

## PPSC Economics Topic 5 International Economics

Sr	Questions	Answers Choice
1	Which exchange rate mechanism is intended to insulates the balance of payments from short term capital movements while providing exchange rate stability for commercial transactions.	<p>A. Dual exchange rates</p> <p>B. Managed floating exchange rates</p> <p>C. Adjustable pegged exchange rates</p> <p>D. Crawling pegged exchange rates.</p>
2	If a nation has an open economy it means that the nation.	<p>A. Allows private ownership of capital</p> <p>B. Has flexible exchange rates</p> <p>C. Has fixed exchange rates</p> <p>D. Conducts trade with other countries</p>
3	Dynamic gains from trad could result from	<p>A. The stimulus of additional investment spending as markets open</p> <p>B. Economies of large scale production as markets open</p> <p>C. Additional competition made possible by the opening of markets</p> <p>D. All of the above</p>
4	International trade in goods and services tends to	<p>A. Increase all domestic costs and prices</p> <p>B. Keep all domestic costs and prices at the same level</p> <p>C. Lessen the amount of competition facing home manufactures.</p> <p>D. Increase the amount of competition facing home manufacturers</p>
5	Which exchange rate mechanism calls for frequent redefining of the par value by small amounts to remove payments disequilibrium.	<p>A. Dual exchange rates</p> <p>B. Adjustable pegged exchange rates</p> <p>C. Managed floating exchange rates</p> <p>D. Crawling pegged exchange rates.</p>
6	Import quotas tend to result in all of the following except.	<p>A. Domestic producers of the imported good being harmed</p> <p>B. Domestic consumers of the imported good being harmed</p> <p>C. Prices increasing in the importing country</p> <p>D. Price failing in the exporting country.</p>
7	The exchange rate system that best characterizes the present international monetary arrangement used by industrialized countries is.	<p>A. Freely fluctuating exchange rates</p> <p>B. Adjustable pegged exchange rates</p> <p>C. Managed floating exchange rate.</p> <p>D. Pegged or fixed exchange rates</p>
8	The exchange rate is kept the same across geographically separate markets by	<p>A. Hedging</p> <p>B. Speculation</p> <p>C. Government regulation</p> <p>D. Arbitrage</p>
9	The NAFTA is a	<p>A. Monetary union</p> <p>B. Free trade area</p> <p>C. Common market</p> <p>D. Customs union</p>
10	The earliest statement of the principle of comparative advantage in associated with	<p>A. Adam Smith</p> <p>B. David Ricardo</p> <p>C. E . Heckscher</p> <p>D. Bertil Ohlin</p>
11	In balance of payments accounting tourism and travel are classified in the	<p>A. Merchandise trade account</p> <p>B. Services account</p> <p>C. Unilateral transfers account</p> <p>D. Capital account</p>
12	A primary reason why nations conduct international trade is because.	<p>A. some nations prefer to produce one thing while others produce another.</p> <p>B. Resources are not equally distributed to all trading nations</p>

		<p>C. Trade enhances opportunities to accumulate profits</p> <p>D. Interest rates are not identical in all trading nations</p>
13	If a small country imposes a tariff on an imported goods terms of trade will	<p>A. Improve</p> <p>B. worsen</p> <p>C. Not change</p> <p>D. any of the above</p>
14	Advocates of industrial policy maintain that government should.	<p>A. Pursue free trade as a policy that leads to maximum global efficiency</p> <p>B. Grant subsidies to firms offering potential comparative advantage.</p> <p>C. Provide loans to domestic workers in exporting industries.</p> <p>D. Increase interest rates on loans made to firms in import competing industries.</p>
15	The factor endowment theory was pioneered by	<p>A. Adam Smith</p> <p>B. David Ricardo</p> <p>C. Wassily Leontief</p> <p>D. Eli Heckscher and Bertil Ohlin</p>
16	Comparative advantage is determined by	<p>A. Actual difference in labor productivity between countries.</p> <p>B. Relative difference in labor productivity between countries.</p> <p>C. Both a and b</p> <p>D. Neither a nor b</p>
17	A main advantage of specialization results from	<p>A. Economics of large scale production</p> <p>B. The specializing country behaving as a monopoly.</p> <p>C. smaller production runs resulting in lower unit costs</p> <p>D. High wages paid to foreign workers</p>
18	The difference between bid rates and ask rates is called the	<p>A. Profit</p> <p>B. Arbitrage</p> <p>C. Spread</p> <p>D. Forward transaction</p>
19	If tastes are identical between countries then comparative advantage is determined by	<p>A. Supply conditions only</p> <p>B. Demand conditions only</p> <p>C. Supply and demand conditions</p> <p>D. Can't tell without more information.</p>
20	Developing countries that concentrate production in agricultural products or raw materials may face a long run decline in their international terms of trade because of.	<p>A. Inelastic demand for these products in advanced countries.</p> <p>B. Large increase in the supplies of these products on world markets because of export expansion policies</p> <p>C. sluggish demand for these products in advanced countries</p> <p>D. All of the above</p>