

Short Answer Questions

Chapter 31.

1. Explain why economists often look at macroeconomic issues under the assumption of a closed economy.
2. Explain whether the following are examples of imports or exports for a particular economy. In each case answer from the perspective of the domestic economy.
 - a. The purchase of an insurance policy on a ship by a foreign owner from a domestic insurance broker.
 - b. The sale of component parts by a foreign manufacturer to a business in the domestic economy.
 - c. A tourist goes abroad and buys some souvenirs for relatives in the domestic economy.
 - d. A business delegation visiting a business in the domestic economy from abroad and staying at a luxury hotel near the business.
 - e. The profits from an operation abroad being banked in the business' account in the domestic economy.
3. Using examples, explain the meaning of the term 'net capital outflow'
4. Explain three factors affecting net capital outflow.
5. Why does net capital outflow always equal net exports?
6. A country is running a persistent, large trade deficit. What conclusions can you arrive at about its net capital outflow?
7. Explain the difference between the real and nominal exchange rate.
8. Explain the effect of a) an appreciation and b) a depreciation of the exchange rate on a company which engages in international trade, buying raw materials from abroad and selling finished products overseas. What do the effects on the business depend upon?
9. Explain the principles behind the purchasing power parity theory of exchange rates.
10. Analyse the limitations in using purchasing power parity in examining how exchange rates are determined.