Take Home Quiz – Section 6 – Open Economy Name: \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

Date: \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

**I. Multiple Choice (1 point each – 4 points total. Circle your answer!)**

1. Lower interest rates in the United States cause the value of the dollar and exports to change in which of the following ways?

Value of the dollar U.S. Exports

* 1. Increasing Increasing
  2. Increasing Decreasing
  3. Decreasing Increasing
  4. Decreasing Unchanged
  5. Increasing Increasing

1. Which of the following would cause the real exchange rate between the yuan and U.S. dollars (in terms of yuans per dollar) to decrease?
   1. An increase in net capital flows from China to the United States
   2. An increase in the balance of payments on the current account in the United States
   3. A decrease in oil exports from China to the United States
   4. A doubling of prices in both China and the united States
   5. An increase in the real interest rate in China relative to the United States
2. Assume that the inflation rate in Country X is very high relative to the inflation rates in all of its trading partners. Which of the following is likely to happen to Country X’s currency on the foreign exchange market?
   1. The demand curve for the currency will shift to the right, and the currency will appreciate
   2. The demand curve for the currency will shift to the left, and the currency will depreciate
   3. The supply curve for the currency will shift to the left, and the currency will appreciate
   4. The supply curve for the currency will shift to the left, and the currency will depreciate
   5. There will be no shift in the demand curve for the currency, but the currency will depreciate
3. Which of the following would be a current account transaction?
   1. India buys $10 billion of new United States Treasury bonds
   2. A united States firm buys 5% of the stock of another United States firm
   3. A United States firm builds a new factory in Kenya
   4. A United States firm sells $500 million of its products to a Chinese company
   5. The United States buys $8 billion worth of Euros

**II. Short Response (2 questions, first is worth 2 point and the second is worth 4 points, 3 points for correctly drawn graphs and 1 point for correctly labeling all aspects of each graph.)**

1. Answer following exchange rate conversions
   1. If 1 USD equals to 0.7155 EUR, what is the value of 100 EUR in USD?
   2. What is the value of 1 EUR in USD?
2. Clearly show the effects of China cutting their interest rates in the Foreign Exchange Market ($/yuans), Money Market, and the AD/AS model (there should be three graphs!).