

International transactions for the United States are reported by the Bureau of Economic Analysis. Preliminary credit (+) and debit (-) transactions for the third quarter of 2007, in billions of dollars, are shown in the table below, though I have deleted much of the detail and the summary information.

<b>Exports of goods and services and income receipts</b>	
Goods, balance of payments basis/2/	288.0
Services/3/	123.3
Income receipts	205.1
<b>Imports of goods and services and income payments</b>	
Goods, balance of payments basis/2/	-502.9
Services/3/	-96.6
Income payments	-185.6
<b>Unilateral current transfers, net</b>	-25.5
<b>Capital account transactions, net</b>	-0.6
<b>Change in U.S.-owned assets abroad, net</b>	
U.S. official reserve assets, net	0.0
U.S. Government assets, other than official reserve assets, net	0.4
U.S. private assets, net	-161.4
<b>Change in foreign-owned assets in the United States, net</b>	
Foreign official reserve assets in the United States, net	39.0
Other foreign assets in the United States, net	212.6

- Calculate the following amounts:
  - the balance on goods (i.e., the merchandise trade balance)
  - the balance on current account
  - the balance on the financial account
  - the statistical discrepancy
  - the “balance of payments” under the old system of accounts
- In which of the above accounts would the following transactions be recorded, and would they be credits or debits?
  - an American firm invests in a small Chinese company
  - an American tourist buys an airline ticket on Lufthansa
  - an American investor buys \$9,000,000 worth of British government bonds
  - an American investor cashes in \$10,000,000 worth of British government bonds, which includes the original price of \$9,000,000 plus \$1,000,000 in interest.
  - the People’s Bank of China purchases sells \$10 billion in U.S. government bonds
- Looking at the official reserve transactions:
  - Did foreign central banks buy or sell dollar assets?
  - How did these official reserve transactions affect the direct foreign exchange rate E (i.e., the inverse of the value of the dollar)?
  - What was probably the purpose of these official reserve transactions?
  - How did this intervention affect the money supply in foreign countries?

1. Two points each:
  - a. -214.9 billion dollars
  - b. -194.2
  - c. +194.8
  - d. +104.2
  - e. -39.0
2. One point each – I don't care about the other half of the transaction, since I don't say how these are paid for:
  - a. Debit in the financial account (direct foreign investment, in U.S. private assets)
  - b. Debit in the current account (services)
  - c. Debit in the financial account (U.S. private assets)
  - d. Credit in the financial account (U.S. private assets) of 9 million plus credit in the current account (income receipts) of 1 million
  - e. Debit in the financial account (foreign official reserve assets in the U.S.)
3. One point each:
  - a. FCBs bought dollar-denominated assets (though not near as much as in prior quarters)
  - b. Buying dollars increases the supply of Forex, so ceteris paribus E should fall (though amount is small relative to overall market)
  - c. To prevent the dollar from depreciating (at least, more than it did)
  - d. Buying dollar reserves increases the foreign money supply (FCBs are buying reserve assets to back up their increased liabilities)

Plus 1 point for name and group number.

Total of 20 points.

On a 20-point quiz, the grading formula is  $G=(S+2)/5$ , where S is the score and G is the grade, so that:

- 19-20 = A+
- 17-18 = A
- 16 = A-
- 14-15 = B+
- 12-13 = B
- 11 = B-
- 9-10 = C+
- 7-8 = C
- 6 = C-
- 4-5 = D+
- 2-3 = D
- 1 = D-
- 0 = F