

Finance 481 Midterm Study Guide

Material includes: Homework 1-3 and in class exercises

Homework #1:

Which of the following is NOT a reason governments interfere with comparative advantage?

- A) Governments attempt to achieve full employment.
- B) Governments promote economic development.
- C) National self-sufficiency in defense-related industries.
- D) All are reasons governments interfere with comparative advantage.

Which of the following factors of production DO NOT flow freely between countries?

- A) Raw materials
- B) Financial capital
- C) (Non-military) Technology
- D) All of the above factors of production flow freely among countries.

Which of the following would NOT be a way to implement comparative advantage?

- A) IBM exports computers to Egypt.
- B) Computer hardware is designed in the United States but manufactured and assembled in Korea.
- C) Water of the greatest purity is obtained from wells in Oregon, bottled, and exported worldwide.
- D) All of the above are examples of ways to implement comparative advantage.

Of the following, which would NOT be considered a way that government interferes with comparative advantage?

- A) Tariffs.
- B) Managerial skills.
- C) Quotas.
- D) Other non-tariff restrictions.

Which of the following is NOT a major subaccount of the Balance of Payments?

- A) The financial account.
- B) The accounts payable.

- C) The capital account.
- D) The current account.

A country experiencing a serious BOP _____ is more likely to _____ exports than otherwise.

- A) surplus; contract
- B) surplus; expand
- C) deficit; expand
- D) none of the above

Which of the following would NOT be considered a typical BOP transaction?

- A) Toyota U.S.A. is a U.S. distributor of automobiles manufactured in Japan by its parent company.
- B) The U.S. subsidiary of European financial giant, Credit Suisse, pays dividends to its parent in Zurich.
- C) A U.S. tourist purchases gifts at a museum in London.
- D) All are example of BOP transactions.

Which of the following is NOT a part of the *Current Account* of BOP?

- A) Net export/import of goods.
- B) Balance of Trade.
- C) Net portfolio investment.
- D) Net export/import of services.

Which of the following is NOT part of the *Financial Account* of the BOP?

- A) Net foreign direct investment.
- B) Net import/export of services.
- C) Net portfolio investment.
- D) Other Financial items.

Which of the following is NOT part of the *balance of payments* account?

- A) The current account.
- B) The financial/capital account.
- C) The official reserves account.
- D) All of the above are BOP accounts.

The _____ includes all international economic transactions with income or payment flows occurring within the year.

- A) capital account
- B) current account
- C) financial account
- D) IMF account

If your company were to import and export textiles, the transactions would be recorded in the current account subcategory of _____.

- A) services trade
- B) income trade
- C) goods trade
- D) current transfers

Anaconda Copper Inc. created a subsidiary in Chile last year to mine copper ore. The proportion of net income paid back to the parent company as a dividend would be recorded in the current account subcategory of _____.

- A) services trade
- B) income trade
- C) goods trade
- D) current transfers

The subcategory that typically dominates the current account is _____.

- A) goods (merchandise) trade
- B) services trade
- C) income trade
- D) transfer accounts

Over the last two decades the surplus on U.S. services trade has typically been _____ the deficit on U.S. goods trade.

- A) greater than
- B) equal to
- C) less than
- D) The relationship is constantly shifting from greater than to less than.

The _____ of the balance of payments measures all international economic transactions of financial assets.