

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) (15 points) Use the debits and credits to explain the headline of the article below. Make sure you state how you found the debit, how you found the credit, and how it causes the current account balance described in the headline.

<https://www.reuters.com/markets/europe/euro-zone-current-account-deficit-widens-again-large-energy-bill-2022-07-20/>

2) (5 points) Explain $KFA = -CA$

3) (10 points each) For each of the following events, tell me what the debit and the credit are. Briefly state how you found them. What happens to the current account, short-term KFA, and long-term KFA?

A) You sell \$1000 worth of shares of British Petroleum (BP) to a Brit.

B) An American company hires an Israeli cyber-security company to keep their web page safe.

4) (20 points) Draw the S/I diagram for a small country with a capital-financial account surplus. Explain how you know there is a capital-financial account surplus. Illustrate the effects of an improvement in technology. Explain why the curve(s) moved as drawn. What happens to the level of saving, level of investment, interest rate, and the capital-financial account?

5) (20 points) Draw the S/I diagram for a small country with a current account deficit. Explain how you know there is a current account deficit. Illustrate the effects of a decrease in government spending without Ricardian Equivalence. Explain why the curve(s) moved as drawn. What happens to the level of saving, level of investment, interest rate, and the current account?

6) (20 points) Draw the S/I diagram for a small country with a current account surplus. Explain how you know there is a current account surplus. Illustrate the effects of a positive supply shock to the economy. Explain why the curve(s) moved as drawn. What happens to the level of saving, level of investment, interest rate, and the current account?