# *International Financial Management 13th edition Madura Test Bank*

SKU: 9781337099738-TEST-BANK

**Chapter 02: International Flow of Funds**

1. 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

*ANSWER:* d
*POINTS:* 1
*DIFFICULTY:* Easy
*LEARNING OBJECTIVES:* INFM.MADU.15.02.02
*NATIONAL STANDARDS:* United States - BUSPROG.INFM.MADU.15.03
*STATE STANDARDS:* United States - OH - DISC.INFM.MADU.15.02
*KEYWORDS:* Bloom's: Knowledge

2. 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

*ANSWER:* c
*POINTS:* 1
*DIFFICULTY:* Moderate
*LEARNING OBJECTIVES:* INFM.MADU.15.02.03
*NATIONAL STANDARDS:* United States - BUSPROG.INFM.MADU.15.03
*STATE STANDARDS:* United States - OH - DISC.INFM.MADU.15.02
*KEYWORDS:* Bloom's: Comprehension

3. 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. either A or C is possible

*ANSWER:* b
*POINTS:* 1
*DIFFICULTY:* Moderate
*LEARNING OBJECTIVES:* INFM.MADU.15.02.03
*NATIONAL STANDARDS:* United States - BUSPROG.INFM.MADU.15.03
*STATE STANDARDS:* United States - OH - DISC.INFM.MADU.15.02
*KEYWORDS:* Bloom's: Comprehension

4. ____ purchases more U.S. exports than the other countries listed here.
   a. Italy
   b. Spain

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c. Mexico
d. Canada

*ANSWER:* d
*POINTS:* 1
*DIFFICULTY:* Easy
*LEARNING OBJECTIVES:* INFM.MADU.15.02.02
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*KEYWORDS:* Bloom's: Knowledge

5. 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)

*ANSWER:* b
*POINTS:* 1
*DIFFICULTY:* Easy
*LEARNING OBJECTIVES:* INFM.MADU.15.02.03
*NATIONAL STANDARDS:* United States - BUSPROG.INFM.MADU.15.03
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*KEYWORDS:* Bloom's: Comprehension

6. 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 the above are equally possible

*ANSWER:* c
*POINTS:* 1
*DIFFICULTY:* Moderate
*LEARNING OBJECTIVES:* INFM.MADU.15.02.03
*NATIONAL STANDARDS:* United States - BUSPROG.INFM.MADU.15.03
*STATE STANDARDS:* United States - OH - DISC.INFM.MADU.15.02
*KEYWORDS:* Bloom's: Comprehension

7. 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.

*ANSWER:* d

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*POINTS:* 1
*DIFFICULTY:* Easy
*LEARNING OBJECTIVES:* INFM.MADU.15.02.05
*NATIONAL STANDARDS:* United States - BUSPROG.INFM.MADU.15.03
*STATE STANDARDS:* United States - OH - DISC.INFM.MADU.15.02
*KEYWORDS:* Bloom's: Knowledge

8. 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.

*ANSWER:* b
*POINTS:* 1
*DIFFICULTY:* Easy
*LEARNING OBJECTIVES:* INFM.MADU.15.02.05
*NATIONAL STANDARDS:* United States - BUSPROG.INFM.MADU.15.03
*STATE STANDARDS:* United States - OH - DISC.INFM.MADU.15.02
*KEYWORDS:* Bloom's: Knowledge

9. 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.

*ANSWER:* c
*POINTS:* 1
*DIFFICULTY:* Easy
*LEARNING OBJECTIVES:* INFM.MADU.15.02.05
*NATIONAL STANDARDS:* United States - BUSPROG.INFM.MADU.15.03
*STATE STANDARDS:* United States - OH - DISC.INFM.MADU.15.02
*KEYWORDS:* Bloom's: Knowledge

10. 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

*ANSWER:* e
*POINTS:* 1
*DIFFICULTY:* Easy
*LEARNING OBJECTIVES:* INFM.MADU.15.02.03
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11. The "J-curve" effect describes:
    a. the continuous long-term inverse relationship between a country's current account balance and the country's growth in gross domestic product.
    b. the short-run tendency for a country's 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 country's currency to initially depreciate after the country's inflation rate declines.

*ANSWER:* b
*POINTS:* 1
*DIFFICULTY:* Easy
*LEARNING OBJECTIVES:* INFM.MADU.15.02.03
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*KEYWORDS:* Bloom's: Knowledge

12. An increase in the use of quotas is expected to:
    a. reduce the country's current account balance, if other governments do not retaliate.
    b. increase the country's current account balance, if other governments do not retaliate.
    c. have no impact on the country's current account balance unless other governments retaliate.
    d. increase the volume of a country's trade with other countries.

*ANSWER:* b
*POINTS:* 1
*DIFFICULTY:* Moderate
*LEARNING OBJECTIVES:* INFM.MADU.15.02.03
*NATIONAL STANDARDS:* United States - BUSPROG.INFM.MADU.15.03
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*KEYWORDS:* Bloom's: Comprehension

13. The United States typically has a balance-of-trade surplus in its trade with ____.
    a. China
    b. Japan
    c. A and B
    d. none of the above

*ANSWER:* d
*POINTS:* 1
*DIFFICULTY:* Easy
*LEARNING OBJECTIVES:* INFM.MADU.15.02.02
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14. The North American Free Trade Agreement (NAFTA) increased restrictions on:
    a. trade between Canada and Mexico.

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b. trade between Canada and the United States
c. direct foreign investment in Mexico by U.S. firms.
d. none of the above.

*ANSWER:* d
*POINTS:* 1
*DIFFICULTY:* Easy
*LEARNING OBJECTIVES:* INFM.MADU.15.02.02
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*KEYWORDS:* Bloom's: Knowledge

15. 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.

*ANSWER:* b
*POINTS:* 1
*DIFFICULTY:* Easy
*LEARNING OBJECTIVES:* INFM.MADU.15.02.02
*NATIONAL STANDARDS:* United States - BUSPROG.INFM.MADU.15.03
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*KEYWORDS:* Bloom's: Knowledge

16. 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

*ANSWER:* b
*POINTS:* 1
*DIFFICULTY:* Moderate
*LEARNING OBJECTIVES:* INFM.MADU.15.02.02
*NATIONAL STANDARDS:* United States - BUSPROG.INFM.MADU.15.03
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17. Which of the following countries purchases the largest amount of exports by U.S. firms?
a. Mexico
b. Japan
c. Canada
d. France

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*ANSWER:* c
*POINTS:* 1
*DIFFICULTY:* Easy
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18. 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.

*ANSWER:* a
*POINTS:* 1
*DIFFICULTY:* Easy
*LEARNING OBJECTIVES:* INFM.MADU.15.02.01
*NATIONAL STANDARDS:* United States - BUSPROG.INFM.MADU.15.03
*STATE STANDARDS:* United States - OH - DISC.INFM.MADU.15.02
*KEYWORDS:* Bloom's: Knowledge

19. 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 the above

*ANSWER:* b
*POINTS:* 1
*DIFFICULTY:* Easy
*LEARNING OBJECTIVES:* INFM.MADU.15.02.01
*NATIONAL STANDARDS:* United States - BUSPROG.INFM.MADU.15.03
*STATE STANDARDS:* United States - OH - DISC.INFM.MADU.15.02
*KEYWORDS:* Bloom's: Knowledge

20. 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.

*ANSWER:* a
*POINTS:* 1
*DIFFICULTY:* Easy
*LEARNING OBJECTIVES:* INFM.MADU.15.02.01
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21. 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

*ANSWER:* a
*POINTS:* 1
*DIFFICULTY:* Easy
*LEARNING OBJECTIVES:* INFM.MADU.15.02.02
*NATIONAL STANDARDS:* United States - BUSPROG.INFM.MADU.15.03
*STATE STANDARDS:* United States - OH - DISC.INFM.MADU.15.02
*KEYWORDS:* Bloom's: Knowledge

22. 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.

*ANSWER:* b
*POINTS:* 1
*DIFFICULTY:* Easy
*LEARNING OBJECTIVES:* INFM.MADU.15.02.01
*NATIONAL STANDARDS:* United States - BUSPROG.INFM.MADU.15.03
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*KEYWORDS:* Bloom's: Knowledge

23. 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 currency's value.
    b. The government could require firms to engage in outsourcing.
    c. The government could provide subsidies to importers.
    d. All of the above are mentioned.

*ANSWER:* a
*POINTS:* 1
*DIFFICULTY:* Moderate
*LEARNING OBJECTIVES:* INFM.MADU.15.02.03
*NATIONAL STANDARDS:* United States - BUSPROG.INFM.MADU.15.03
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24. The demand for U.S. exports tends to increase when:
    a. economic growth in foreign countries decreases.

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b. the currencies of foreign countries strengthen against the dollar.
c. U.S. inflation rises.
d. none of the above.

*ANSWER:* b
*POINTS:* 1
*DIFFICULTY:* Moderate
*LEARNING OBJECTIVES:* INFM.MADU.15.02.03
*NATIONAL STANDARDS:* United States - BUSPROG.INFM.MADU.15.03
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*KEYWORDS:* Bloom's: Comprehension

25. 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.

*ANSWER:* d
*POINTS:* 1
*DIFFICULTY:* Easy
*LEARNING OBJECTIVES:* INFM.MADU.15.02.03
*NATIONAL STANDARDS:* United States - BUSPROG.INFM.MADU.15.03
*STATE STANDARDS:* United States - OH - DISC.INFM.MADU.15.02
*KEYWORDS:* Bloom's: Knowledge

26. 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.

*ANSWER:* b
*POINTS:* 1
*DIFFICULTY:* Easy
*LEARNING OBJECTIVES:* INFM.MADU.15.02.01
*NATIONAL STANDARDS:* United States - BUSPROG.INFM.MADU.15.03
*STATE STANDARDS:* United States - OH - DISC.INFM.MADU.15.02
*KEYWORDS:* Bloom's: Knowledge

27. 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.

*ANSWER:* d
*POINTS:* 1

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*KEYWORDS:* Bloom's: Comprehension

28. Intracompany trade makes up more than ____ percent of all international trade.
    a. 50
    b. 70
    c. 25
    d. 13
    e. 5

*ANSWER:* a
*POINTS:* 1
*DIFFICULTY:* Easy
*LEARNING OBJECTIVES:* INFM.MADU.15.02.03
*NATIONAL STANDARDS:* United States - BUSPROG.INFM.MADU.15.03
*STATE STANDARDS:* United States - OH - DISC.INFM.MADU.15.02
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29. 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)

*ANSWER:* b
*POINTS:* 1
*DIFFICULTY:* Easy
*LEARNING OBJECTIVES:* INFM.MADU.15.02.05
*NATIONAL STANDARDS:* United States - BUSPROG.INFM.MADU.15.03
*STATE STANDARDS:* United States - OH - DISC.INFM.MADU.15.02
*KEYWORDS:* Bloom's: Knowledge

30. 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.

*ANSWER:* e
*POINTS:* 1
*DIFFICULTY:* Easy

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*KEYWORDS:* Bloom's: Knowledge

31. 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)

*ANSWER:* e
*POINTS:* 1
*DIFFICULTY:* Easy
*LEARNING OBJECTIVES:* INFM.MADU.15.02.05
*NATIONAL STANDARDS:* United States - BUSPROG.INFM.MADU.15.03
*STATE STANDARDS:* United States - OH - DISC.INFM.MADU.15.02
*KEYWORDS:* Bloom's: Knowledge

32. Direct foreign investment into the United States represents a ____.
    a. capital inflow
    b. trade inflow
    c. capital outflow
    d. trade outflow

*ANSWER:* a
*POINTS:* 1
*DIFFICULTY:* Easy
*LEARNING OBJECTIVES:* INFM.MADU.15.02.04
*NATIONAL STANDARDS:* United States - BUSPROG.INFM.MADU.15.03
*STATE STANDARDS:* United States - OH - DISC.INFM.MADU.15.02
*KEYWORDS:* Bloom's: Knowledge

33. A balance-of-trade surplus indicates an excess of imports over exports.
    a. True
    b. False

*ANSWER:* b
*POINTS:* 1
*DIFFICULTY:* Easy
*LEARNING OBJECTIVES:* INFM.MADU.15.02.02
*NATIONAL STANDARDS:* United States - BUSPROG.INFM.MADU.15.03
*STATE STANDARDS:* United States - OH - DISC.INFM.MADU.15.02
*KEYWORDS:* Bloom's: Knowledge

34. A weakening of the U.S. dollar with respect to the British pound would likely reduce U.S. exports to Britain and

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increase U.S. imports from Britain over time.

a. True

b. False

*ANSWER:* b
*POINTS:* 1
*DIFFICULTY:* Moderate
*LEARNING OBJECTIVES:* INFM.MADU.15.02.03
*NATIONAL STANDARDS:* United States - BUSPROG.INFM.MADU.15.03
*STATE STANDARDS:* United States - OH - DISC.INFM.MADU.15.02

35. 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

*ANSWER:* b
*POINTS:* 1
*DIFFICULTY:* Easy
*LEARNING OBJECTIVES:* INFM.MADU.15.02.05
*NATIONAL STANDARDS:* United States - BUSPROG.INFM.MADU.15.03
*STATE STANDARDS:* United States - OH - DISC.INFM.MADU.15.02
*KEYWORDS:* Bloom's: Knowledge

36. 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

*ANSWER:* a
*POINTS:* 1
*DIFFICULTY:* Easy
*LEARNING OBJECTIVES:* INFM.MADU.15.02.05
*NATIONAL STANDARDS:* United States - BUSPROG.INFM.MADU.15.03
*STATE STANDARDS:* United States - OH - DISC.INFM.MADU.15.02
*KEYWORDS:* Bloom's: Knowledge

37. 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

*ANSWER:* a
*POINTS:* 1
*DIFFICULTY:* Easy
*LEARNING OBJECTIVES:* INFM.MADU.15.02.01
*NATIONAL STANDARDS:* United States - BUSPROG.INFM.MADU.15.03
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38. 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

*ANSWER:* a
*POINTS:* 1
*DIFFICULTY:* Easy
*LEARNING OBJECTIVES:* INFM.MADU.15.02.01
*NATIONAL STANDARDS:* United States - BUSPROG.INFM.MADU.15.03
*STATE STANDARDS:* United States - OH - DISC.INFM.MADU.15.02
*KEYWORDS:* Bloom's: Knowledge

39. 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

*ANSWER:* a
*POINTS:* 1
*DIFFICULTY:* Easy
*LEARNING OBJECTIVES:* INFM.MADU.15.02.02
*NATIONAL STANDARDS:* United States - BUSPROG.INFM.MADU.15.03
*STATE STANDARDS:* United States - OH - DISC.INFM.MADU.15.02
*KEYWORDS:* Bloom's: Knowledge

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

a. True
b. False

*ANSWER:* b
*POINTS:* 1
*DIFFICULTY:* Easy
*LEARNING OBJECTIVES:* INFM.MADU.15.02.01
*NATIONAL STANDARDS:* United States - BUSPROG.INFM.MADU.15.03
*STATE STANDARDS:* United States - OH - DISC.INFM.MADU.15.02
*KEYWORDS:* Bloom's: Knowledge

41. Exporting of products by one country to other countries at prices below cost is called elasticity.

a. True
b. False

*ANSWER:* b
*POINTS:* 1
*DIFFICULTY:* Easy
*LEARNING OBJECTIVES:* INFM.MADU.15.02.03
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*KEYWORDS:* Bloom's: Knowledge

42. Direct foreign investment by U.S.-based MNCs occurs primarily in the Bahamas and Brazil.
a. True
b. False
*ANSWER:* b
*POINTS:* 1
*DIFFICULTY:* Easy
*LEARNING OBJECTIVES:* INFM.MADU.15.02.04
*NATIONAL STANDARDS:* United States - BUSPROG.INFM.MADU.15.03
*STATE STANDARDS:* United States - OH - DISC.INFM.MADU.15.02
*KEYWORDS:* Bloom's: Knowledge

43. 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
*ANSWER:* a
*POINTS:* 1
*DIFFICULTY:* Moderate
*LEARNING OBJECTIVES:* INFM.MADU.15.02.03
*NATIONAL STANDARDS:* United States - BUSPROG.INFM.MADU.15.03
*STATE STANDARDS:* United States - OH - DISC.INFM.MADU.15.02
*KEYWORDS:* Bloom's: Comprehension

44. 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
*ANSWER:* a
*POINTS:* 1
*DIFFICULTY:* Easy
*LEARNING OBJECTIVES:* INFM.MADU.15.02.01
*NATIONAL STANDARDS:* United States - BUSPROG.INFM.MADU.15.03
*STATE STANDARDS:* United States - OH - DISC.INFM.MADU.15.02
*KEYWORDS:* Bloom's: Knowledge

45. Intracompany trade is the exporting of products by one country to other countries below cost.
a. True
b. False
*ANSWER:* b
*POINTS:* 1
*DIFFICULTY:* Easy

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*STATE STANDARDS:* United States - OH - DISC.INFM.MADU.15.02
*KEYWORDS:* Bloom's: Knowledge

46. A tariff is a maximum limit on imports.
    a. True
    b. False
*ANSWER:* b
*POINTS:* 1
*DIFFICULTY:* Easy
*LEARNING OBJECTIVES:* INFM.MADU.15.02.03
*NATIONAL STANDARDS:* United States - BUSPROG.INFM.MADU.15.03
*STATE STANDARDS:* United States - OH - DISC.INFM.MADU.15.02
*KEYWORDS:* Bloom's: Knowledge

47. 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
*ANSWER:* a
*POINTS:* 1
*DIFFICULTY:* Easy
*LEARNING OBJECTIVES:* INFM.MADU.15.02.04
*NATIONAL STANDARDS:* United States - BUSPROG.INFM.MADU.15.03
*STATE STANDARDS:* United States - OH - DISC.INFM.MADU.15.02
*KEYWORDS:* Bloom's: Comprehension

48. 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
*ANSWER:* a
*POINTS:* 1
*DIFFICULTY:* Easy
*LEARNING OBJECTIVES:* INFM.MADU.15.02.01
*NATIONAL STANDARDS:* United States - BUSPROG.INFM.MADU.15.03
*STATE STANDARDS:* United States - OH - DISC.INFM.MADU.15.02
*KEYWORDS:* Bloom's: Knowledge

49. 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
*ANSWER:* b

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*POINTS:* 1
*DIFFICULTY:* Easy
*LEARNING OBJECTIVES:* INFM.MADU.15.02.01
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*STATE STANDARDS:* United States - OH - DISC.INFM.MADU.15.02
*KEYWORDS:* Bloom's: Knowledge

50. Regarding the U.S. balance of payments, capital account items are relatively minor compared to the financial account items.

a. True
b. False

*ANSWER:* a
*POINTS:* 1
*DIFFICULTY:* Easy
*LEARNING OBJECTIVES:* INFM.MADU.15.02.01
*NATIONAL STANDARDS:* United States - BUSPROG.INFM.MADU.15.03
*STATE STANDARDS:* United States - OH - DISC.INFM.MADU.15.02
*KEYWORDS:* Bloom's: Knowledge

51. 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

*ANSWER:* d
*POINTS:* 1
*DIFFICULTY:* Easy
*LEARNING OBJECTIVES:* INFM.MADU.15.02.02
*NATIONAL STANDARDS:* United States - BUSPROG.INFM.MADU.15.03
*STATE STANDARDS:* United States - OH - DISC.INFM.MADU.15.02
*KEYWORDS:* Bloom's: Knowledge

52. 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

*ANSWER:* b
*POINTS:* 1
*DIFFICULTY:* Easy
*LEARNING OBJECTIVES:* INFM.MADU.15.02.02
*NATIONAL STANDARDS:* United States - BUSPROG.INFM.MADU.15.03
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*KEYWORDS:* Bloom's: Knowledge

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53. U.S. government officials would likely prefer that China devalue the yuan against the dollar.

a. True

b. False

*ANSWER:* b
*POINTS:* 1
*DIFFICULTY:* Easy
*LEARNING OBJECTIVES:* INFM.MADU.15.02.02
*NATIONAL STANDARDS:* United States - BUSPROG.INFM.MADU.15.03
*STATE STANDARDS:* United States - OH - DISC.INFM.MADU.15.02
*KEYWORDS:* Bloom's: Knowledge

54. 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

*ANSWER:* a
*POINTS:* 1
*DIFFICULTY:* Moderate
*LEARNING OBJECTIVES:* INFM.MADU.15.02.02
*NATIONAL STANDARDS:* United States - BUSPROG.INFM.MADU.15.03
*STATE STANDARDS:* United States - OH - DISC.INFM.MADU.15.02
*KEYWORDS:* Bloom's: Comprehension

55. 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

*ANSWER:* b
*POINTS:* 1
*DIFFICULTY:* Moderate
*LEARNING OBJECTIVES:* INFM.MADU.15.02.03
*NATIONAL STANDARDS:* United States - BUSPROG.INFM.MADU.15.03
*STATE STANDARDS:* United States - OH - DISC.INFM.MADU.15.02
*KEYWORDS:* Bloom's: Comprehension

56. Japan's annual interest rate has been relatively ____ compared to other countries for several years, because the supply of funds in its credit market has been very ____.

a. low; small

b. high; small

c. low; large

d. high; large

*ANSWER:* c

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*DIFFICULTY:* Easy
*LEARNING OBJECTIVES:* INFM.MADU.15.02.04
*NATIONAL STANDARDS:* United States - BUSPROG.INFM.MADU.15.03
*STATE STANDARDS:* United States - OH - DISC.INFM.MADU.15.02
*KEYWORDS:* Bloom's: Knowledge

57. 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

*ANSWER:* d
*POINTS:* 1
*DIFFICULTY:* Easy
*LEARNING OBJECTIVES:* INFM.MADU.15.02.04
*NATIONAL STANDARDS:* United States - BUSPROG.INFM.MADU.15.03
*STATE STANDARDS:* United States - OH - DISC.INFM.MADU.15.02
*KEYWORDS:* Bloom's: Knowledge

58. The primary component of the capital account is the balance of trade.

a. True
b. False

*ANSWER:* b
*POINTS:* 1
*DIFFICULTY:* Easy
*LEARNING OBJECTIVES:* INFM.MADU.15.02.01
*NATIONAL STANDARDS:* United States - BUSPROG.INFM.MADU.15.03
*STATE STANDARDS:* United States - OH - DISC.INFM.MADU.15.02
*KEYWORDS:* Bloom's: Knowledge

59. A balance-of-trade surplus indicates an excess of merchandise imports over merchandise exports.

a. True
b. False

*ANSWER:* b
*POINTS:* 1
*DIFFICULTY:* Easy
*LEARNING OBJECTIVES:* INFM.MADU.15.02.01
*NATIONAL STANDARDS:* United States - BUSPROG.INFM.MADU.15.03
*STATE STANDARDS:* United States - OH - DISC.INFM.MADU.15.02
*KEYWORDS:* Bloom's: Knowledge

60. 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.

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a. True
b. False

*ANSWER:* b
*POINTS:* 1
*DIFFICULTY:* Moderate
*LEARNING OBJECTIVES:* INFM.MADU.15.02.04
*NATIONAL STANDARDS:* United States - BUSPROG.INFM.MADU.15.03
*STATE STANDARDS:* United States - OH - DISC.INFM.MADU.15.02
*KEYWORDS:* Bloom's: Comprehension

61. A balance-of-trade deficit indicates an excess of imports over exports.
a. True
b. False

*ANSWER:* a
*POINTS:* 1
*DIFFICULTY:* Easy
*LEARNING OBJECTIVES:* INFM.MADU.15.02.01
*NATIONAL STANDARDS:* United States - BUSPROG.INFM.MADU.15.03
*STATE STANDARDS:* United States - OH - DISC.INFM.MADU.15.02
*KEYWORDS:* Bloom's: Comprehension

62. The capital account reflects changes in country ownership of direct foreign investment.
a. True
b. False

*ANSWER:* b
*POINTS:* 1
*DIFFICULTY:* Easy
*LEARNING OBJECTIVES:* INFM.MADU.15.02.01
*NATIONAL STANDARDS:* United States - BUSPROG.INFM.MADU.15.03
*STATE STANDARDS:* United States - OH - DISC.INFM.MADU.15.02
*KEYWORDS:* Bloom's: Knowledge

63. Outsourcing allows some MNCs to reduce costs but shifts jobs to other countries.
a. True
b. False

*ANSWER:* a
*POINTS:* 1
*DIFFICULTY:* Easy
*LEARNING OBJECTIVES:* INFM.MADU.15.02.02
*NATIONAL STANDARDS:* United States - BUSPROG.INFM.MADU.15.03
*STATE STANDARDS:* United States - OH - DISC.INFM.MADU.15.02
*KEYWORDS:* Bloom's: Knowledge

64. 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.

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a. True
b. False

*ANSWER:* b
*POINTS:* 1
*DIFFICULTY:* Easy
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*NATIONAL STANDARDS:* United States - BUSPROG.INFM.MADU.15.03
*STATE STANDARDS:* United States - OH - DISC.INFM.MADU.15.02
*KEYWORDS:* Bloom's: Comprehension

65. The World Trade Organization was established to provide a forum for multilateral trade negotiations and to settle trade disputes.

a. True
b. False

*ANSWER:* a
*POINTS:* 1
*DIFFICULTY:* Easy
*LEARNING OBJECTIVES:* INFM.MADU.15.02.05
*NATIONAL STANDARDS:* United States - BUSPROG.INFM.MADU.15.03
*STATE STANDARDS:* United States - OH - DISC.INFM.MADU.15.02
*KEYWORDS:* Bloom's: Knowledge

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

*ANSWER:* a
*POINTS:* 1
*DIFFICULTY:* Easy
*LEARNING OBJECTIVES:* INFM.MADU.15.02.01
*NATIONAL STANDARDS:* United States - BUSPROG.INFM.MADU.15.03
*STATE STANDARDS:* United States - OH - DISC.INFM.MADU.15.03
*KEYWORDS:* Bloom's: Knowledge

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 country's rate of inflation
b. a decrease in the country's national income level
c. an increase in government restrictions in the form of tariffs or quotas
d. an appreciation of the country's currency
e. All of the above will result in an increased current account balance.

*ANSWER:* d

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*POINTS:* 1
*DIFFICULTY:* Moderate
*LEARNING OBJECTIVES:* INFM.MADU.15.02.03
*NATIONAL STANDARDS:* United States - BUSPROG.INFM.MADU.15.03
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*KEYWORDS:* Bloom's: Comprehension

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

*ANSWER:* a
*POINTS:* 1
*DIFFICULTY:* Moderate
*LEARNING OBJECTIVES:* INFM.MADU.15.02.03
*NATIONAL STANDARDS:* United States - BUSPROG.INFM.MADU.15.03
*STATE STANDARDS:* United States - OH - DISC.INFM.MADU.15.02
*KEYWORDS:* Bloom's: Knowledge

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 the above

*ANSWER:* a
*POINTS:* 1
*DIFFICULTY:* Easy
*LEARNING OBJECTIVES:* INFM.MADU.15.02.05
*NATIONAL STANDARDS:* United States - BUSPROG.INFM.MADU.15.03
*STATE STANDARDS:* United States - OH - DISC.INFM.MADU.15.02
*KEYWORDS:* Bloom's: Knowledge

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.

*ANSWER:* d
*POINTS:* 1
*DIFFICULTY:* Moderate

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*KEYWORDS:* Bloom's: Analysis

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 the above are true.

*ANSWER:* a
*POINTS:* 1
*DIFFICULTY:* Easy
*LEARNING OBJECTIVES:* INFM.MADU.15.02.03
*NATIONAL STANDARDS:* United States - BUSPROG.INFM.MADU.15.03
*STATE STANDARDS:* United States - OH - DISC.INFM.MADU.15.02
*KEYWORDS:* Bloom's: Comprehension

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

*ANSWER:* a
*POINTS:* 1
*DIFFICULTY:* Easy
*LEARNING OBJECTIVES:* INFM.MADU.15.02.01
*NATIONAL STANDARDS:* United States - BUSPROG.INFM.MADU.15.03
*STATE STANDARDS:* United States - OH - DISC.INFM.MADU.15.02
*KEYWORDS:* Bloom's: Knowledge

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 country's 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

*ANSWER:* c
*POINTS:* 1
*DIFFICULTY:* Easy

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*KEYWORDS:* Bloom's: Knowledge

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

*ANSWER:* a
*POINTS:* 1
*DIFFICULTY:* Easy
*LEARNING OBJECTIVES:* INFM.MADU.15.02.04
*NATIONAL STANDARDS:* United States - BUSPROG.INFM.MADU.15.03
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*KEYWORDS:* Bloom's: Comprehension

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