**Chapter 1:**

**International Economics is Different**

Multiple Choice Questions

1. After 2006, why did the cost of new natural gas wells in the U.S. and Canada increase?

a. The amount of natural gas being imported into the U.S. and Canada was

increasing.

b. The lowest cost sources of natural gas using standard production technologies had

been exhausted.

c. Government regulations on new natural gas production increased the cost of

production.

d. Natural gas production in other parts of the world decreased thereby increasing

world-wide demand for natural gas.

Answer: B

Difficulty: 02 Medium

Blooms: Understand

AACSB: Reflective Thinking

Topic: Four Controversies

2. A law in the U.S. prohibits the export of natural gas unless such exports are in the “public

interest.” What does “public interest” mean in the context of that law?

a. The amount received for the exported natural gas is enough to cover the

production and transportation costs plus a reasonable profit

b. The U.S. government is able to collect export taxes set by law on the exported

natural gas

c. The exports leave an adequate supply of natural gas for domestic users and

consumers of natural gas

d. The exported natural gas does not fall into the hands of groups or countries

that the U.S. government has designated as terrorists

Answer: C

Difficulty: 02 Medium

Blooms: Understand

AACSB: Reflective Thinking

Topic: Four Controversies

3. If natural gas produced in the U.S. was exported to countries in Asia and Europe, what factor would likely increase the price of that natural gas in the importing countries?

a. The U.S. would impose export charges on each unit of natural gas exported and those charges would be passed along to the importing countries.

b. Exporters in the U.S. would arbitrarily inflate the costs of production so that the importing countries would pay higher prices.

c. Importing countries would impose tariffs on the imported natural gas and those tariffs be passed along by exporting companies to importing countries.

d. Natural gas from the U.S. would have to be liquefied and transported in specially- designed ships to Asia and Europe, so transportation costs would increase the price of the imported natural gas in Asia and Europe.

Answer: D

Difficulty: 02 Medium

Blooms: Understand

AACSB: Reflective Thinking

Topic: Four Controversies

4. If the U.S. allowed the export of significant amounts of natural gas, what would be the economic effect?

a. There would be no net economic effect on international trade because increased exports from the U.S. would be offset by increased imports to the U.S. of other goods.

b. The economic effect on international trade would be negative because increased amounts of natural gas in the importing countries would drive down the price of domestically produced natural gas in the importing countries.

c. The foreign demand for natural gas from the U.S. would increase the price of natural gas in the U.S., production of natural gas in the U.S. would increase, and consumption of natural gas in the U.S. would decrease slightly.

d. Increased demand for natural gas form the U.S. in foreign countries would increase the price of natural gas world-wide and result in many countries not being able to afford the price of natural gas.

Answer: C

Difficulty: 03 Hard

Blooms: Analyze

AACSB: Analytic

Topic: Four Controversies

5. What would be the effect in the U.S. of increased exports of natural gas from the U.S. to foreign countries?

a. Exports of natural gas from the U.S. would force the world-wide price of natural gas to an equilibrium and reduce the price of natural gas for consumers in the U.S.

b. Exports of natural gas from the U.S. would result in higher prices for natural gas, benefiting producers and exporters of natural gas in the U.S. and harming consumers of natural gas in the U.S.

c. Exports of natural gas from the U.S. would force the world-wide price of natural gas to an equilibrium which would mean that producers of natural gas in the U.S. could not charge more than the cost to produce the natural gas.

d. The U.S. government would eventually have to prohibit exports of natural gas to foreign countries in order to control the price of natural gas.

Answer: B

Difficulty: 02 Medium

Blooms: Understand

AACSB: Reflective Thinking

Topic: Four Controversies

6. What is fracking?

a. A process that uses a combination of hydraulic pressure and horizontal drilling to allow the extraction of natural gas that cannot otherwise be extracted.

b. The difference between the cost of producing natural gas and transporting it to consumers and the price that consumers are willing to pay for the natural gas.

c. The sale of natural gas on the black market in foreign countries without approval of the U.S. government.

d. The imposition of import tariffs on natural gas exported from the U.S. to protect domestic producers in the importing country.

Answer: A

Difficulty: 01 Easy

Blooms: Remember

AACSB: Reflective Thinking

Topic: Four Controversies

7. What event in Japan increased demand for imported natural gas in Japan?

a. Deposits of natural gas in Japan have been exhausted.

b. The largest deposits of natural gas available to Japan are located in the islands in the South China Sea and Japan and China have a dispute about who owns those islands.

c. A tsunami in 2011 damaged the nuclear reactor in Fukushima causing Japan to shut down all of its nuclear generation of electricity.

d. Japan imposed strict environmental requirements for the generation of electricity that can only be met by using natural gas to produce electricity.

Answer: C

Difficulty: 01 Easy

Blooms: Remember

AACSB: Reflective Thinking

Topic: Four Controversies

8. Dow Chemical objected to the export of natural gas from the U.S. to foreign countries. What does the economic analysis of the export of natural gas from the U.S. suggest the effect of those exports will be for Dow Chemical?

a. The export of natural gas from the U.S. will decrease the supply of natural gas available to Dow Chemical and other users of large amounts of natural gas and increase the price of natural gas in the U.S.

b. Dow Chemical does not directly use natural gas, but does use electricity that can be generated by natural gas, so the effect on Dow Chemical will depends on alternative means of producing electricity.

c. The transportation costs of exporting natural gas from the U.S. to Asia and Europe will keep the price of natural gas in the U.S. relatively low, so Dow Chemical will benefit from that low price.

d. The export of natural gas from the U.S. will eventually deplete U.S. supplies of natural gas so Dow Chemical will have to find other sources of energy.

Answer: C

Difficulty: 02 Medium

Blooms: Understand

AACSB: Reflective Thinking

Topic: Four Controversies

9. What is the effect on trade deficits of a country’s saving rate?

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 that people are spending more than they earn and that results in increased financial difficulties for consumers, higher interest rate, and fewer international sales, resulting in a decrease in a country’s trade deficit.

c. A high savings rate means that there is more money available for investment which results in greater production and increased international sales which lead to lower trade deficits.

d. A country’s savings rate has no effect on the country’s trade deficit.

Answer: A

Difficulty: 03 Hard

Blooms: Analyze

AACSB: Analytic

Topic: Four Controversies

10. “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 government of the receiving country

c. The consumers who buy the products that the immigrants help to produce

d. None of these options are correct.

Answer: C

Difficulty: 01 Easy

Blooms: Remember

AACSB: Reflective Thinking

Topic: Four Controversies

11. 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 public goods like education and health care increases.

d. The real wage rate of workers increases.

Answer: C

Difficulty: 01 Easy

Blooms: Remember

AACAB: Reflective Thinking

Topic: Four Controversies

12. The unskilled wage rate in a country may decline if

a. the 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.

Answer: B

Difficulty: 01 Easy

Blooms: Remember

AACSB: Reflective Thinking

Topic: Four Controversies

13. 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

Answer: B

Difficulty: 01 Easy

Blooms: Remember

AACSB: Reflective Thinking

Topic: Four Controversies

14. 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.

Answer: D

Difficulty: 01 Easy

Blooms: Remember

AACSB: Reflective Thinking

Topic: Four Controversies

15. In 2004, China had a substantial trade surplus with

a. Russia

b. Japan

c. the United States

d. Brazil

Answer: C

Difficulty: 01 Easy

Blooms: Remember

AACSB: Reflective Thinking

Topic: Four Controversies

16. “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.

Answer: C

Difficulty: 01 Easy

Blooms: Remember

AACSB: Reflective Thinking

Topic: Four Controversies

17. 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.

Answer: C

Difficulty: 02 Medium

Blooms: Understand

AACSB: Reflective Thinking

Topic: Four Controversies

18. 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 increase the U.S. trade deficit with China.

d. weakening the yuan to decrease the U.S. trade deficit with China.

Answer: B

Difficulty: 02 Medium

Blooms: Understand

AACSB: Reflective Thinking

Topic: Four Controversies

19. 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 the 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.

Answer: B

Difficulty: 02 Medium

Blooms: Understand

AACSB: Reflective Thinking

Topic: Four Controversies

20. 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 it dollar reserves.

Answer: B

Difficulty: 02 Medium

Blooms: Understand

AACSB: Reflective Thinking

Topic: Four Controversies

21. 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. held a balanced portfolio of assets including a variety of foreign currencies.

d. caved in to pressures from foreign governments.

Answer: A

Difficulty: 01 Easy

Blooms: Remember

AACSB: Reflective Thinking

Topic: Four Controversies

22. 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 1 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.

Answer: C

Difficulty: 03 Hard

Blooms: Analyze

AACSB: Analytic

Topic: Four Controversies

23. 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 is most likely to have a trade deficit with the United States.

Answer: C

Difficulty: 02 Medium

Blooms: Understand

AACSB: Reflective Thinking

Topic: Four Controversies

24. Which of the following factors is most likely to lead to a decline in a country’s exports?

a. An decrease in corporate taxes

b. A decline in the nominal interest rate

c. A decline in the input prices

d. An appreciation of the domestic currency vis-à-vis foreign currencies

Answer: D

Difficulty: 02 Medium

Blooms: Understand

AACSB: Reflective Thinking

Topic: Economics and the Nation-State

25. Which of the following is a relevant monetary policy during an acute financial crisis in an economy?

a. Investment in foreign government bonds should be increased.

b. The domestic currency should be revalued.

c. The reserve requirements for the commercial banks should be increased.

d. The nominal interest rates should be lowered.

Answer: D

Difficulty: 01 Easy

Blooms: Remember

AACSB: Reflective Thinking

Topic: Economics and the Nation-State

26. 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 between 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.

Answer: B

Difficulty: 01 Easy

Blooms: Remember

AACSB: Reflective Thinking

Topic: Economics and the Nation-State

27. 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.

Answer: B

Difficulty: 02 Medium

Blooms: Understand

AACSB: Reflective Thinking

Topic: Economics and the Nation-State

28. \_\_\_\_\_ is considered to be the least mobile factor internationally.

a. Labor

b. Capital

c. Entrepreneurship

d. Land

Answer: D

Difficulty: 01 Easy

Blooms: Remember

AACSB: Reflective Thinking

Topic: Economics and the Nation-State

29. 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

Answer: C

Difficulty: 02 Medium

Blooms: Understand

AACSB: Reflective Thinking

Topic: Economics and the Nation-State

30. 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. commercial banks in the country.

Answer: A

Difficulty: 01 Easy

Blooms: Remember

AACSB: Reflective Thinking

Topic: Economics and the Nation-State

31. A mortgage-backed security is a debt instrument based on a pool of mortgages, and payment of that debt depends on the mortgages in the pool being paid. Many European banks invested in mortgage-backed securities. What was the effect of the financial crisis that began in the U.S. on these European banks?

a. Since most of the mortgages in these mortgage pools were guaranteed by agencies of the U.S. government, these European banks did not suffer unexpected losses.

b. When the mortgages in the pools were not paid, the mortgage-backed securities lost value or became worthless and these European banks suffered significant losses.

c. These European banks might have suffered significant losses but the European central Bank bought the securities at face value.

d. These European banks hedged their investment in U.S. mortgage-backed securities with investments in European mortgage-backed securities, so losses on U.S. mortgage-backed securities were offset by gains on European mortgage-backed securities.

Answer: B

Difficulty: 03 Hard

Blooms: Analyze

AACSB: Analytic

Topic: Economics and the Nation-State

32. As the recession in the euro area appeared to end on mid-2009, to address a perceived weakness in the Irish banking system, the Irish government did what?

a. It decreed that all debts of Irish banks were being canceled.

b. It decreed that Irish banks would thereafter pay not more than 3 percent per annum on deposits.

c. It decreed that it would loan Irish banks the equivalent of 3 billion U.S. dollars.

d. It decreed that the Irish government would guarantee all deposits and debts of the largest Irish banks.

Answer: D

Difficulty: 02 Medium

Blooms: Understand

AACSB: Reflective Thinking

Topic: Economics and the Nation-State

33. In 2009, Greece’s fiscal deficit was 16 percent of its GDP, and its debts were 130 percent of its GDP. What did Greece do in response to this situation?

a. Greece had to borrow money from the Federal Reserve System in the U.S.

b. Greece had to issue new bonds to raise money to pay its debts relying on the credit of the EU rather than on its own credit.

c. Greece decided that it could not afford to borrow money to pay its debts because the interest rate it would have to pay was so much more than other EU countries were paying.

d. Greece decided that it had to increase its GDP and adopted a series of measures that required the expenditure of the equivalent of billions of U.S. dollars to improve its production efficiency.

Answer: C

Difficulty: 02 Medium

Blooms: Understanding

AACSB: Reflective Thinking

Topic: Economics and the Nation-State

34. A number of EU countries encountered financial difficulties during the euro crisis in the first decade of the 21st century, and some of those countries received bailouts from the EU. Spain encountered financial difficulties in this period, but Spain did not require a bailout. Why was Spain’s situation different from the situations that required other EU countries to be bailed out?

a. Spain was not part of the EU, so the EU did not have the authority to bailout Spain.

b. Spain was bailed out by the U.S.

c. While other EU countries had government debt that exceed GDP, Spain‘s debt was less than GDP, so Spain’s financial situation was not as dire as in other EU countries.

d. Spain refused a bailout by the EU and defaulted on its government debt.

Answer: C

Difficulty: 02 Medium

Blooms: Understand

AACSB: Reflective Thinking

Topic: Economics and the Nation-State

35. In November 2011, the interest rate on 10 year Spanish and Italian bonds were 4 to 5 percentage points higher than the interest rate on comparable German bonds. What did that difference indicate?

a. German bonds were considered to be safer investments than Spanish or Italian bonds.

b. There was a higher demand for Spanish and Italian bonds than for German bonds.

c. The integration of the markets in EU countries promised by the introduction of the euro worked.

d. The German economy was reducing the value of Spanish and Italian bonds.

Answer: A

Difficulty: 02 Medium

Blooms: Understand

AACSB: Reflective Thinking

Topic: Economics and the Nation-State

36. In 2010-2011, several EU countries received large bailouts from the EU. What were those countries?

a. Germany, Italy, and Greece

b. England, Greece, and Ireland

c. Germany, England, and France

d. Ireland, Portugal, and Greece

Answer: D

Difficulty: 01 Easy

Blooms: Remember

AACSB: Reflective Thinking

Topic: Economics and the Nation-State

37. The primary objective of the European Central Bank is to

a. bailout EU countries in financial trouble.

b. assure full employment.

c. maintain price stability.

d. protect EU countries from unfair trade practices.

Answer: C

Difficulty: 01 Easy

Blooms: Remember

AACSB: Reflective Thinking

Topic: Economics and the Nation-State

38. The ECB is prohibited from

a. lending to national governments or purchasing government debt directly from the government.

b. owning government debt.

c. accepting deposits from EU countries.

d. paying interest on deposits.

Answer: A

Difficulty: 01 Easy

Blooms: Remember

AACSB: Reflective Thinking

Topic: Economics and the Nation-State

39. How did the ECB’s Security Market Program acquire Greek, Irish and Portuguese government bonds in 2010-2011?

a. By buying those bonds from those governments

b. By buying securities backed by those government bonds and foreclosing on the bonds when the securities were not paid

c. By buying the bonds on the secondary markets

d. By loaning money to private companies which bought the bonds and then used the government bonds to repay the loans

Answer: C

Difficulty: 02 Medium

Blooms: Understand

AACSB: Reflective Thinking

Topic: Economics and the Nation-State

True/False Questions

40. U.S. firms could not make a profit on the export of natural gas to Asia and Europe because of increasing production costs and transportation costs.

Answer: FALSE

Difficulty: 01 Easy

Blooms: Remember

AACSB: Reflective Thinking

Topic: Four Controversies

41. Importation of natural gas into Japan would cause the price of natural gas in Japan to fall and consumption to increase.

Answer: TRUE

Difficulty: 02 Medium

Blooms: Understand

AACSB: Reflective Thinking

Topic: Four Controversies

42. Fracking has proven to have minimal environmental effects, so the environmental costs of fracking are insignificant.

Answer: FALSE

Difficulty: 01 Easy

Blooms: Remember

AACSB: Reflective Thinking

Topic: Four Controversies

43. Relatively high costs of converting natural gas to LNG will increase the price of natural gas in the U.S. and reduce consumption of natural gas in the U.S.

Answer: FALSE

Difficulty: 02 Medium

Blooms: Understand

AACSB: Reflective Thinking

Topic: Four Controversies

44. By mid-2014, the U.S. government had approved multiple LNG export facilities so natural gas exports from the U.S. have increased significantly.

Answer: FALSE

Difficulty: 02 Medium

Blooms: Understand

AACSB: Reflective Thinking

Topic: Four Controversies

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

Answer: TRUE

Difficulty: 01 Easy

Blooms: Remember

AACSB: Reflective Thinking

Topics: Four Controversies

46. Evidence shows that the Chinese Yuan was substantially overvalued against the U.S. dollar in mid-2005.

Answer: FALSE

Difficulty: 02 Medium

Blooms: Understand

AACSB: Reflective Thinking

Topic: Four Controversies

47. During 2001-2004 the European Union had a large trade surplus with China.

Answer: FALSE

Difficulty: 01 Easy

Blooms: Remember

AACSB: Reflective Thinking

Topic: Four Controversies

48. 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.

Answer: FALSE

Difficulty: 02 Medium

Blooms: Understand

AACSB: Reflective Thinking

Topic: Four Controversies

49. 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.

Answer: FALSE

Difficulty: 02 Medium

Blooms: Understand

AACSB: Reflective Thinking

Topic: Four Controversies

50. In September 2008 the investment bank Lehman Brothers lost its access to short-term funding and averted failure when it was purchased by J.P. Morgan Chase.

Answer: FALSE

Difficulty: 01 Easy

Blooms: Remember

AACSB: Reflective Thinking

Topic: Economics and the Nation-State

51. A country cannot set its own policies toward the international movement of productive resources.

Answer: FALSE

Difficulty: 01 Easy

Blooms: Remember

AACSB: Reflective Thinking

Topic: Four Controversies

52. 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.

Answer: TRUE

Difficulty: 01 Easy

Blooms: Remember

AACSB: Reflective Thinking

Topic: Economics and the Nation-State

53. Banks open branches in countries where profits are taxed less and their books of accounts are less scrutinized.

Answer: TRUE

Difficulty: 01 Easy

Blooms: Remember

AACSB: Reflective Thinking

Topic: Economics and the Nation-State

54. Monetary policies adopted by a country do not affect its trading partners as long as the partner countries use different currencies.

Answer: FALSE

Difficulty: 01 Easy

Blooms: Remember

AACSB: Reflective Thinking

Topic: Economics and the Nation-State

55. Most of the countries that would be customers for natural gas exported from the U.S. are countries that have free trade agreements with the U.S.

Answer: FALSE

Difficulty: 01 Easy

Blooms: Remember

AACSB: Reflective Thinking

Topic: Four Controversies

Essay Questions

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

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. However, it has been observed that 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.

Difficulty: 02 Medium

Blooms: Understand

AACSB: Reflective Thinking

Topic: Four Controversies

57. In mid-2010, the Chinese government ended its fixed exchange rate to the U.S. dollar and began to allow the yuan to appreciate gradually. How would this shift affect the Chinese economy?

POSSIBLE RESPONSE: From mid-2008 to mid-2010, the Chinese government kept the exchange rate value of the yuan fixed to the U.S. dollar. To defend the fixed rate, the Chinese government had to continuously buy dollars and sell yuan in the foreign exchange market. As China’s central bank added yuan to the economy through this intervention, the money supply in China grew rapidly, encouraging local borrowing and spending that resulted in a higher inflation rate in China. Given these conditions, the increase in the exchange-rate value of the yuan can help the government manage its domestic economy better, in three ways. First, it would lower import prices in China, thereby reducing inflation pressures in the country. Second, it could reduce the growth of China’s exports, removing some of the demand pressure on the prices of domestic resources and products. Third, it reduces the amount of intervention needed, reducing the pressure on the growth of China’s domestic money supply.

Difficulty: 03 Hard

Blooms: Analyze

AACSB: Analytic

Topic: Four Controversies

58. Why does Dow Chemical object to exports of natural gas from the U.S., and what does economic analysis suggest about that objection?

POSSIBLE RESPONSE: Dow Chemical object to the export of natural gas from the U.S. because that will reduce the natural gas available to users in the U.S. and increase the cost of natural gas in the U.S. A 1938 law in the U.S. prohibits the export of natural gas from the U.S. unless the exporting company can satisfy the U.S. government that the exports are in the “public interest” which includes that there will still be an adequate supply of natural gas for users of natural gas in the U.S. However, even if the export of natural gas from the U.S. maintains adequate supply of natural gas for users in the U.S., the price of natural gas in the U.S. would increase somewhat.

Difficulty: 03 Hard

Blooms: Analyze

AACSB: Analytic

Topic: Four Controversies

59. How did the global financial crisis that began in the U.S. in 2007 affect countries in Europe?

POSSIBLE RESPONSES: Some European countries suffered from housing bubbles like the one in the U.S. which resulted in housing values sinking below the amount owed on the mortgages on those houses. Many European banks bought mortgaged-backed securities which suffered loss of value as the mortgages that supported them defaulted. Short-term funding became difficult to find which negatively affected European banks. And the recession spread from the U.S. throughout Europe.

Difficulty: 02 Medium

Blooms: Understand

AACSB: Reflective Thinking

Topic: Economics and the Nation-State

60. What was the basis of the financial crisis that Greece suffered in the first decade of the 21st century?

POSSIBLE RESPONSE: The debts that the Greek government owed, primarily the result Greek government policies and decreasing production efficiency in Greece, increased to 130 percent of the GDP in Greece. When Greece attempted to borrow money to refinance those debts, Greece discovered that the interest rate that it would have to pay on the bonds that it would issue would make the cost of the new debt more than Greece could afford. Although the European Central Bank provided funds to bailout Greece, Greece eventually defaulted on some of the bonds that it had already issued.

Difficulty: 03 Hard

Blooms: Analyze

AACSB: Analytic

Topic: Economics and the Nation-State