

AT Economics

Pai

February 2017

Name: Key

Balance of Payments

1. How would the following transactions be categorized in the U.S. balance of payments accounts? Note whether they would be entered in the current account or the financial account.
 - a. A French importer buys a case of California wine for \$500
Current
 - b. Boeing, a U.S. based company, sells a newly built airplane to China.
Current
 - c. An American who works for a French company deposits her paycheck, drawn from a Paris bank, into her San Francisco bank. *Current*
 - d. Chinese investors buy stock in Boeing from Americans. *Financial / Capital*
 - e. An American buys a bond from a Japanese company for \$10,000. *financial*
 - f. A Chinese company buys an airplane from American airlines and ships it to China. *Current*
 - g. An American charity sends \$100,000 to Africa to help local residents to buy food after a harvest shortfall. *Current*

2. For each of the following scenarios, note whether the transaction will appear in the current or financial account and whether it will be a credit or a debit.
 - a. A U.S. entrepreneur invests \$50 million to develop a theme park in Malaysia
~~Capital~~ *financial* (D)
 - b. A Chinese company sells \$1 billion worth of berets to the U.S. army.
Current (D)
 - c. BMW pays \$1 million to a U.S. shipper for transporting cars from Germany to the U.S.
Current (C)
 - d. A U.S. ice rink magnate buys stock in Chilean ice-rink chain
~~Capital~~ *financial* (D)
 - e. French tourists spend \$3 million in the U.S.; U.S. tourists spend \$5 million in France.
Current (D)
 - f. A Brazilian investor buys 5 U.S. treasury bonds.
~~Capital~~ *financial* (C)

3. In the economy of the nation of Buon Amici during 2014, exports equaled \$400 billion of goods and \$300 billion of services, imports equaled \$500 billion of goods and \$350 billion of services. The rest of the world purchased \$250 billion of Buon Amici assets.

- a. What was the merchandise trade balance for Buon Amici?

$$\begin{array}{l} \$400 \text{ billion} - \$500 \text{ billion} = \$ -100 \text{ Billion} \\ \text{export goods} \quad \text{import goods} \end{array}$$

- b. What was the balance of payments on the current account for Buon Amici?

$$\$700 \text{ Billion} - \$850 \text{ Billion} = -150 \text{ Billion}$$

- c. What was the balance of payments on the financial account?

$$(+ \$150 \text{ Billion (must cancel current)}) (-250)$$

- d. What was the value of Buon Amici's purchase of assets from the rest of the world?

$$\begin{array}{l} \$100 \text{ billion (if rest of the world purchased } \$250 \text{ billion of} \\ \text{BA assets, BA had to purchase } \$100 \text{ billion to get to } \$150 \text{ billion in} \\ \text{financial account)} \end{array}$$

4. In the economy of Giannoni during 2014, total purchase of assets from the rest of the world equaled \$300 billion, purchase of Giannoni's assets by the rest of the world equaled \$400 billion, and Giannoni's exported goods and services equaled \$350 billion.

- a. What was Giannoni's balance of payments on the financial account?

$$+ \$100 \text{ billion} \quad (400 - 300)$$

- b. What was its balance of payments on the current account?

$$-100 \text{ Billion}$$

- c. What was the value of its imports?

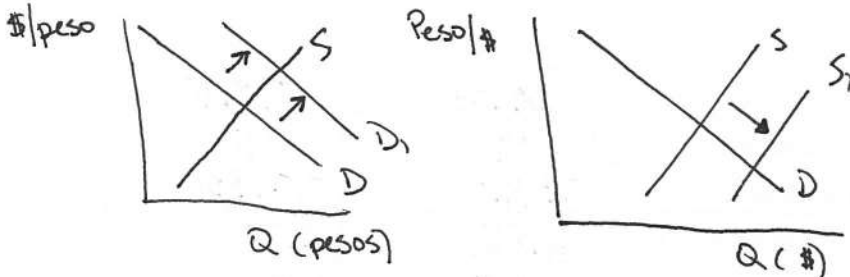
$$\begin{array}{l} \text{Exported } \$350 \text{ Billion} \rightarrow \text{must have imported } \$450 \text{ billion to} \\ \text{get to } -100 \text{ Billion} \end{array}$$

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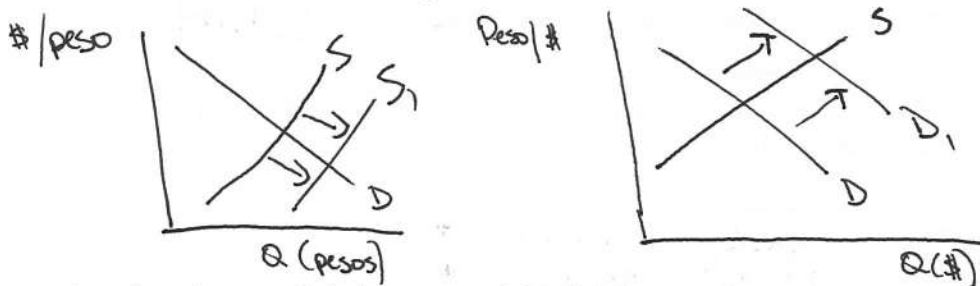
Name: KeyExchange Rates (II)

1. For each of the following situations, explain the effect of the event on the value of the U.S. dollar in relation to the Mexican peso. Draw a supply and demand graph to illustrate each situation.

- a. Americans increase their demand for Mexican tomatoes.

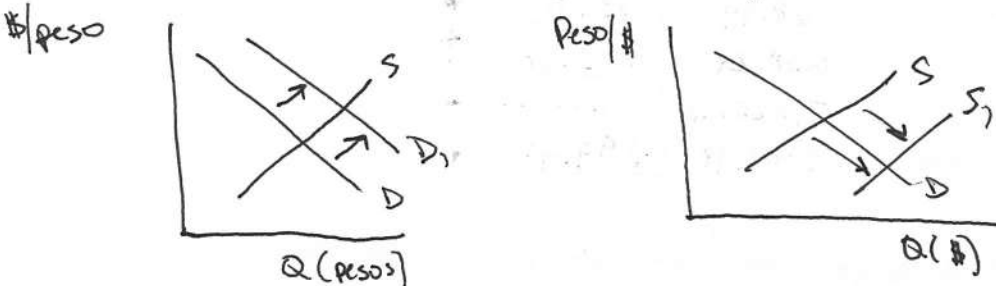


- b. Inflation in Mexico rises at a higher rate than in the U.S.



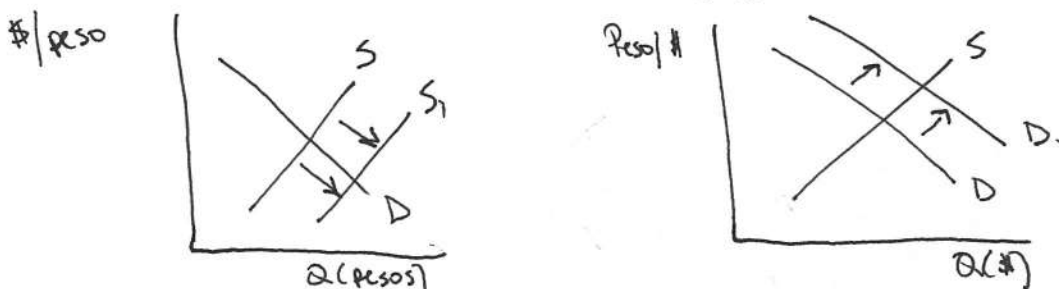
Peso ↓
\$ ↑

- c. Americans increase their investments in Mexico because they feel the Mexican economy is strong.



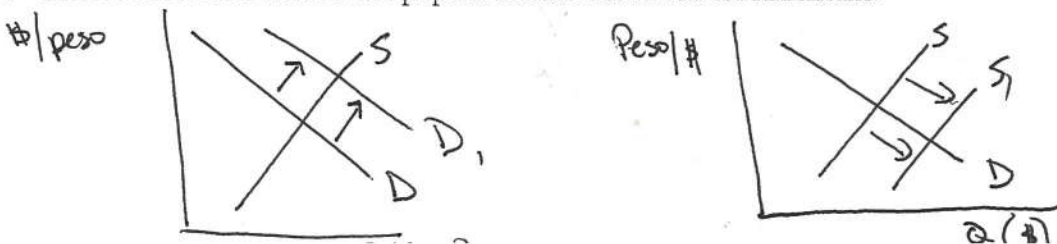
Peso ↑
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- d. Interest rates rise in the U.S. and have become relatively higher than Mexican interest rates



Peso ↓
\$ ↑

- e. Mexico becomes a much more popular tourist destination for Americans.



Peso ↑
\$ ↓

	Cost of Foreign Currency in U.S. Dollars (U.S. dollars / foreign currency)		Cost of U.S. Dollar in Foreign Currency (foreign currency / U.S. dollars)	
	May	Aug.	May	Aug.
British pound	1.4	1.8	0.71	0.56
Canadian dollar	0.64	0.63	1.5625	1.5873
European euro	0.87	0.91	1.149	1.099
Swedish krona	0.094	0.093	10.638	10.753
Japanese yen	0.0083	0.0090	120.482	111.111
Mexican peso	0.1101	0.1502	9.083	6.658

1. Using the data, calculate the cost of the following products in U.S. dollars.

	May	Aug.
1. A dinner for two that costs 500 Mexican pesos	55.05	75.10
2. A hotel room that costs 30,000 Japanese yen	249	270
3. A BMW that costs 85,000 euros in Germany	73,950	77,350
4. A pound of Swedish meatballs that costs 30 krona	2.82	2.79
5. A pair of pants that costs 72 pounds in London	100.8	129.6
6. A leather jacket that costs 1,800 Canadian dollars	1,152	1,134

2. Calculate how much foreign tourists would have to pay in their own currency for an American meal that costs \$60.00.

	May	Aug.	
British pound	42.6	33.6	↓
Canadian dollar	93.75	95.24	↑
European euro	68.94	65.94	↓
Swedish krona	638.29	645.18	↑
Japanese yen	7,228.92	6,666.66	↓
Mexican peso	544.98	399.48	↓

3. Did the value of the dollar appreciate or depreciate against the following currencies between May and August?

	Appreciate	Depreciate
British pound		X
Canadian dollar	X	
European euro		X
Swedish krona	X	
Japanese yen		X
Mexican peso		X

Advanced Economics
January/February 2012
Brown

Effects of Protectionism

1. The table below shows the supply and demand schedules for plywood in the United States. Assume that the world price and the domestic price is \$500 per ton.

Price (dollars per ton of plywood)	U.S. quantity supplied (tons per month)	U.S. quantity demanded (tons per month)
1,000	600	1,400
750	500	1,600
500	300	1,800
250	100	2,000

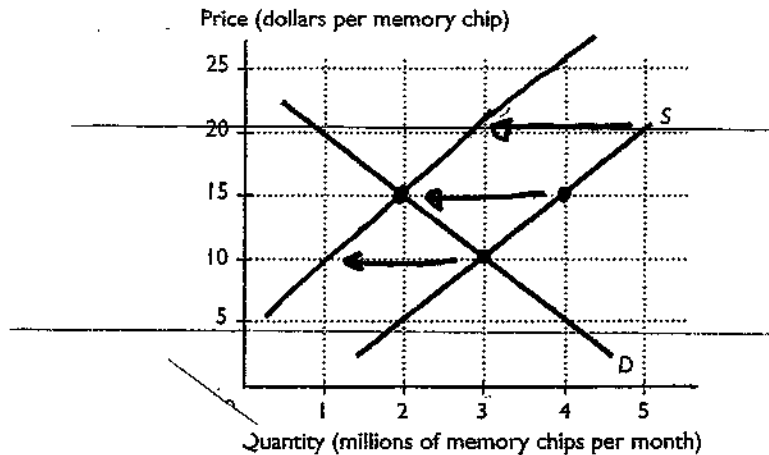
- a. Assuming that there are no tariffs or quotas in place, how much plywood is consumed in the United States? How much is produced in the United States and how much is produced in Canada?

1800 tons consumed
300 tons produced in US
1500 tons produced in Canada
- b. Suppose the United States imposes a tariff of \$250 a ton on all plywood imported into the country. What is the price of plywood in the United States? How much plywood is consumed in America? How much of that amount is produced in America and how much is produced in Canada?

- 1600 tons consumed
- 500 tons produced in US
- 1100 tons produced in Canada
2. Suppose that a foreign car manufacturer admits that its production standards at its facilities in its home country were lax, leading to faulty accelerator pedals. What policies should the United States impose as a result of this admission? What are the trade consequences from this policy?

Safety inspections of all foreign cars
- adds to cost of selling cars in US
(non-tariff barrier to trade)

3. The graph below shows the supply and demand for memory chips in the United States. The United States is a large producer of these chips, so the supply curve shows the sum of the supply by domestic and foreign producers.



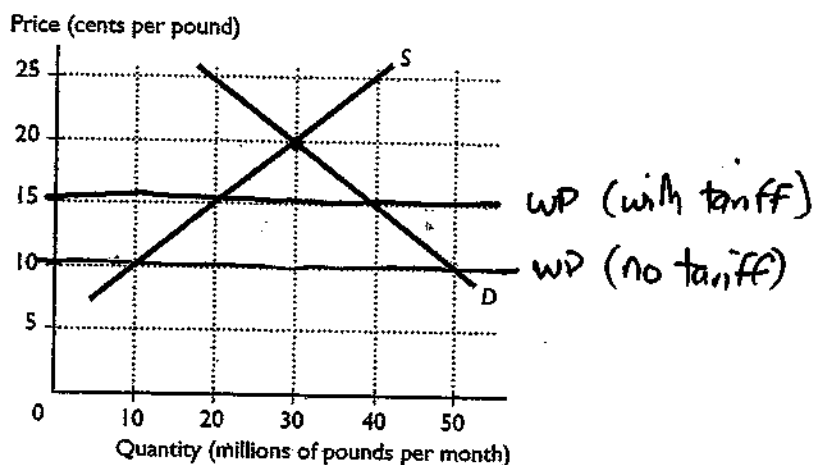
- a. If there are no tariffs or other protectionist policies in place, what is the price of a memory chip and what is the quantity of memory chips consumed in the United States?

\$10⁰⁰ price / 3 MM chips

- b. If the United States imposes a tariff on chips imported into the United States so that the supply decreases by 2 million chips per month at every price, show the effect of this tariff on the graph. What is the effect on the price of a memory chip and the quantity consumed in the United States?

\$15⁰⁰ price / 2 MM chips

4. The graph below shows the supply and demand for sugar in the United States.



- Assume the world price of sugar is \$.10 a pound, What is the quantity consumed in the United States, the quantity produced in the United States and the quantity imported?

Consumed: 50 million lbs.
 Produced in US: 10 million lbs.
 Imported: 40 million lbs.

- Suppose the government imposes a tariff of \$.05 on sugar. After the tariff, what is the quantity consumed in the United States, the quantity produced in the United States and the quantity imported?

Consumed: 40 million
 Produced in US: 20 million
 Imported: 20 million

