

ANSWER OUTLINE

ECONOMICS 353

L. Tesfatsion/Fall 07

EXERCISE 10: 8 Questions (8 Points Total)

DUE: Tues, Nov 27, 2007, 2:10pm

****IMPORTANT REMINDER: LATE ASSIGNMENTS WILL NOT BE ACCEPTED
– NO EXCEPTIONS****

EXERCISE INSTRUCTIONS:

- (1) Please **fill in your name and student ID number** on Side 1 of your bubble sheet and write **353 Exercise 10** in the top margin of Side 1.
- (2) Use a number 2 pencil to **mark your answers on Side 1 of the bubble sheet to all eight questions Q1 through Q8, below**, which are in multiple choice format. There is no Web Exercise question for Exercise 8.
- (3) Each question Q1 through Q8 is worth 1 point.

Q1. In GDP accounting for a two country world (HC and ROW), ROW saving in relation to the HC is defined to be _____ minus _____, where all amounts are measured in HC currency units.

- A. HC imports; HC exports
- B. ROW GDP; ROW consumption
- C. Total income received by ROW from the HC; HC exports
- D. Total income received by the HC from ROW; HC imports

Q2. The HC CURRENT ACCOUNT CA keeps track of

- A. net payments received by HC from ROW through financial asset trades.
- B. HC net exports + net factor payments to the HC + net transfer payments to the HC
- C. net payments received by HC from ROW through trades of pre-existing real assets.
- D. net payments received by HC from ROW through reserve currency transactions.

Q3. According to U.S. national income accounting, which item(s) below would appear as items in the 2007 U.S. CURRENT ACCOUNT:

- A.** Interest payments received in 2007 by U.S. holders of Belgium bonds.
- B.** Oil home-heating subsidies paid by Venezuela to U.S. homeowners in 2007.
- C.** Purchases by Japan in 2007 of soybeans harvested in 2007 by Iowan farmers.
- D.** The NYSE purchase in 2007 of stock shares in a Los Angeles tanning lotion company by citizens of Iceland.

E E. All but D.

Q4. If the U.S. is running a CURRENT ACCOUNT DEFICIT, then U.S. national saving is _____ U.S. total investment, and the U.S. is _____ the rest-of-the-world.

- A.** greater than; a net lender to
- B.** greater than; a net borrower from
- C.** less than; a net lender to
- D D.** less than; a net borrower from

Q5. According to U.S. national income accounting, the U.S. CAPITAL ACCOUNT KA keeps track of

- A.** U.S. net exports plus net factor payments to the U.S. plus net transfer payments to the U.S.
- B B.** net payments received by the U.S. from the rest-of-the-world through trades in financial assets and pre-existing real assets.
- C.** net payments received by the U.S. from the rest-of-the-world through trades in newly produced goods and services.
- D.** net payments received by the U.S. from the rest-of-the-world through trades in newly produced capital goods.

- Q6.** According to U.S. national income accounting, which item(s) below would appear in the U.S. CAPITAL ACCOUNT KA for 2007:
- A. a purchase in 2007 by U.S. citizen Bill Gates of the empire state building.
 - B. interest income received in 2007 by U.S. holders of a Latvian bond issue.
 - C C. a Russian citizen's purchase in 2007 of a U.S. Treasury bond.
 - D. a purchase in 2007 by U.S. citizen Donald Trump of a casino in Las Vegas, Nevada, constructed in 2007.
 - E. only A and C.
- Q7.** Suppose the world is divided between HC and ROW, and all international reserves take the form of ROW currency reserves held by the HC central bank. The HC BALANCE OF PAYMENTS ACCOUNTING IDENTITY then implies
- A. ROW currency demand equals ROW currency supply without the need for HC central bank official reserve transactions.
 - B. HC government expenditures are equal to HC tax revenues.
 - C C. the sum of the HC current account CA and the "nonofficial" HC capital account NKA equals the net change in HC official reserve assets.
 - D. in net terms the HC is neither borrowing from nor lending to ROW.
 - E. the HC current account CA is zero.
- Q8.** Suppose the world is divided between HC and ROW, and all international reserves take the form of ROW currency reserves held by the HC central bank. If the HC is in a BALANCE OF PAYMENTS EQUILIBRIUM, this means
- A. the HC current account CA is zero.
 - B. the HC central bank is actively intervening in the foreign exchange market to ensure demand equals supply.
 - C C. the net change in HC official reserve assets is zero.
 - D. the sum of the HC current account CA and the "nonofficial" HC capital account NKA equals the net change in HC official reserve assets.
 - E. in net terms the HC is neither borrowing from nor lending to ROW.