT a key economic feature of the European Union (EU)?

 A) A customs union, which imposes common tariffs on imports from non-EU
 B) A common currency, the euro, used by all member countries
 C) A single market that promotes free movements of goods, services, financial capital, and people among EU member countries
 D) London’s dominance as Europe’s financial center

**20)** Given the following policy options, how could China’s government be most likely to encourage higher growth of China's exports to other countries?

 A) Buy its own currency, the yuan, and sell foreign currency in the foreign exchange markets
 B) Sell its own currency, the yuan, and buy foreign currency in the foreign exchange markets
 C) Allow its own currency, the yuan, to appreciate against foreign currencies by not intervening in foreign exchange markets
 D) Use its policy toward the exchange rate to prevent any devaluation of the yuan

**21)** Which of the following was NOT an argument in favor of the United Kingdom (UK) leaving the European Union (EU)?

 A) Proponents of leaving stressed that the UK needed to reestablish British sovereignty.
 B) Proponents of leaving wanted greater control over immigration.
 C) Proponents of leaving wanted greater access to markets in the other EU member countries.
 D) Proponents of leaving believed the UK paid a disproportionate share of membership fees.

**22)** What is the effect of a country’s saving rate on trade deficits?

 A) A low savings rate means that consumers are buying more, and more buying leads to an increase in a country’s trade deficit.
 B) A low savings rate means people are spending more than they earn, and that results in increased financial difficulties for consumers, higher interest rates, and fewer international sales, resulting in a decrease in a country’s trade deficit.
 C) A high savings rate means there is more money available for investment, resulting in greater production and increased international sales which, in turn, leads to lower trade deficits.
 D) A country’s savings rate has no effect on the country’s trade deficit.

**23)** "Job-seeking immigration brings net economic benefits not only to the immigrants, but also to the receiving country overall." But there are winners and losers within the receiving country. Who among the following can be considered as a winner within the receiving country?

 A) The workers who compete with the immigrants for jobs
 B) The households who want to rent the same kinds of apartments the immigrants want to rent.
 C) The consumers who buy the products that the immigrants help to produce
 D) None of these options are correct.

**24)** Which of the following is an impact of increased illegal immigration on an economy?

 A) The rate of inflation in the receiving country increases.
 B) The demand for labor in the receiving country declines.
 C) The demand for government services like education and health care increases.
 D) The real wage rate of workers increases.

**25)** The unskilled wage rate in a country will probably decline if

 A) corporate taxes are lowered by the government.
 B) there’s increased immigration of low-skilled workers.
 C) the aggregate demand for goods and services increases in the country.
 D) the demand for unskilled workers increases.

**26)** The value of a country’s currency, in terms of some other country’s currency, is called

 A) the stock exchange.
 B) the exchange rate.
 C) the nominal interest rate.
 D) dollarization.

**27)** Which of the following exchange rate policies was undertaken by the Chinese government in 1994?

 A) The Chinese yuan was revalued against the U.S. dollar.
 B) A free-floating exchange rate regime was adopted.
 C) The Chinese yuan was revalued against the euro.
 D) The Chinese yuan was pegged to the U.S. dollar.

**28)** In 2004, China had a substantial trade surplus with

 A) Russia.
 B) Japan.
 C) the United States.
 D) Brazil.

**29)** "China is not a typical developing nation." Which of the following economic features is most likely to justify this claim?

 A) China has a large trade deficit with the United States.
 B) The Chinese government favors a freely floating exchange-rate policy.
 C) China has a high national saving rate.
 D) The government of China spends a significant portion of its revenue on national defense.

**30)** Which of following is most likely to happen when the dollar appreciates against the euro?

 A) There will be a huge inflow of "hot money" to the European nations.
 B) The prices of American goods in the European countries will decline.
 C) The prices of European goods in the U.S. markets will decline.
 D) The rate of inflation in the United States will increase.

**31)** The Chinese government’s intervention in the foreign exchange market by buying U.S. dollars and selling yuan had the effect of

 A) weakening the U.S dollar to increase the U.S. trade deficit with China.
 B) strengthening the U.S dollar to increase the U.S. trade deficit with China.
 C) strengthening the yuan to decrease the U.S. trade deficit with China.
 D) weakening the yuan to decrease the U.S. trade deficit with China.

**32)** On July 21st, 2005, the Chinese government changed the value of the yuan from 8.28 yuan per U.S. dollar to 8.11 yuan per U.S. dollar. One effect of this change should have been

 A) an increase in the prices of American goods in the Chinese market.
 B) an increase in the dollar price of Chinese goods.
 C) a decline in the average price level in the United States
 D) market pressure to return the rate to 8.28 yuan per dollar.

**33)** Since the late 1990s, to prevent the yuan from appreciating against the U.S. dollar, the Chinese central bank

 A) has been trying to hold euros and British pounds as foreign assets.
 B) has been buying dollars and selling yuan in the foreign exchange market.
 C) has purchased Chinese government bonds.
 D) has been selling foreign assets to replenish its dollar reserves.

**34)** The exchange-rate policy of a "crawling peg," adopted by the Chinese government in 2005, means that the government

 A) allowed small and controlled changes in the exchange-rate value over time.
 B) pegged the yuan to the U.S. dollar at the equilibrium exchange rate.
 C) slowly adjusted the currency composition of its official international reserve assets toward more U.S. dollar-denominated bonds.
 D) caved in to pressures from foreign governments.

**35)** The Hong Kong dollar is pegged to the U.S. dollar at a rate of 7.8 Hong Kong dollars to 1 U.S. dollar. Suppose the central bank of Hong Kong changes the exchange value to 7.3 Hong Kong dollars to one U.S. dollar. Which of the following is most likely to be true in this context?

 A) The Hong Kong dollar has been revalued by 0.5 percent.
 B) The Hong Kong dollar has been devalued by 0.5 percent.
 C) The Hong Kong dollar has been revalued by 6.4 percent.
 D) The Hong Kong dollar has been devalued by 6.2 percent.

**36)** The central bank of Alanza, a developing economy, persistently intervenes in the foreign exchange market to prevent its currency from appreciating against the dollar. Which of the following is the most probable consequence of this intervention by the central bank?

 A) The money supply in Alanza will decline.
 B) Alanza’s exports will decline in the near future.
 C) The rate of inflation in Alanza will increase.
 D) Alanza's trade deficit with the United States will increase.

**37)** Which of the following factors is most likely to lead to a decline in a country’s exports?

 A) A decrease in the country's corporate taxes
 B) A decline in the country's nominal interest rate
 C) A decline in the country's input prices
 D) An appreciation of the country's currency vis-à-vis foreign currencies

**38)** Which of the following is an example of monetary policy?

 A) Changes in income tax rates
 B) Changes in government spending on public works projects
 C) Raising social security payments in response to increased inflation
 D) The central bank buying government bonds

**39)** What is the proper characterization of the European Union (EU), and what is its primary accomplishment?

 A) The EU is a regional trade bloc which controls the money supply in each member country.
 B) The EU is a regional trade agreement that has eliminated most trade barriers among member countries.
 C) The EU is a trade treaty that provides a forum where member countries can resolve their trade disputes.
 D) The EU is a trading cooperative that protects member countries from unfair trade tactics by non-member countries.

**40)** A computer programmer working in India relocates to the United States. This is an example of

 A) international outsourcing.
 B) factor mobility.
 C) cross-border trade.
 D) factor intensity reversal.

**41)** \_\_\_\_\_ is considered to be the least mobile factor internationally.

 A) Labor
 B) Capital
 C) Entrepreneurship
 D) Land

**42)** Which of the following is NOT a fiscal policy?

 A) Increasing tariffs to reduce imports
 B) Offering subsidies to export firms
 C) Increasing the money supply to expand aggregate demand
 D) Lowering personal tax rates to influence labor supply

**43)** The supply of money in a country like the United States is controlled by the

 A) central bank of the country.
 B) political party in charge of the government of the country.
 C) International Monetary Fund.
 D) World Bank.

**44)** Most immigration is the result of immigrants migrating to

 A) avoid political persecution in their home countries.
 B) obtain jobs at a higher rate of pay than they can receive in their home countries.
 C) flee civil unrest in their home countries.
 D) take advantage of entitlement programs in the destination country.

**45)** One of the successes of the European Union (EU) is that banks have "passporting rights," which means that

 A) banks in the EU have the authority to issue EU passports and travel visas to any citizen of a member country.
 B) banks in the EU are not required to follow the policies of a central monetary authority.
 C) banks in the EU have unlimited access to foreign financial capital.
 D) banks in the EU can sell financial services to any EU country without regulatory barriers.

**46)** In March of 2014, China’s official holdings of foreign exchange reserves

 A) fell to below $1 trillion.
 B) rose to almost $7 trillion.
 C) rose to $4 trillion.
 D) fell to $2 trillion.

**47)** In August 2015 investor sentiment shifted against the Chinese yuan. Investors sold the yuan and bought dollars, as financial capital flowed out of China, seeking better rates of return in other countries. What actions did China take in response to this situation?

 A) China sold the yuan to encourage further depreciation in an attempt to improve its trade deficit.
 B) China loosened capital controls to encourage foreign investment into the Chinese economy.
 C) China used $1 trillion of its foreign exchange reserves to purchase the yuan in an attempt to prevent further devaluation and tightened capital controls on financial outflows.
 D) China’s monetary authority sold the yuan in an attempt to prevent further devaluation and raised interest rates to stem the outflow of foreign capital.

**48)** Export subsidies are an example of

 A) fiscal policy.
 B) monetary policy.
 C) a non-tariff barrier (NTB).
 D) a quantitative limit on foreign exports.

**49)** In March 2018, the United States filed a formal complaint with the World Trade Organization (WTO) alleging that China

 A) violated restrictions on Chinese direct investment in the United States.
 B) was dumping goods on U.S. markets.
 C) failed to comply with U.S. import licensing requirements.
 D) engaged in unfair policies and practices regarding intellectual property rights.

**50)** The European Central Bank is responsible for

 A) the bailout of European Union countries in financial trouble.
 B) assuring full employment in the European Union.
 C) implementing European Union monetary policy.
 D) protecting European Union member countries from unfair trade practices.

**51)** The supply of each kind of money is controlled by the

 A) monetary authority or central bank.
 B) World Trade Organization.
 C) International Monetary Fund.
 D) fiscal authority in each country.

**52)** The United Kingdom (UK) is composed of the following individual countries

 A) England, Scotland, Ireland, and Northern Ireland
 B) England, Scotland, and Wales
 C) England, Scotland, Wales, and Northern Ireland
 D) England, Scotland, Wales, and Ireland

**ESSAY. Write your answer in the space provided or on a separate sheet of paper.
53)** Describe the effects on U.S. producers of steel, U.S. and consumers of steel, and the U.S. economy overall, after the United States imposed tariffs on steel imports in 2018. For the overall effect on the United States as a result of the steel tariffs, explain why it matters that the United States is a large importer of steel.

**54)** In June of 2016, the citizens of the United Kingdom (UK) voted in favor of leaving the European Union (EU). The decision to leave is now commonly referred to as "Brexit." Briefly summarize both the arguments used for the UK remaining in the EU and the arguments used for the UK leaving the EU.

**55)** Briefly describe the key economic features of the European Union.

**56)** "Job-seeking immigration brings net economic benefits not only to the immigrants, but also to the receiving country overall." Justify the statement.

**57)** Briefly discuss why the degree to which labor and capital are mobile within a nation may differ from the degree to which labor and capital are mobile internationally.

**58)** Briefly discuss the findings of the U.S. Department of Commerce in 2018 that the Chinese government had engaged in unfair policies and practices involving U.S. intellectual property.

**59)** From 2008 to 2010 the Chinese government pegged the exchange-rate value of the Chinese yuan to the U.S. dollar. Briefly explain the effects of the pegged rate and Chinese government intervention to defend the pegged rate on the Chinese economy. Then, starting in mid-2010, the Chinese government allowed the yuan to appreciate slowly relative to the U.S. dollar. Briefly explain the effects of the changed exchange rate policy on the Chinese economy.

**60)** The time is March 2018. The United Kingdom (UK) committed to leave the European Union (EU) in March 2019. What are the issues the UK and the EU had to resolve for Brexit to be relatively smooth and orderly?

**Answer Key**Test name: Pugel 1

1) FALSE

2) FALSE

3) FALSE

4) TRUE

5) TRUE

6) TRUE

7) FALSE

8) FALSE

9) FALSE

10) FALSE

11) TRUE

12) FALSE

13) TRUE

14) B

15) C

16) D

17) C

18) B

19) B

20) B

21) C

22) A

23) C

24) C

25) B

26) B

27) D

28) C

29) C

30) C

31) B

32) B

33) B

34) A

35) C

36) C

37) D

38) D

39) B

40) B

41) D

42) C

43) A

44) B

45) D

46) C

47) C

48) A

49) D

50) C

51) A

52) C

53) POTENTIAL RESPONSE: Tariffs imposed on U.S. imports of steel in March 2018 benefit domestic steel producers because they gain as the price of steel rises and domestic production increases. U.S. steel workers also benefit as employment in the industry increases. The U.S. consumers of steel are harmed, since they must now pay a higher price and buy less. In the case of steel, consumers are other U.S. firms who use the metal in their own production of goods. Because steel now costs more, the profitability of these firms decreases. With the rising costs of production associated with the increase in steel prices, firms reduce production and hire fewer workers. Steel producers employ relatively fewer workers, but, because steel is widely used in the production of many other products, the net effect on U.S. national employment is probably negative.
 For a small importing country, this would be the end of the story, as a small country cannot influence international markets. Overall, a small country loses by imposing a tariff. In this example, the losses to domestic consumers of steel are larger than the sum of the gains to domestic steel producers and the tariff revenue collected by the government. But, because the United States is a large country that can impact international markets, it might be able to gain from the tariff by leveraging its importance in the world economy to obtain better prices for steel from foreign exporting firms. More than likely, however, foreign exporting countries will retaliate, with tariffs on U.S. imports. In this case most, if not all countries, involved are likely to be losers. They all forego the general gains associated with free trade.

54) POSSIBLE RESPONSE: The campaign to remain in the EU stressed the economic benefits to the UK, including the net benefits of additional trade created with other EU countries, immigration of people from other EU countries, and the dominance of London as Europe’s financial center. One estimate of the UK’s net benefits put them at 10 percent of the UK gross domestic product. Proponents of staying argued that remaining a member makes selling things to other EU countries easier. An estimated 44 percent of UK exports are to EU countries, and another 16 percent are to countries that have free-trade agreements with the EU. The proponents also argued that the UK is a relatively small player in the world market with only four percent of world production. The UK gains by being part of the much larger EU. Those in favor of staying also believed that the free flow of immigrants from other EU members, most of whom are young and motivated to work, fuels economic growth, and the taxes they pay helps pay for public services. They also argued that the UK's status in the world would be damaged by leaving and that the nation was more secure as part of the 28-member EU.
 The proponents of leaving the EU stressed that the UK needed to leave to regain the ability to set its own economic policies. Proponents believed the UK was being held back by the EU, which they said imposed too many rules on business and charged billions of pounds a year in membership fees for little return. The UK is one of ten member states that pay more into the EU budget than they get out of it. Only France and Germany contribute more than the UK.
 Proponents of leaving claimed that the UK would be able to keep and use the large amount of money that it contributes to the EU budget. For some voters, voting to leave was, in a sense, a protest vote against elite politicians who were out of touch with the financial challenges of regular Britons. One of the top reasons proponents of leaving stressed was the desire to control and reduce immigration. One of the main principles of EU membership is "free movement," which means that citizens of member nations don't need a visa to visit or live in another EU country. In 2015 net immigration increased to 333,000 people. The UK and other EU countries have recently faced crises associated with large inflows of refugees and several terrorist attacks perpetrated by foreigners. A broader argument in favor of leaving was to reestablish the sovereignty of the British government over laws and activities in the UK. Proponents of leaving want the UK to make all of its own laws again, rather than making laws through the process of shared decision-making with other EU nations. Ultimately, the leave campaign objected to the idea of an "ever-closer union" between EU member states and what they see as moves toward the creation of a "United States of Europe."

55) POSSIBLE RESPONSE: The European Union (EU) began as the European Economic Community, a customs union among six countries. It now consists of twenty-eight countries that cooperate and coordinate across many areas of economic, social, environmental, and security policy. The EU’s key economic features include a customs union, a single market for goods, services and the factors of production, and a common currency, used by most of the EU member countries. A customs union is a type of free trade agreement (FTA) which involves the removal of tariff barriers between members, together with the acceptance of a common external tariff against non-members. The EU single market is a broader agreement that promotes the free movement of goods, services, capital, and people. The euro is the common currency that is used by nineteen EU member countries. The European Central Bank (ECB) manages the euro and is responsible for the formulation and implementation of monetary policy for these nineteen countries.

56) POSSIBLE RESPONSE: Immigration leaves some better off and some worse off in the receiving country. The winners include the firms that employ the immigrants and the consumers who buy the products that the immigrants help to produce. The losers are the workers who compete with the immigrants for jobs. For the industrialized countries, the real wages of low-skilled workers have been depressed by the influx of low-skilled workers from developing countries. It has been observed that overall the net effect of immigration on the receiving country is positive. The economic benefits have been higher than the economic and social costs of immigration.

57) POSSIBLE RESPONSE: Workers usually migrate more readily within their own country than they do internationally. A common language, customs, and traditions are more likely to exist within a country than between countries, which makes moving within a country easier than relocating abroad. Additionally, national governments typically impose more limitations on international migration than they do on workers relocating within the country. Capital may also be more mobile within a country than between countries. Financial capital, which in many ways moves freely internationally, is subject to a "home bias," as many people are more comfortable investing within their own country. Additionally, many countries impose restrictions on foreign investment (capital inflows and/or capital outflows.)

58) POSSIBLE RESPONSE: In its investigation, the U.S. Department of Commerce found that the Chinese government had engaged in a range of unfair policies and practices toward U.S. intellectual property such as patents, copyrights, and trade secrets. These unfair policies and practices included the Chinese government’s requirement that U.S. companies enter into joint ventures, making direct investment in China. That leads to forced transfer of technology and other intellectual property to their Chinese partners. The Chinese government was also found to require prior approval of U.S. companies’ direct investment in China as another way to force such transfers. The Chinese government also directed its companies to use their foreign direct investment to obtain foreign technology and other intellectual property.

59) POSSIBLE RESPONSE: The exchange rate is the price of one currency in terms of another. From 2008 to 2010 China intervened in foreign exchange markets to keep the value of its currency, the yuan, fixed at an artificially low rate. The artificially low value encouraged Chinese exports of goods and services and discouraged Chinese imports of other countries’ goods and services. To keep the exchange rate value steady, the Chinese government intervened in foreign exchange markets by selling the yuan and buying U.S. dollars. Effectively, China’s central bank was supplying yuan and demanding U.S. dollars. The increase in the yuan money supply encouraged Chinese domestic borrowing and spending. The increased domestic spending and borrowing created inflationary pressures in China. In mid-2010, the Chinese government began to allow the yuan to appreciate in the foreign exchange markets, which helped relieve inflationary pressures. As the yuan appreciated it effectively lowered the price of imports and slowed the growth of Chinese exports. This helped reduce the demand pressure on domestic resource prices and product prices. The appreciation in the yuan also reduced the amount of government intervention needed by the Chinese monetary authority, which reduced the pressure for growth of China’s domestic money supply.

60) POSSIBLE RESPONSE: The United Kingdom’s vote to leave the EU, or "Brexit," as the UK’s decision to leave is commonly referred to, created a number of challenges for the UK and EU to resolve. The vote to leave did not address the specifics of how the UK will implement the decision to leave. In general, the UK needed to establish the fundamental relationship it will have with the EU. Specifically, one of the major issues is the border between Northern Ireland and Ireland. Northern Ireland is part of the UK. Ireland will remain with the EU, but the entire island of Ireland functions as one economy. Another issue is that the UK and the EU had to establish tariffs and customs procedures for trade between the UK and the remaining members of the EU. The UK and the EU also needed to decide if there will be differences in product regulations and standards, and how these will apply to trade. Policies and procedures related to trade in services had to be negotiated. One in particular is the extent to which London banks can continue to sell financial services to EU firms and residents. The UK and EU needed to decide if the UK will be able to negotiate its own free trade agreements with outside countries and if the UK will continue to benefit from the more than thirty-five free trade agreements that the EU has with other countries. The UK and EU had to address the rules for immigration between the UK and the EU. The extent to which the UK will continue to pay the EU, either into the general budget or for specific activities, also had to be determined.