Wilf Csaplar Jr.   Economics 302   Homework #4   **Due Tuesday 3/7**

Place your name on the back of this sheet of paper and nowhere else. Staple your answers face up on the front of this sheet of paper. Failure to follow these directions will cost you 10 points. 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) (5 points) Explain KFA = -CA.

2) (15 points each) For each of the following, find the double entry bookkeeping entries. Briefly state how you found them. What happens to CA and KFA? Briefly state how you reached those conclusions.
A) You buy a pair of shoes made in Brazil.
B) You sell stock in British Petroleum to a Brit.

3) (10 points each) For each of the following, determine if the is a positive or a negative in the KFA. Explain your logic giving an example.
A) A decrease in USA owned assets abroad.
B) An increase in foreign owned assets in the USA.

4) (20 points) Draw the S/I diagram for a small country which has a KFA deficit. How do you know it is a KFA deficit? Illustrate the effects of an increase in the future marginal productivity of labor. Explain why the curve(s) moved as drawn. What happens to the level of investment, the level of saving, the KFA deficit, and the interest rate?

5) (20 points) Draw the S/I diagram for a small country which has a CA deficit. How do you know it is a CA deficit? Illustrate the effects of an increase in the government spending without Ricardian Equivalence. Explain why the curve(s) moved as drawn. What happens to the level of investment, the level of saving, the CA deficit, and the interest rate?

6) (5 points) Why do we include unilateral transfers in the CA calculation?