

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 $KFA = -CA$.

2) (10 points) On Page 174, Summary 7 says that “A capital and financial account deficit of \$10 billion” is the same as saying “Net foreign lending of \$10 billion.” Explain their logic.

3) (15 points each) Tell me what happens to the CA and the KFA? Explain your logic.

A) We sell an American-made car to a German.

B) You import 500 shares of Toyota.

C) An American company trades \$5000 of pens to a British company for \$5000 worth of their stock.

4) (15 points) What is meant by “an increase in US-owned assets abroad”? Give an example and explain how that affects the KFA.

5) (20 points) Draw a S/I diagram with a world interest rate above the equilibrium. Does this country have a capital-financial account deficit or surplus and does it have current account deficit or surplus? Explain your logic.