

This is due Wednesday because there are no classes Friday.

Do not write your name on the assignment. Write your name only on the back of this sheet of paper and staple your answers on the front of this sheet of paper. Failure to follow these directions will cost you 1 point on the assignment.

- 1) (10 points) The term, X-M in the GDP calculation, is that the current account or the capital account? Explain your logic.
- 2) (15 points) What is the capital account? Why should it and the current account add to zero?
- 3) (30 points each) Illustrate the following events on separate supply and demand for ¥. Explain why the curve(s) moved as drawn.
 - A) The interest rates in the USA increases.
 - B) The GDP of Japan increases.
- 4) (15 points) What is *Purchasing Power Parity*? Why should it hold? How does it relate to the supply and demand for a currency?