

Do not write your name on the assignment. Write your name only on the back of this sheet of paper and staple your answers on the front of this sheet of paper. Failure to follow these directions will cost you 1 point on the assignment.

If the due date is too early in the week, we can change it, but remember that the test is later on in the week.

We will be meeting during my office hours on Thursday. Come by some time between 4:00 and 5:00 to discuss this homework assignment and the material you are reading.

The review sheet is attached below.

This assignment covers pages 442 - through section 14.3. Note that if we go as described, we will never have a homework assignment on the last chapter. So, I will try to slowly get "caught up."

- 1) (10 points) Why does a surplus in the current account normally mean a deficit in the capital account?
- 2) (15 points) Illustrate each of the following on the supply and demand for ¥. Explain why the curve(s) moved as drawn.
 - A) The American GDP rises.
 - B) The Japanese interest rates fall.
 - C) Prices in the USA rise.
- 3) (10 points) Suppose that the exchange rate between the Egyptian pound (LE) and the Euro (€) is set at $4\text{LE}/\text{€}$ and then the government changes it to $5\text{LE}/\text{€}$. Did the Egyptian pound appreciate, depreciate, revalue, or devalue? Why did you choose that?
- 4) (35 points) Suppose that exports of goods were \$100, imports of goods were \$90, service exports were \$50, service imports were \$70, income from abroad is \$30, income payments to foreigners were \$40, and net unilateral transfers were \$10. What are the balance of goods, balance of goods and services, and the current account balance? Explain how you calculated them and state how you know if it is a surplus or deficit.

This review sheet is intended to cover everything that could be on the exam; however, it is possible that I will have accidentally left something off. You are still responsible for everything in the chapters covered except anything that I explicitly say you are not responsible for. Therefore, if I left something off of this sheet, it can still be on the exam. There will be no multiple-choice questions. Most of the questions will be like the ones in the homework assignments, and possibly a few definition questions, but I am more likely to ask questions that make you use the definitions rather than recite them.

There is no review session for this test. I will be available in my office Thursday, 2/20, from about 8:30 (possibly earlier if my review session for 162 runs short) until 10:00 if you have questions. My recommendation is that you take the exam Friday 1:00 with my 162 class in Richardson 201. If that is not good, then talk with me about it.

Chapter 1: What are imports, exports, and trade?

Chapter 2: What are comparative advantage and absolute advantage? How can we tell if we have them? Which determines trade? What is the law of comparative advantage? How does it work with money prices rather than measuring in terms of other goods? What are the opportunity costs? Be able to draw diagrams like the one in figure 2.2 where they show the two countries' PPF's and how trade helps both. Be able to do that from a table like the ones in assignment #1. Ignore the supply and demand curves that look strange in figure 2.3.

Chapter 12: What are portfolio investment and direct investment (FDI)? Why do they occur? How do they affect both the host and investing countries? Understand the figure 12.1 on international capital flows and how they help both countries. How do MNCs affect FDI? What problems do they cause? A similar argument and diagram apply to labor migration.

Chapter 13: What are debits and credits? Be able to put various transactions like those from the book in the double-entry bookkeeping and understand why they are in those entries. I will not do anything more complicated than what is in the book because this is not an accounting class, nor is an accounting class a pre-requisite. Be able to calculate the "balance of goods trade" and other items in the bottom of table 13.1 from a table like 13.1. What is meant by surplus and deficit? Why does a surplus in either the capital account or the current account mean that the other is probably in deficit and vice versa?

Chapter 14: What is meant by the foreign exchange market? What is a vehicle currency and why is that important? Know what is meant by appreciate, depreciate, revalue, and devalue. How can you tell which is occurring? What moves the supply and demand for a currency? Make sure you have the price of the currency written correctly. If it is S/D for £, then make sure the price is \$/£ or some other currency divided by pounds. Why is that the price? What are two-point and three-point arbitrage?