

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 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) (10 points) Explain  $KFA = -CA$ .

2) (25 points) Suppose exports of goods are \$100, imports are \$125, exports of services are \$90, imports of services are \$80, income receipts from abroad are \$110, income payments to foreigners are 150, the increase in home country's ownership of assets abroad are \$160, and the increase in the foreign ownership of assets in home country are \$200. Calculate net exports, CA balance, KFA balance, and statistical discrepancy. Show all calculations and briefly explain what you did. Note that because I am asking you to calculate statistical discrepancy, you cannot use the equation in Question #1 as it assumes no statistical discrepancy.

3) (15 points) What is meant by "increase in U.S. owned assets abroad"? Why is that a negative number in the calculations?

4) (10 points each) For each event, tell me what happens to the current account and the capital-financial account? Explain your logic. Assume that the balancing transaction is the money received is put in a bank account in the country sending it. For example, if a Canadian pays an American, then the American puts the payment in a Canadian bank account. This way we can avoid worrying about the exchange rate.

- A) An American store buys toys from a Chinese company.
- B) Americans buy stock in BP (a British company).
- C) An American company pays people in India to answer customer service calls.
- D) A Canadian student pays his tuition at Bethany College.
- E) You buy a CD by the Porkers on an Australian record label.