1. Net capital outflow equals the difference between a country's
   (a) income and expenditure.
   (b) investment and saving.
   (c) buying of foreign goods and services and sales of goods and services abroad.
   (d) purchases of foreign assets and sales of domestic assets abroad.

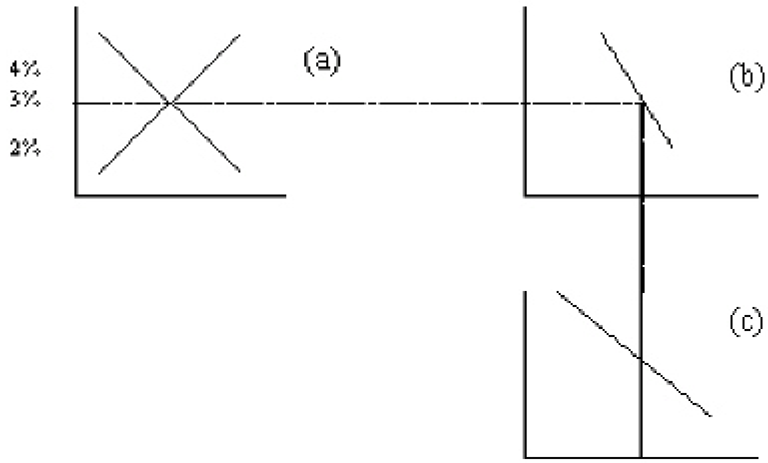
2. If U.S. residents purchase \$500 billion of foreign assets and foreigners purchase \$1300 billion of U.S. assets,
   (a) U.S. net capital outflow is \$800 billion; capital is flowing into the U.S.
   (b) U.S. net capital outflow is \$800 billion; capital is flowing out of the U.S.
   (c) U.S. net capital outflow is -\$800 billion; capital is flowing into the U.S.
   (d) U.S. net capital outflow is -\$800 billion; capital is flowing out of the U.S.

3. If a country has negative net capital outflows, then its net exports are
   (a) positive and its saving is larger than its domestic investment.
   (b) positive and its saving is smaller than its domestic investment.
   (c) negative and its saving is larger than its domestic investment.
   (d) negative and its saving is smaller than its domestic investment.

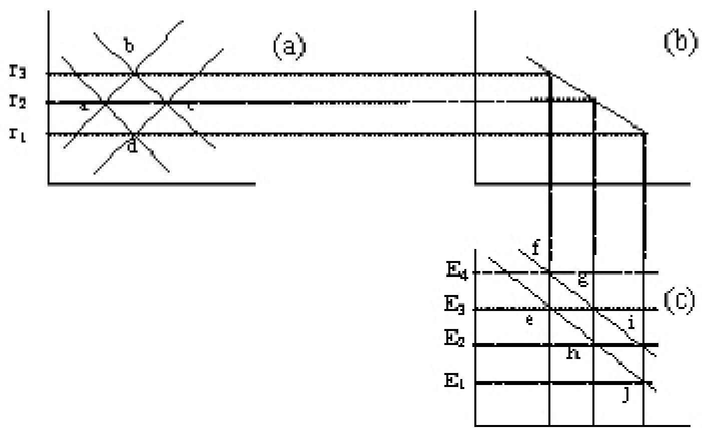
4. Bolivia buys railroad engines from a U.S. firm and pays for them with Bolivianos (Bolivian currency). By itself, this exchange
   (a) increases both U.S. net exports and U.S. net capital outflow.
   (b) decreases both U.S. net exports and U.S. net capital outflow.
   (c) increases U.S. net exports and does not affect U.S. net capital outflow.
   (d) None of the above is correct.

5. In the United States, a three-pound can of coffee costs about \$5. If the exchange rate is about 0.8 euros per dollar and a three-pound can of coffee in Belgium costs about 7 euros. What is the real exchange rate?
   (a) 7/4 cans of Belgian coffee per can of U.S. coffee
   (b) 5.6/5 cans of Belgian coffee per can of U.S. coffee
   (c) 5/5.6 cans of Belgian coffee per can of U.S. coffee
   (d) 4/7 cans of Belgian coffee per can of U.S. coffee

6. If a U.S. dollar purchases 4 Argentinean pesos, and a gallon of milk costs \$2 in the U.S. and 6 pesos in Argentina what is the real exchange rate?
   (a) 3
   (b) 4/3
   (c) 3/4
   (d) 1/3



7. Refer to the Figure above. National saving is represented by the
   (a) demand curve in panel a.
   (b) demand curve in panel c.
   (c) supply curve in panel a.
   (d) supply curve in panel c.



8. Refer to the Figure above. Starting from r2 and E3, an increase in the budget surplus can be illustrated as a move to
   (a) r3 and E4.
   (b) r3 and E2.
   (c) r1 and E4.
   (d) r1 and E2.