

Place your name on the back of this sheet of paper and nowhere else. Staple your answers 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 $CA + KA = 0$.

2) (10 points each) For each event, determine what happens to the current account balance and the capital financial account balance. Explain your logic.

A) We trade \$50,000 worth of college education to a Canadian for \$50,000 worth of maple syrup.

B) We trade \$100 worth of car parts for \$100 worth of British bonds. (Definitely not Greek bonds.)

C) We trade \$1000 worth of T-bonds to China for \$1000 worth of computers.

D) We sell \$500 worth of stock in Toyota to a Japanese person. In return we get \$500 worth of fish.

3) (15 points) The book says that “a capital financial account deficit of \$10 billion” is saying the same thing “net foreign lending of \$10 billion.” Explain why this is true.

4) (20 points) Is an increase in US-owned assets abroad a debit or a credit on the KFA. Give an example of US-owned assets abroad and explain why that is a debit or credit to the KFA.

5) (15 points) In Table 5.1, The book says that the “balance on goods, services, and income is -\$553.5 billion. Explain how they got that number.