International Financial Management 14th edition Madura Test Bank

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TRUE/FALSE

1 : A balance-of-trade surplus indicates an excess of imports over exports.
A : true
B : false

Correct Answer : B

2 : A weakening of the U.S. dollar with respect to the British pound would likely reduce U.S. exports to Britain and increase U.S. imports from Britain over time.
A : true
B : false

Correct Answer : B

3 : The World Bank extends loans only to developed nations, while the International Development Association (IDA) extends loans only to developing nations.
A : true
B : false

Correct Answer : B

4 : The World Bank frequently enters into cofinancing agreements, under which it joins with official aid agencies, export credit agencies, or commercial banks in providing financing.
A : true
B : false

Correct Answer : A

5 : The balance of payments is a summary of all transactions between domestic and foreign residents for a specific country over a specified period of time.
A : true
B : false

Correct Answer : A

6 : The value of financial assets transferred across country borders by people who move to a different country is included in the balance of payments in the capital account.
A : true
B : false

Correct Answer : A

7 : Portfolio investment represents transactions involving long-term financial assets (such as stocks and bonds) between countries that do not affect the transfer of control.
A : true
B : false

Correct Answer : A

8 : The current account represents the investment in fixed assets in foreign countries that can be used to conduct business operations.

A : true
B : false

Correct Answer : B

9 : Exporting of products by one country to other countries at prices below cost is called elasticity.
A : true
B : false

Correct Answer : B

10 : Direct foreign investment by U.S.-based MNCs occurs primarily in the Bahamas and Brazil.
A : true
B : false

Correct Answer : B

11 : The J-curve effect is the initial worsening of the U.S. trade balance due to a weakening dollar because of established trade relationships that are not easily changed; as the dollar weakens, the dollar value of imports initially rises before the U.S. trade balance is improved.
A : true
B : false

Correct Answer : A

12 : Outsourcing is the process of subcontracting to a third party in another country to provide supplies or services that were previously obtained internally.
A : true
B : false

Correct Answer : A

13 : Intracompany trade is the exporting of products by one country to other countries below cost.
A : true
B : false

Correct Answer : B

14 : A tariff is a maximum limit on imports.
A : true
B : false

Correct Answer : B

15 : The sale of patent rights by a U.S. firm to a Russian firm reflects a credit to the U.S. balance of payments account.
A : true
B : false

Correct Answer : A

16 : A U.S. purchase of patent rights from a firm in Mexico reflects a credit to the U.S. balance of payments account.

A : true
B : false

Correct Answer : B

17 : Regarding the U.S. balance of payments, capital account items are relatively minor compared to the financial account items.
A : true
B : false

Correct Answer : A

18 : The Central American Trade Agreement (CAFTA) is intended to raise tariffs and regulations between the United States, the Dominican Republic, and Central American countries.
A : true
B : false

Correct Answer : B

19 : U.S. government officials would likely prefer that China devalue the yuan against the dollar.
A : true
B : false

Correct Answer : B

20 : Assume that some U.S. firms will purchase supplies from either China or from U.S. firms. If the Chinese yuan appreciates against the dollar, that should reduce the U.S. balance-of-trade deficit with China.
A : true
B : false

Correct Answer : A

21 : The inception of the euro eliminated exchange rate risk on trade transactions between the U.S. and the eurozone.
A : true
B : false

Correct Answer : B

22 : The primary component of the capital account is the balance of trade.
A : true
B : false

Correct Answer : B

23 : A balance-of-trade surplus indicates an excess of merchandise imports over merchandise exports.
A : true
B : false

Correct Answer : B

24 : An American tourist visiting Germany and spending money there (for lodging, food, etc.) will reduce the U.S. current account deficit and reduce Germany's current account balance.

A : true
B : false

Correct Answer : B

25 : A balance-of-trade deficit indicates an excess of imports over exports.
A : true
B : false

Correct Answer : A

26 : The capital account reflects changes in country ownership of direct foreign investment.
A : true
B : false

Correct Answer : B

27 : Outsourcing allows some MNCs to reduce costs but shifts jobs to other countries.
A : true
B : false

Correct Answer : A

28 : A weakening of the U.S. dollar with respect to the British pound would likely reduce U.S. exports to the United Kingdom and increase U.S. imports from the United Kingdom.
A : true
B : false

Correct Answer : B

29 : The World Trade Organization was established to provide a forum for multilateral trade negotiations and to settle trade disputes.
A : true
B : false

Correct Answer : A

MULTIPLE CHOICE

30 : ?Recently, the U.S. experienced an annual balance of trade representing a ____.
A : ?large surplus (exceeding $100 billion)
B : ?small surplus
C : ?level of zero
D : ?deficit

Correct Answer : D

31 : ?A high home inflation rate relative to other countries would ____ the home country's current account balance, other things being equal. High growth in the home income level relative to other countries would ____ the home country's current account balance, other things being equal.
A : ?increase; increase
B : ?increase; decrease

C : ?decrease; decrease
D : ?decrease; increase

Correct Answer : C

32 : If a country's government imposes a tariff on imported goods, that country's current account balance will likely ____ (assuming no retaliation by other governments).
A : decrease
B : increase
C : remain unaffected
D : decrease OR remain unaffected

Correct Answer : B

33 : ?____ purchases more U.S. exports than the other countries listed here.
A : Italy?
B : ?Spain
C : ?Mexico
D : ?Canada

Correct Answer : D

34 : ?An increase in the current account deficit will place ____ pressure on the home currency value, other things being equal.
A : ?upward
B : ?downward
C : ?no
D : ?upward or downward (depending on the size of the deficit)

Correct Answer : B

35 : If the home currency begins to appreciate against other currencies, this should ____ the current account balance, other things being equal (assume that substitutes are readily available in other countries, and that the prices charged by firms remain the same).
A : increase
B : have no impact on
C : reduce
D : All of these are equally possible.

Correct Answer : C

36 : ?The International Finance Corporation was established to promote economic development:
A : ?in Asia through grants to businesses.
B : ?by providing nonsubsidized loans (at market interest rates) to governments and their agencies.
C : ?by providing low-interest-rate loans (below-market rates) to poor nations.
D : ?through the private sector by providing loans to corporations and investing in their stock.

Correct Answer : D

37 : ?The World Bank was established to reduce poverty and promote economic development:
A : ?in Asia through grants to businesses.
B : ?by providing nonsubsidized loans (at market interest rates) to governments and their agencies.
C : ?by providing low-interest-rate loans (below-market rates) to poor nations.

D : ?through the private sector by providing loans to corporations and investing in their stock.

Correct Answer : B

38 : ?The International Development Association was established to promote economic development:
A : ?in Asia through grants to businesses.
B : ?by providing nonsubsidized loans (at market interest rates) to governments and their agencies.
C : ?by providing low-interest-rate loans (below-market rates) to poor nations.
D : ?through the private sector by providing loans to corporations and investing in their stock.

Correct Answer : C

39 : Which of the following would likely have the least direct influence on a country's current account?
A : ?inflation
B : ?national income
C : ?exchange rates
D : ?tariffs
E : ?a tax on income earned from foreign stocks

Correct Answer : E

40 : ?The "J-curve" effect describes:
A : ?the continuous long-term inverse relationship between a countrys current account balance and the countrys growth in gross domestic product.
B : ?the short-run tendency for a countrys balance of trade to deteriorate even while its currency is depreciating.
C : ?the tendency for exporters to initially reduce the price of goods when their own currency appreciates.
D : ?the tendency of a countrys currency to initially depreciate after the countrys inflation rate declines.

Correct Answer : B

41 : ?An increase in the use of quotas is expected to:
A : ?reduce the countrys current account balance, if other governments do not retaliate.
B : ?increase the countrys current account balance, if other governments do not retaliate.
C : ?have no impact on the countrys current account balance unless other governments retaliate.
D : ?increase the volume of a countrys trade with other countries.

Correct Answer : B

42 : The United States typically has a balance-of-trade surplus in its trade with ____.
A : China
B : Japan
C : China AND Japan
D : None of these are correct.

Correct Answer : D

43 : The North American Free Trade Agreement (NAFTA) increased restrictions on:
A : trade between Canada and Mexico.
B : trade between Canada and the United States
C : direct foreign investment in Mexico by U.S. firms.
D : None of these are correct.

Correct Answer : D

44 : ?According to the text, international trade (exports plus imports combined) as a percentage of GDP is:
A : ?higher in the United States than in European countries.
B : ?lower in the United States than in European countries.
C : ?higher in the United States than in about half the European countries, and lower in the United States than in the others.
D : ?about the same in the United States as in European countries.

Correct Answer : B

45 : ?The direct foreign investment positions by U.S. firms have generally ____ over time. Restrictions by governments on direct foreign investment have generally ___ over time.
A : ?increased; increased
B : ?increased; decreased
C : ?decreased; decreased
D : ?decreased; increased

Correct Answer : B

46 : ?Which of the following countries purchases the largest amount of exports by U.S. firms?
A : ?Mexico
B : ?Japan
C : ?Canada
D : ?France

Correct Answer : C

47 : ?The primary component of the current account is the:
A : ?balance of trade.
B : ?balance of gifts.
C : ?balance of aid payments.
D : ?balance of grant payments.

Correct Answer : A

48 : As a result of the European Union, restrictions on exports between ____ were reduced or eliminated.
A : member countries and the United States
B : member countries
C : member countries and European nonmembers
D : None of these are correct.

Correct Answer : B

49 : ?Over the last several years, international trade has generally:
A : ?increased for most major countries.
B : ?decreased for most major countries.
C : ?stayed about constant for most major countries.
D : ?increased for about half the major countries and decreased for the others.

Correct Answer : A

50 : Which of the following is not a result of the North American Free Trade Agreement (NAFTA)?
A : increased trade between the United States and Central American countries

B : increased imports by the United States from Mexico
C : increased exports by U.S. firms to Mexico
D : increased establishment of subsidiaries in Mexico by U.S. firms

Correct Answer : A

51 : ?The General Agreement on Tariffs and Trade (GATT) accord of 1993 called for:
A : ?increased trade restrictions outside North America.
B : ?lower trade restrictions around the world.
C : ?uniform environmental standards around the world.
D : ?uniform worker health laws.

Correct Answer : B

52 : Which of the following is mentioned in the text as a possible means by which the government may attempt to improve its balance-of-trade position (increase its exports or reduce its imports)?
A : The government could attempt to reduce its home currencys value.
B : The government could require firms to engage in outsourcing.
C : The government could provide subsidies to importers.
D : All of these are mentioned.

Correct Answer : A

53 : The demand for U.S. exports tends to increase when:
A : economic growth in foreign countries decreases.
B : the currencies of foreign countries strengthen against the dollar.
C : U.S. inflation rises.
D : None of these are correct.

Correct Answer : B

54 : ?The term "dumping" refers to the:
A : ?exporting of goods that do not meet quality standards.
B : ?sale of junk bonds to foreign countries.
C : ?removal of foreign subsidiaries by the host government.
D : ?exporting of goods at prices below cost.

Correct Answer : D

55 : ?The primary income component in a country’s current account may reflect income received due to:
A : ?grants.
B : ?direct foreign investment.
C : ?aid.
D : ?gifts.

Correct Answer : B

56 : ?A weak home currency may not be a perfect solution to correct a balance-of-trade deficit because:
A : ?it reduces the prices of imports paid by local companies.
B : ?it increases the prices of exports by local companies.
C : ?it prevents international trade transactions from being prearranged.
D : ?foreign companies may reduce the prices of their products to stay competitive.

Correct Answer : D

57 : ?Intracompany trade makes up more than ____ percent of all international trade.
A : ?50
B : ?70
C : ?25
D : ?13
E : ?5

Correct Answer : A

58 : ?Like the International Monetary Fund (IMF), the ____ is composed of a number of nations as members. However, unlike the IMF, it uses the private rather than the government sector to achieve its objectives.
A : ?World Bank
B : ?International Finance Corporation (IFC)
C : ?World Trade Organization (WTO)
D : ?International Development Association (IDA)
E : ?Bank for International Settlements (BIS)

Correct Answer : B

59 : ?The World Bank's Multilateral Investment Guarantee Agency (MIGA):
A : ?offers various forms of export insurance.
B : ?offers various forms of import insurance.
C : ?offers various forms of exchange rate risk insurance.
D : ?provides loans to developing countries.
E : ?offers various forms of political risk insurance.

Correct Answer : E

60 : ?Also known as the "central banks' central bank," the ____ attempts to facilitate cooperation among countries with regard to international transactions.
A : ?World Bank
B : ?International Finance Corporation (IFC)
C : ?World Trade Organization
D : ?International Development Association (IDA)
E : ?Bank for International Settlements (BIS)

Correct Answer : E

61 : ?Direct foreign investment into the United States represents a ____.
A : ?capital inflow
B : ?trade inflow
C : ?capital outflow
D : ?trade outflow

Correct Answer : A

62 : ?A country's net outflow of funds ____ its interest rates, and ____ its economic conditions.
A : ?affects; affects
B : ?affects; does not affect
C : ?does not affect; does not affect
D : ?does not affect; affects

Correct Answer : A

63 : ?In recent years, the United States has had a relatively (compared to other countries) ____ balance of trade ____ with China.
A : ?small; surplus
B : ?large; surplus
C : ?small; deficit
D : ?large; deficit

Correct Answer : D

64 : ?Assume the United States has a balance-of-trade surplus with the country of Thor. When individuals in Thor without permission manufacture video games and DVDs that look almost exactly like the original products produced in the United States and other countries, they ____ the U.S. balance-of-trade surplus with Thor. This activity is called ____.
A : ?reduce; flipping
B : ?reduce; piracy
C : ?increase; piracy
D : ?increase; flipping

Correct Answer : B

65 : ?Without international capital flows, there would be ____ funding available in the United States across all risk levels, and the cost of funding would be ____ regardless of the firm's risk level.
A : ?more; lower
B : ?more; higher
C : ?less; lower
D : ?less; higher

Correct Answer : D

66 : ?The ____ is the difference between exports and imports.
A : ?balance of trade
B : ?balance on goods and services
C : ?balance of payments
D : ?current account
E : ?capital account

Correct Answer : A

67 : Which of the following will probably not result in an increase in a country's current account balance (assuming everything else remains constant)?
A : a decrease in the countrys rate of inflation
B : a decrease in the countrys national income level
C : an increase in government restrictions in the form of tariffs or quotas
D : an appreciation of the countrys currency
E : All of these will result in an increased current account balance.

Correct Answer : D

68 : ?Which of the following is a key component that determines a country’s primary income (within the country’s current account)?

A : ?direct foreign investment
B : ?international trade
C : ?tax rates
D : ?gifts

Correct Answer : A

69 : The ____, an accord among 117 nations, called for lower tariffs around the world.
A : General Agreement on Tariffs and Trade (GATT)
B : North American Free Trade Agreement (NAFTA)
C : Single European Act of 1987
D : European Union Accord
E : None of these are correct.

Correct Answer : A

70 : Which of the following is not likely to represent a strategy by the government of Country X to reduce its balance-of-trade deficit with Country Y?
A : The government of Country X eliminates environmental restrictions.
B : The government of Country X subsidizes firms in its country to facilitate dumping.
C : The government of Country X provides tax breaks to firms in specific industries.
D : The government of Country X removes a tariff on goods imported from Country Y.

Correct Answer : D

71 : Which of the following statements is not true?
A : Exporters commonly complain that they are being mistreated because the currency of their country is too weak.
B : Outsourcing affects the balance of trade because it means that a service is purchased in another country.
C : Sometimes, trade policies are used to punish countries for various actions.
D : Tariffs imposed by the EU have caused some friction between EU countries that commonly import products and other EU countries.
E : All of these are true.

Correct Answer : A

72 : ____ represents aid, grants, and gifts from one country to another.
A : ?Secondary income
B : ?Primary income
C : ?The balance of trade
D : ?The balance of payments
E : ?The capital account

Correct Answer : A

73 : Which of the following is not a goal of the International Monetary Fund (IMF)?
A : To promote cooperation among countries on international monetary issues
B : To promote stability in exchange rates
C : To enhance a countrys long-term economic growth via the extension of structural adjustment loans
D : To promote free trade
E : To promote free mobility of capital funds across countries

Correct Answer : C

74 : ?According to the "J-curve effect," a weakening of the U.S. dollar relative to its trading partners' currencies would result in an initial ____ in the current account balance, followed by a subsequent ____ in the current account balance.

A : ?decrease; increase

B : ?increase; decrease

C : ?decrease; decrease

D : ?increase; increase

Correct Answer : A