

Place your name on the back of this sheet of paper and nowhere else. Staple your answers on the front of this sheet of paper. Failure to follow these directions will cost you 1 point. Your assignment will be typed, except graphs can be drawn by hand and mathematical equations can be done by hand. Failure to type it will cost you 10 points. If you use double-sided printing or print on the back of scrap paper, I will give you one additional point.

- 1) (10 points) Explain why $KFA = -CA$.
- 2) (25 points) Draw a S/I diagram where the USA is a small open economy running a CA deficit. Explain how you know that is a CA deficit. Draw an increase in the MPK^f on the diagram. Explain why the curve(s) moved as drawn. What happens to the CA deficit, KFA, and the interest rate.
- 3) (25 points) Draw a S/I diagram where the USA is a small open economy running a KFA deficit. Explain how you know that is a KFA deficit. Draw an decrease in the GDP on the diagram. Explain why the curve(s) moved as drawn. What happens to the CA, KFA deficit, and the interest rate.
- 4) (25 points) Draw a S/I diagram where the USA is a small open economy running a KFA surplus. Explain how you know that is a KFA surplus. Draw an decrease in the corporate tax rate on the diagram. Explain why the curve(s) moved as drawn. What happens to the CA, KFA surplus, and the interest rate.
- 5) (15 points) Suppose we imported \$100 worth of goods, \$50 worth of services, and \$30 worth of bonds. We exported \$75 worth of goods, \$35 worth of goods, and \$40 worth of bonds. We earned \$10 from abroad and paid \$8 in income abroad. We made \$12 worth of unilateral transfers. Assume all transactions are balanced by money in bank accounts in the appropriate countries. Use this information to calculate NX, NFP, CA, and KFA. Show all work and briefly explain what you are doing. If you need some data you do not have, assume it is zero.