1) At the end of 2007, the net external wealth of the United States was -$2,140 billion. The financial account in 2007 totaled $505 billion, while falling foreign asset prices and falling foreign exchange rates in 2008 reduced the net value of our foreign assets by $824 billion. What was our net external wealth at the end of 2008?

\[
\text{U.S. Net External Wealth} = ( + \text{-}$3469 \text{ billion})
\]

2) Assume that the long-run real interest rate was 3%. As of the beginning of 2008, what was our long-run annual trade surplus or deficit?

\[
\text{Long-run Trade Balance} = \text{surplus} \text{ deficit} \text{ $168 billion}
\]

3) Assume that Outlandia had a net external liability of $10 billion in 2009, and runs a trade surplus of $5 billion in 2010. If it must pay a 2% risk premium above and beyond the real interest rate, and receives $2 billion in charitable donations from abroad, what is Outlandia’s current account balance in 2010?

\[
\text{Outlandia’s 2010 Current Account} = \text{surplus / deficit} \text{ $6.5 billion}
\]

4) If Outlandia must repay its entire foreign liability in 2011, what must its current account balance be in 2011?

\[
\text{Outlandia’s 2011 Current Account} = \text{surplus / deficit} \text{ $3.675 billion}
\]

5) Consider a two-period inter-temporal trade model for Inlandia. Inlandia has a relatively high preference for future consumption, but is a mature economy with modest future growth prospects. Its current GDP is already determined by its capital and labor stock, while future GDP is determined by how much it invests in the current period. Assume that Inlandia exports and imports goods, but has laws preventing any foreign borrowing or lending. If Inlandia repealed its law against foreign capital flows, what would happen to its interest rate in the present, its consumption in the current and future periods, its savings in the present, its investment in the present, its GDP in the future, and its trade balance in the present and the future?

<table>
<thead>
<tr>
<th>Current interest rate</th>
<th>Current consumption</th>
<th>Future GDP</th>
<th>Current trade balance</th>
<th>Future trade balance</th>
</tr>
</thead>
<tbody>
<tr>
<td>(rises / falls / ambiguous)</td>
<td>(rises / falls / ambiguous)</td>
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<td>(rises / falls / ambiguous)</td>
<td>(rises / falls / ambiguous)</td>
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</tbody>
</table>
6) With current consumption on the horizontal axis, and future consumption on the vertical axis, use the inter-temporal diagram to show your answers for Inlandia, comparing the effects of the law forbidding international capital flows with the effects of the law’s repeal.

7) In the above diagram, show current savings versus investment if the law is repealed, and also show future GDP versus GNE.