

1. \_\_\_\_/15
2. \_\_\_\_/25
3. \_\_\_\_/30

Total: \_\_\_\_/70

Name: \_\_\_\_\_

Team: \_\_\_\_\_

## Unit 5: International Trade and Foreign Exchange Problem Set #5

1. ( \_\_\_\_/15) Define the term and explain a situation that demonstrates the ‘real world’ application of each of the following. Make sure your example clearly demonstrates your understanding of each concept.
  - a. Trade Deficit and Trade Surplus ( \_\_\_\_/5)
  - b. Current Account and Financial Account ( \_\_\_\_/5)
  - c. Appreciation and Depreciation ( \_\_\_\_/5)
2. ( \_\_\_\_/1) The Balance of Payments (BOP) measures all international transactions between two countries. The chart below shows six different transactions between the US and China

| United States   | China  |
|---|--|
| <ul style="list-style-type: none"> <li>• Purchased \$800 of goods and services</li> <li>• Sent \$100 of humanitarian aid</li> <li>• Americans spent \$200 in Chinese stock market</li> <li>• American tourists spend \$1000 in China</li> </ul> | <ul style="list-style-type: none"> <li>• Chinese tourists spend \$1000 in the US</li> <li>• Purchased \$300 of goods and services</li> <li>• Chinese purchased a \$600 business in the US</li> <li>• Chinese government purchased US. bonds</li> </ul> |

- a. Which country has a trade deficit and which has a trade surplus? Explain how you got your answer and calculate the value of each ( \_\_\_\_/5)
  - b. Assuming these are all the transactions between these two countries, calculate the value of the current accounts for each country. Explain why one will have a current account deficit and the other will have a current account surplus. ( \_\_\_\_/5)
  - c. Calculate the dollar value of US bonds held by the Chinese government. Explain how you determined your answer. Identify the relationship between financial inflows and outflows for each country ( \_\_\_\_/5)
  - d. Assume that China experience significant inflation compared to the US. In general, explain what would likely happen to the current accounts for each country and the value of each country’s currency? ( \_\_\_\_/5)
  - e. Assume instead that the interest rate increase in China compared to the US. In general, explain what would likely happen to financial accounts for each country and the value of each country’s currency? ( \_\_\_\_/5)
3. ( \_\_\_\_/30 Points) Practice FRQs
    - FRQ #1 ( \_\_\_\_/6)
    - FRQ #2 ( \_\_\_\_/7)
    - FRQ #3 ( \_\_\_\_/7)

