The Graduate Institute | Geneva
International Finance B - Fall 2021
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Problem Set 1
Balance of Payments

Due: Thursday , September 30^{th}, before noon

Question 1: Suppose that the Swiss government writes off the debt that Mali owes to Switzerland. This transaction is recorded in the Swiss Balance of Payment as:

(a) an investment income paid and a sale of domestic assets (a portfolio investment received)
(b) a negative capital transfers and a purchase of foreign assets (a portfolio investment abroad)
(c) an investment income paid and a purchase of foreign assets
(d) a negative capital transfers and a sale of foreign assets

Question 2: If an Italian resident buy Novartis stocks, this transaction is recorded in the Italian BoP as:

(a) a capital outflow that increases the financial account balance in the old accounting system
(b) an increase in portfolio investment (positive sign) according to the new BPM6
(c) a direct investment abroad (negative sign) according to the new BPM6
(d) an increase in portfolio investment (positive sign) according to the old accounting system

Question 3: Alessandro Missale, an Italian resident is paid by the University of Geneva that makes a deposit in the Missale's bank account in Geneva. How is this transaction recorded in the Swiss Balance of Payment?

Question 4: The following data are available for a country's balance of payments:

Exports of goods and services	800
Trade balance (net exports)	100
Income received from abroad	300
Income paid abroad	100
Current transfers received from abroad	150
Current transfers paid abroad	250
Net capital transfers	0
Direct investment abroad	500
Portfolio investment abroad (purchase of foreign bonds)	300
Portfolio investment received (sale of domestic bonds)	250
Other investment, net	0
Increase in foreign reserves held by the central bank	40
Statistical discrepancy	0

Calculate imports, the current account balance and the net financial account balance. Then calculate direct investment received by the reporting country.

Question 5: Suppose that the current account balance is negative by 7 billion, while the capital account balance is positive by 1 billion. How is the financial account balance? Does the Net International Investment Position increase or decrease? By how much? (there are no valuation changes).

Question 6: Suppose that the NIIP of Ghana was zero in 2008 and that CA deficits of 8 billion per year have been run from 2009 to 2015. How would the NIIP approximately be in 2015? (Assume zero net capital transfers). If the Ghanaian Government were able to cut the deficit by 4 billion in 2016, how would the NIIP be at the end of 2016?

Question 7: Suppose that the Current Account balance shows a 5 billion deficit and Investment is equal to 22 billion. How much is National Saving? How is Investment financed? How does the NIIP change?

Question 8: **Saving Investment and the Current Account:** Suppose that private saving is equal to 10 billions and there is a Current Account deficit of 5 billions. If the government runs a budget deficit of 3 billions, then:

(a) National saving is equal to 7 billions and investment is equal to 12 billions.

(b) National saving is equal to 13 billions and investment is equal to 18 billions.

(c) National saving is equal to 13 billions and investment is equal to 8 billions.

(d) National saving is equal to 7 billions and investment is equal to 2 billions.

Question 9: **Saving Investment and the Current Account:** If national saving is 13 billions and investment is 15 billions. how much is the current account balance? How does the net international investment position change? By how much? If the government runs a budget deficit of 5 billions, how much is private saving?

Question 10: **Balance of Payments:** Read the press release of the Swiss National Bank about the Swiss BoP that you find on Moodle.

- Using the Tables in the press release, show that the current account surplus for the first quarter of 2020 is different from the financial account and that the difference between the two is equal to the statistical difference (sometimes called "error and omission").
- Use the data on the value of foreign asset and liabilities for the first quarter of 2020 that are given in the text of the first page and the data on the financial account (including derivatives) that are given in the Table to estimate the large valuation change that is referred to in the first page of the release.