

Answers to Homework 4

1. For each of the following transactions, indicate whether the transaction is a negative item on the U.S. balance of payments (mark it with a D for debit), or a positive item (mark it with a C for credit.) Indicate which account the transaction falls into: Trade Balance (TB), Income Balance (IB), net Unilateral Transfers (UT), or Financial Account (FA). The first transaction is worked as an example:

(0) The U.S. imports \$1 billion of automobiles from Korea	TB <u>D</u> IB <u>    </u> UT <u>    </u> FA <u>    </u>
and pays with a transfer to a U.S. bank account	TB <u>    </u> IB <u>    </u> UT <u>    </u> FA <u>C</u>
(a) Boeing sells \$3billion of aircraft to Japan	TB <u>C</u> IB <u>    </u> UT <u>    </u> FA <u>    </u>
Japan agrees to pay later and receives a loan from Boeing	TB <u>    </u> IB <u>    </u> UT <u>    </u> FA <u>D</u>
(b) UBS, a Swiss bank, buys US Treasury bonds from an American	TB <u>    </u> IB <u>    </u> UT <u>    </u> FA <u>C</u>
Pays by making a transfer from its account at a U.S. bank	TB <u>    </u> IB <u>    </u> UT <u>    </u> FA <u>D</u>
(c) Apple pays dividends to Canadian investor	TB <u>    </u> IB <u>D</u> UT <u>    </u> FA <u>    </u>
Pays by check that is subsequently deposited in US bank account	TB <u>    </u> IB <u>    </u> UT <u>    </u> FA <u>C</u>
(d) The Federal Reserve purchases British pounds from foreigner	TB <u>    </u> IB <u>    </u> UT <u>    </u> FA <u>D</u>
It pays by bank transfer to Foreigner	TB <u>    </u> IB <u>    </u> UT <u>    </u> FA <u>C</u>
(e) The Philippines donates \$1 billion to U.S. to help fight drug trafficking	TB <u>    </u> IB <u>    </u> UT <u>C</u> FA <u>    </u>
It pays by remitting U.S Treasury bonds it had previously acquired	TB <u>    </u> IB <u>    </u> UT <u>    </u> FA <u>D</u>
(f) Honda of America borrows \$250 million from its parent company in Japan	TB <u>    </u> IB <u>    </u> UT <u>    </u> FA <u>C</u>
The loan is credited to Honda of America's account at a U.S. bank	TB <u>    </u> IB <u>    </u> UT <u>    </u> FA <u>D</u>
(g) A U.S. citizen buys \$120,000 of gold from French jeweler	TB <u>D</u> IB <u>    </u> UT <u>    </u> FA <u>    </u>
Pays with a bank transfer	TB <u>    </u> IB <u>    </u> UT <u>    </u> FA <u>C</u>
(h) A Brazilian buys one acre of land near Milwaukee from an American	TB <u>    </u> IB <u>    </u> UT <u>    </u> FA <u>C</u>
In exchange, the American receives land of comparable value near Sao Paolo in Brazil	TB <u>    </u> IB <u>    </u> UT <u>    </u> FA <u>D</u>

(i) Ernst and Young, an American accounting firm, provides services for an Irish brewing company	TB <u>C</u> IB <u>    </u> UT <u>    </u> FA <u>    </u>
The brewing company pays by making a transfer from its account at a U.S. bank	TB <u>    </u> IB <u>    </u> UT <u>    </u> FA <u>D</u>
(j) A U.S. importer-exporter makes an agreement with Anaconda Copper to import \$30 million of copper	TB <u>D</u> IB <u>    </u> UT <u>    </u> FA <u>    </u>
In exchange, the importer-exporter sends an wheat of equal value to Chile	TB <u>C</u> IB <u>    </u> UT <u>    </u> FA <u>    </u>

2. This exercise asks you to look at the current account balances and the net foreign asset position of Greece, Ireland, Portugal and Spain (the GIPS). You are asked to hand in the plots of the data from parts a and b. Then answer part c on this sheet of paper at the bottom.

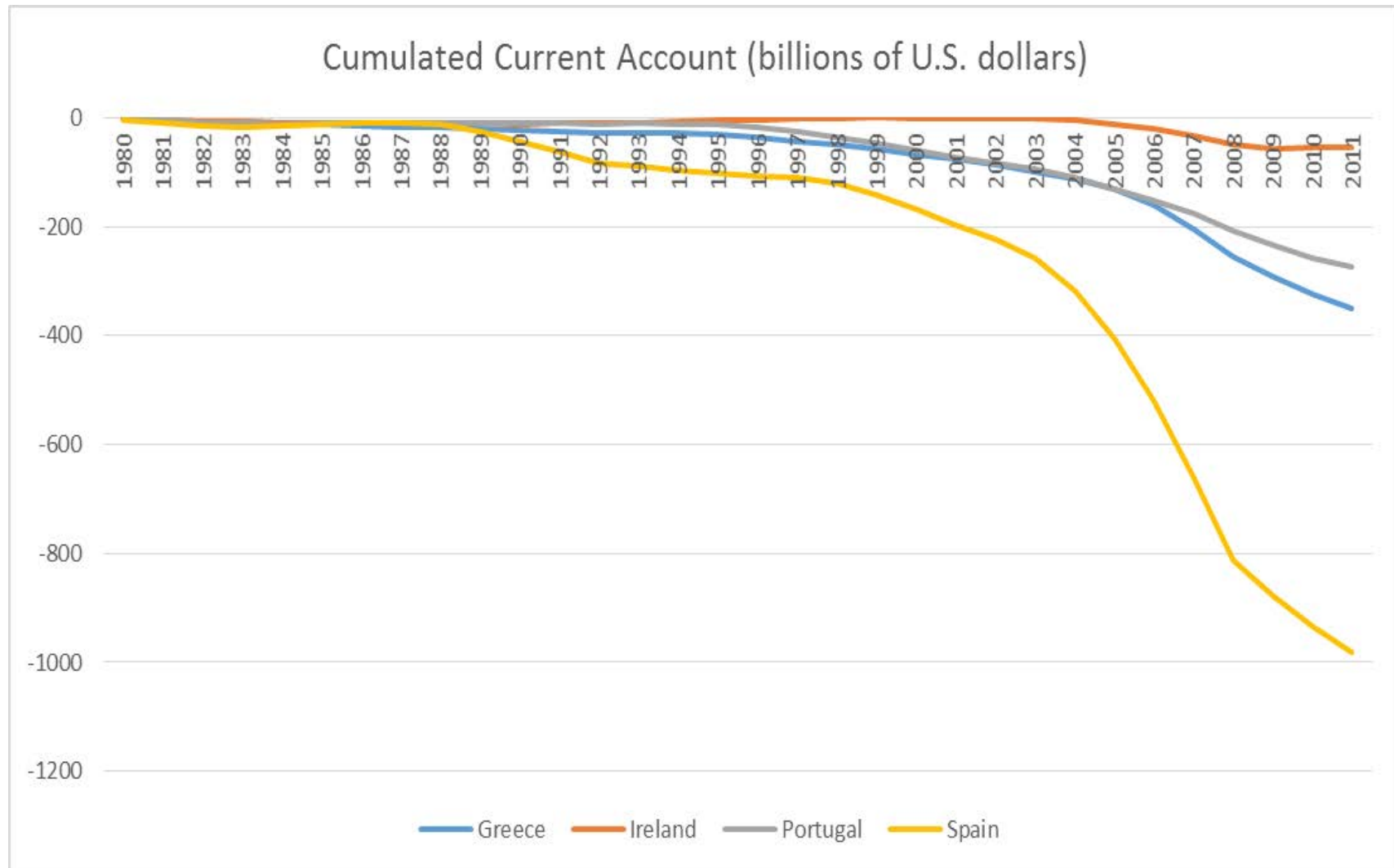
a. From the *IMF's World Economic Outlook Data Base*, download the current account balance for these countries from 1980 to 2011. Then, in a spreadsheet calculate the cumulative current account balance for each year. (For 1980, just take the 1980 balance as the cumulative balance. For 1981, take the sum of the 1980 and 1981 balance. For 1982, take the sum of the 1980, 1981 and 1982 balances. Etc.) Plot the cumulative current account balances for these four countries.

b. Go to the website <http://www.philiplane.org/EWN.html> to get the data on net foreign asset position compiled by Philip Lane and Gian Maria Milesi Feretti. For each of these four countries, for 1980-2011, download the Net Foreign Assets (NFA, which appears in column O of the spreadsheet.) Plot these values.

c. Briefly explain what might account for the difference between what you see in the cumulated current account balances in part a and the NFA positions in part b.

Valuation changes account for the difference. The NFA and current accounts are measured in dollars. For most of the countries, the NFA is more negative than the cumulated current account. I believe this primarily reflects the fact that debt by these countries was issued in euros, and the dollar value of the euro increased. Notice that for Greece, the NFA declines relative to the cumulated current account near the end of the sample. This reflects default or renegotiation by Greece on some of its debt.

2.a



2.b

