Assignment 9 (Chapter 10)

1. On the balance-of-payments statements, merchandise imports are classified in the:
   a) Current account
   b) Capital account
   c) Unilateral transfer account
   d) Official settlements account

2. The balance of international indebtedness is a record of a country's international:
   a) Investment position over a period of time
   b) Investment position at a fixed point in time
   c) Trade position over a period of time
   d) Trade position at a fixed point in time

3. Which balance-of-payments item does not directly enter into the calculation of the U.S. gross domestic product?
   a) Merchandise imports
   b) Shipping and transportation receipts
   c) Direct foreign investment
   d) Service exports

4. Which of the following would call for inpayments to the United States?
   a) American imports of German steel
   b) Gold flowing out of the United States
   c) American unilateral transfers to less-developed countries
   d) American firms selling insurance to British shipping companies

5. Which of the following is classified as a credit in the U.S. balance of payments?
   a) U.S. exports
   b) U.S. gifts to other countries
   c) A flow of gold out of the U.S.
   d) Foreign loans made by U.S. companies
6. Table 10.1 gives hypothetical figures for U.S. International Transactions. On the basis of this information, answer the question(s).

**Table 10.1. U.S. International Transactions**

<table>
<thead>
<tr>
<th>Transaction</th>
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<tbody>
<tr>
<td>Merchandise imports</td>
<td>-110</td>
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<tr>
<td>Military transactions, net</td>
<td>-5</td>
</tr>
<tr>
<td>U.S. private assets abroad</td>
<td>-50</td>
</tr>
<tr>
<td>Merchandise exports</td>
<td>115</td>
</tr>
<tr>
<td>Investment income, net</td>
<td>15</td>
</tr>
<tr>
<td>Unilateral transfers</td>
<td>-25</td>
</tr>
<tr>
<td>Foreign private assets in the U.S.</td>
<td>25</td>
</tr>
<tr>
<td>Compensation of employees</td>
<td>-5</td>
</tr>
<tr>
<td>Allocation of SDRs</td>
<td>5</td>
</tr>
<tr>
<td>Travel and transportation receipts, net</td>
<td>20</td>
</tr>
</tbody>
</table>

Refer to Table 10.1. The **goods and services** balance equals:

a) $5 billion  
b) $15 billion  
c) $20 billion  
d) $25 billion

7. Table 10.1 gives hypothetical figures for U.S. International Transactions. On the basis of this information, answer the question(s).

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Refer to Table 10.1. The **current account** balance equals:

a) $5 billion  
b) $10 billion  
c) $15 billion  
d) $20 billion
8. Which of the following indicates the international investment position of a country at a given moment in time?

a) The balance of payments  
b) The capital account of the balance of payments  
c) The current account of the balance of payments  
d) The balance of international indebtedness

9. Concerning the U.S. balance of payments, which account is defined in essentially the same way as the net export of goods and services, which comprises part of the country's gross domestic product?

a) Merchandise trade account  
b) Goods and services account  
c) Current account  
d) Capital account

10. If an American receives dividends from the shares of stock she or he owns in Toyota, Inc., a Japanese firm, the transaction would be recorded on the U.S. balance of payments as a:

a) Capital account debit  
b) Capital account credit  
c) Current account debit  
d) Current account credit

11. The U.S. balance of trade is determined by:

a) Exchange rates  
b) Growth of economies overseas  
c) Relative prices in world markets  
d) All of the above

12. If the U.S. faces a balance-of-payments deficit on the current account, it must run a surplus on:

a) The official settlements account  
b) The capital account  
c) Either the official settlements account or the capital account  
d) Both the official settlements account and the capital account

13. The current account of the U.S. balance of payments does not include:

a) Investment income  
b) Merchandise exports and imports  
c) The sale of securities to foreigners  
d) Unilateral transfers
14. The value to American residents of income earned from overseas investments shows up in which account in the U.S. balance of payments?
   a) Current account
   b) Trade account
   c) Unilateral transfers account
   d) Capital account

15. **Table 10.2.** International Investment Position of the United States

<table>
<thead>
<tr>
<th>U.S. assets abroad</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>U.S. government assets</td>
<td>$800 billion</td>
</tr>
<tr>
<td>U.S. private assets</td>
<td>$200 billion</td>
</tr>
<tr>
<td>Foreign assets in the U.S.</td>
<td></td>
</tr>
<tr>
<td>Foreign official assets</td>
<td>$600 billion</td>
</tr>
<tr>
<td>Foreign private assets</td>
<td>$300 billion</td>
</tr>
</tbody>
</table>

Consider Table 10.2. The U.S. balance of international indebtedness suggests that the United States is a net:
   a) Debtor
   b) Creditor
   c) Spender
   d) Exporter

16. A country that is a net international debtor initially experiences:
   a) An augmented savings pool available to finance domestic spending
   b) A higher interest rate, which leads to lower domestic investment
   c) A loss of funds to trading partners overseas
   d) A decrease in its services exports to other countries

17. Credit (+) items in the balance of payments correspond to anything that:
   a) Involves receipts from foreigners
   b) Involves payments to foreigners
   c) Decreases the domestic money supply
   d) Increases the demand for foreign exchange

18. Debt (-) items in the balance of payments correspond to anything that:
   a) Involves receipts from foreigners
   b) Involves payments to foreigners
   c) Increases the domestic money supply
   d) Decreases the demand for foreign exchange
19. All of the following are debit items in the balance of payments except:
   a) Capital outflows
   b) Merchandise exports
   c) Private gifts to foreigners
   d) Foreign aid granted to other nations

20. When a country realizes a deficit on its current account:
   a) Its net foreign investment position becomes positive
   b) It becomes a net demander of funds from other countries
   c) It realizes an excess of imports over exports on goods and services
   d) It becomes a net supplier of funds to other countries

21. Reducing a current account deficit requires a country to:
   a) Increase private saving relative to investment
   b) Increase private consumption relative to saving
   c) Increase private investment relative to consumption
   d) Increase private investment relative to saving

22. Reducing a current account deficit requires a country to:
   a) Increase the government's deficit and increase private investment relative to saving
   b) Increase the government's deficit and decrease private investment relative to saving
   c) Decrease the government's deficit increase private investment relative to saving
   d) Decrease the government's deficit and decrease private investment relative to saving

23. Reducing a current account surplus requires a country to:
   a) Increase the government's deficit and increase private investment relative to saving
   b) Increase the government's deficit and decrease private investment relative to saving
   c) Decrease the government's deficit and increase private investment relative to saving
   d) Decrease the government's deficit and decrease private investment relative to saving
24. Table 10.3 shows hypothetical transactions, in billions of U.S. dollars, that took place during a year. Answer the question(s) on the basis of this information.

**Table 10.3. International Transactions of the United States**

<table>
<thead>
<tr>
<th>Transaction</th>
<th>Amount (billions of dollars)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Allocation of SDRs</td>
<td>10</td>
</tr>
<tr>
<td>Changes in U.S. assets abroad</td>
<td>100</td>
</tr>
<tr>
<td>Statistical discrepancy</td>
<td>-15</td>
</tr>
<tr>
<td>Merchandise imports</td>
<td>-400</td>
</tr>
<tr>
<td>Payments on foreign assets in U.S.</td>
<td>-20</td>
</tr>
<tr>
<td>Remittances, pensions, transfers</td>
<td>-60</td>
</tr>
<tr>
<td>Travel and transportation receipts, net</td>
<td>30</td>
</tr>
<tr>
<td>Military transactions, net</td>
<td>-10</td>
</tr>
<tr>
<td>Investment income, net</td>
<td>100</td>
</tr>
<tr>
<td>Merchandise exports</td>
<td>350</td>
</tr>
<tr>
<td>U.S. government grants (excluding military)</td>
<td>-20</td>
</tr>
<tr>
<td>Changes in foreign assets in the U.S.</td>
<td>190</td>
</tr>
<tr>
<td>Other services, net</td>
<td>80</td>
</tr>
<tr>
<td>Receipts on U.S. investments abroad</td>
<td>30</td>
</tr>
<tr>
<td>Compensation of employees</td>
<td>-10</td>
</tr>
</tbody>
</table>

Consider Table 10.3. The current-account balance registered a surplus of $30 billion.

a) True  
b) False

25. A current account deficit for the United States necessarily reduces the standard of living for American households.

a) True  
b) False