

Write your name on the cover of the test booklet and nowhere else. Enclose this sheet with the booklet. Failure to follow these directions will cost you 1 point. The test has 100 points and is scheduled to take 50 minutes. Therefore, expect to spend 1 minute for every 2 points. For example, a 16-point question should take 8 minutes. I will give a few extra minutes, but probably no later than about 5 or 10 minutes after the hour.

1) (12 points) Do EITHER part A OR part B.

A) Suppose that you heard the US\$ was appreciating. Who in the USA would appreciate that and who would dislike it? Why would those people have those views?

B) Illustrate on the supply and demand diagram for the Sri Lankan Rupee (RS) vs. the US\$, an increased desire of Americans to drink tea. (Tea is a major export of Sri Lanka.) Explain the movement(s) of the curve(s).

2) (16 points) Do EITHER part A OR part B.

A) Define vehicle currency. Do you think that the Euro will become a vehicle currency? Why or why not?

B) It is theoretically possible, although extremely unlikely, that a country runs both a capital account surplus and a current account surplus. Explain how this could occur. Partial credit will be given for explaining why it rarely occurs.

3) (20 points) Enter TWO of the following in the double-entry bookkeeping for the USA. Then calculate the combined balance of trade in goods, current account, and the capital account. Briefly explain how you got the entries and how you calculated the balances.

A) I take a tour of Venice that costs \$10,000.

B) I buy shares in Mobaco Cottons (an Egyptian clothing manufacturer) worth \$20,000.

C) I donate clothing worth \$1,000 to a Romanian orphanage.

4) (24 points) Do EITHER part A OR part B.

A) Define FDI and portfolio investment. Which do you think helps the host country more, receiving FDI or receiving portfolio investment? Why do you think that?

B) What do firms look at when trying to decide whether they should do a joint venture in a country as opposed to doing a solo project in a country? How does that help them make their decision?

5) (28 points) Suppose that the following table shows the number of items that can be made per hour in each country.

Assume each country has 10 hours of labor. Use that information to determine who has absolute advantage in each good and who has comparative advantage in each good.

Draw the two countries' PPFs and show a trade that will enable both countries to be better off. Explain how you got your answer to each part and show all calculations.

Items per hour	USA	Mexico
Coats	20	60