Wilf Csaplar Jr.   Economics 302   Homework #5   **Due Tuesday 3/20**

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) (10 points) Explain KFA = I - S

2) (30 points) Draw the S/I diagram for a large country and the rest of the world. Draw it such that the large country has a KFA surplus. Explain how you know your diagram shows the KFA surplus. Illustrate the effects of a decrease in the foreign corporate tax rate. Explain why the curve(s) moved as drawn. What happens to the world interest rate, the level of saving in both countries, the level of investment in both countries, and the size of the KFA surplus?

3) (30 points) Draw the S/I diagram for a large country and the rest of the world. Draw it such that the large country has a KFA deficit. Explain how you know your diagram shows the KFA deficit. Illustrate the effects of a decrease in the foreign price of capital. Explain why the curve(s) moved as drawn. What happens to the world interest rate, the level of saving in both countries, the level of investment in both countries, and the size of the KFA deficit?

4) (30 points) Draw the S/I diagram for a large country and the rest of the world. Draw it such that the large country has a CA surplus. Explain how you know your diagram shows the CA surplus. Illustrate the effects of a decrease in the foreign stock market. Explain why the curve(s) moved as drawn. What happens to the world interest rate, the level of saving in both countries, the level of investment in both countries, and the size of the CA surplus?