Wilf Csaplar Jr.   Economics 360   Homework #9   **Due MONDAY 4/21**

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) (20 points) Given an example of "an increase in foreign owned assets in the USA." Is that a debit or a credit on the financial account? Explain your logic.

2) (30 points) Suppose we exported $550 worth of goods, $450 worth of services, and $200 worth of bonds. We imported $600 worth of goods, $300 worth of services, and $250 worth of bonds. American owned bank accounts in Germany went up $40 and German bank accounts in the USA went down $10. We bought $2 worth of buildings in Brazil. We earned $50 from abroad and paid $20 to foreigners in the form of dividends. If any number is missing, assume it is zero. Assume the rest to balance this is statistical discrepancy. How much is the statistical discrepancy? Find the following balances: balance of trade, current account, and capital-financial account. (Note, you will probably want to calculate the three accounts and use two of them to find the statistical discrepancy.)

3) (15 points) According to world statistics, if we add up the current accounts of all countries, we get a current account deficit. Why shouldn't this occur in theory? The size of the deficit increases during times when world interest rates are high. Explain why that would occur.

4) (20 points) What is the advantage of a customs union over a free trade area? Why do you think there are a lot of free trade areas but few customs unions?

5) (15 points) Jagdish Bagwati feels that in general, the increasing number of free trade areas will not move us towards free trade. Why does he feel this?