Assignment 2: Due day. This Friday. Send this answer sheet via email.
d.sul@utdallas.edu
Subject: Assignment 2.

Last Name __________________________

First Name __________________________

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<th>Chapter 5</th>
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Chapter 5

1. If net capital outflow is positive, then:
   A) exports must be positive.
   B) exports must be negative.
   C) the trade balance must be positive.
   D) the trade balance must be negative.

2. In a small open economy, if exports equal $5 billion and imports equal $7 billion, then there is a trade ______ and ______ net capital outflow.
   A) deficit; negative
   B) surplus; negative
   C) deficit; positive
   D) surplus; positive

3. If a U.S. corporation sells a product in Canada and uses the proceeds to purchase a product manufactured in Canada, then U.S. net exports ______ and net capital outflows ______.
   A) increase; increase
   B) decrease; decrease
   C) do not change; do not change
   D) do not change; increase

Use the following to answer question 4:

Exhibit: Saving and Investment in a Small Open Economy

![Graph](image-url)
4. (Exhibit: Saving and Investment in a Small Open Economy) In a small open economy, if the world interest rate is $r_1$, then the economy has:
   A) a trade surplus.
   B) balanced trade.
   C) a trade deficit.
   D) negative capital outflows.

5. In an open economy:
   A) a trade deficit is always good.
   B) a trade deficit is always bad.
   C) a trade deficit may be good or bad.
   D) a trade surplus is always bad.

6. The real exchange rate:
   A) measures how many Japanese yen one really gets for a U.S. dollar.
   B) is equal to the nominal exchange rate multiplied by the domestic price level divided by the foreign price level.
   C) is equal to the nominal exchange rate multiplied by the foreign price level divided by the domestic price level.
   D) is the price of a domestic car divided by the price of a foreign car.

7. In a small open economy, if the government encourages investment, say through an investment tax credit, investment:
   A) increases and is financed through an increase in national saving.
   B) increases and is financed through an increase in exports.
   C) increases and is financed through an inflow of foreign capital.
   D) does not increase; the interest rate rises instead.
Use the following to answer questions 8-9:

Exhibit: Policies Influence Real Exchange Rate

(A) Real exchange rate, $\epsilon$

\[ S_1 - I \quad S_2 - I \]

$\epsilon_1$ \quad $\epsilon_2$

$NX_1 \rightarrow NX_2$ Net exports

(B) Real exchange rate, $\epsilon$

\[ S - I (r^*_2) \quad S - I (r^*_1) \]

$\epsilon_1$ \quad $\epsilon_2$

$NX_2 \leftarrow NX_1$ Net exports

(C) Real exchange rate, $\epsilon$

\[ S - I_2 \quad S - I_1 \]

$\epsilon_1$ \quad $\epsilon_2$

$NX_2 \leftarrow NX_1$ Net exports

(D) Real exchange rate, $\epsilon$

\[ S - I \]

$\epsilon_1$ \quad $\epsilon_2$

$NX_2 \rightarrow NX_1$ Net exports

Page 4
8. (Exhibit: Policies Influence Real Exchange Rate) Which of the graphs illustrates the impact on the real exchange rate of contractionary fiscal policies abroad?
   A) (A)
   B) (B)
   C) (C)
   D) (D)

9. (Exhibit: Policies Influence Real Exchange Rate) Which of the graphs illustrates the impact on the real exchange rate of protectionist trade policies?
   A) (A)
   B) (B)
   C) (C)
   D) (D)

10. One consequence of high inflation is a(n):
    A) appreciating nominal exchange rate.
    B) appreciating real exchange rate.
    C) depreciating nominal exchange rate.
    D) depreciating real exchange rate.
Chapter 6

1. One reason for unemployment is that:
   A) it takes time to match workers and jobs.
   B) all jobs are identical.
   C) the labor market is always in equilibrium.
   D) a laid-off worker can immediately find a new job at the market wage.

2. Unemployment caused by the time it takes workers to search for a job is called ______ unemployment.
   A) frictional
   B) structural
   C) efficiency
   D) insider

3. Frictional unemployment is inevitable because:
   A) different sectors do not shift.
   B) the economy needs to be lubricated.
   C) workers never quit their jobs to change careers.
   D) the demand for different goods always fluctuates.

4. All of the following policies were adopted by government in an attempt to reduce the natural rate of unemployment except:
   A) unemployment insurance.
   B) government employment agencies.
   C) public retraining programs.
   D) the Illinois bonus program for unemployment insurance claimants who found jobs quickly.

5. All of the following are causes of structural unemployment except:
   A) minimum-wage laws.
   B) the monopoly power of unions.
   C) unemployment insurance.
   D) efficiency wages.

6. All of the following statements about minimum-wage workers in the United States are correct except:
   A) Minimum-wage workers are more likely to be male.
   B) Minimum-wage workers are more likely to work part time.
   C) Minimum-wage workers are more likely to be less educated.
   D) Minimum-wage workers are more likely to be young.
7. One efficiency-wage theory implies that firms pay high wages because:
   A) this practice increases the problem of moral hazard.
   B) in wealthy countries, it is important to pay workers high wages to improve their health.
   C) the more a firm pays its workers, the greater their incentive to stay with the firm.
   D) paying high wages promotes adverse selection.

8. Policies to substantially reduce unemployment should be targeted at:
   A) the short-term unemployed.
   B) the long-term unemployed.
   C) discouraged workers.
   D) insiders and outsiders.

9. Entry into and exit from the labor force are important to the determination of the unemployment rate because:
   A) more than one-half of the unemployed have only recently entered the labor force.
   B) most of the unemployed are young workers still looking for their first job.
   C) discouraged workers are counted as part of the labor force.
   D) almost one-half of all spells of unemployment end in the unemployed person’s withdrawal from the labor market.

10. Discouraged workers are individuals who:
    A) have jobs that do not match their skills (e.g., a PhD driving a taxi cab).
    B) have been unemployed for more than 26 weeks.
    C) call themselves unemployed but are not seriously looking for a job.
    D) want a job but have given up looking for one.

11. In recent years, Europe has experienced ______ unemployment than the United States, and employed Europeans work ______ hours than employed Americans.
    A) more; more
    B) more; fewer
    C) less; fewer
    D) less; more