

1. Which one of the following trade patterns is wrong?

- a) Most of US' current non-oil trade deficit is with China.
- b) Most of China's trade surplus is with US.
- c) Japan has a higher percentage of trades in GDP than in Canada.
- d) Developing countries on average have higher percentage of trades in GDP than developed countries.

Solutions: c) Among the developed countries, Japan has the lowest percentage of trades in GDP, much lower than Canada. See books and class PPT.

2. An increase in government spending would likely lead to:

- a) a higher budget deficit but no change in trade deficit.
- b) a higher budget deficit and a higher trade deficit.
- c) a lower international interest rate.
- d) a higher budget deficit but a lower trade deficit.

Solutions: b) twin deficits

3. Which one of the following is correct:

- a) Country A will not trade with country B because it is cheaper to produce everything in country A.
- b) Country A will not trade with country B because country B's inflation rate is too high.
- c) Texas and California will not trade because they both use US dollars as their currency.
- d) Country A and country B will trade with other if they are allowed to trade.

Solutions: d)