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Problem Set #2

due Monday October 7, 2019

1. *(100 points)* **The Global Savings Glut** Please read the article: "The Global Saving Glut and the U.S. Current Account Deficit" by Ben Bernanke; the paper is available online (click on the title) and the pdf version is on moodle. Please answer *succinctly* the following questions.

   (a) *(10 points)* What are the two perspectives on the U.S. current account deficit the article refers to? Which view is emphasized by the author?

   (b) *(10 points)* In which way have international capital flows changed according to the author?

   (c) *(10 points)* List the factors that caused this change according to the author.

   (d) *(10 points)* Is there a relationship between the change in international flows and current-account developments in the United States and in other industrial countries?

   (e) *(10 points)* To the extent that the movement toward surplus in developing-country current accounts has had a differential impact on the United States relative to other industrial countries, what accounts for the difference?

   (f) *(10 points)* According to basic economic logic, in the medium to long run should capital flow into or out of developing countries?

   (g) *(10 points)* What economic policies (internal and external) does the author consider to address the large U.S. current account deficits?

   (h) *(15 points)* Please download Table 4.1 on U.S. International Transactions in Primary Income from the Bureau of Economic Analysis website (use the link provided); please choose annual data from 1999 to 2018. Line 1 to 22 of the table represent primary income receipts; line 23 to 42 are primary income payments. Plot Total Primary Income Receipts and Total Primary Income Payments. Describe your findings

   (i) *(15 points)* Please calculate Net income receipts for each income category by subtracting payments from receipts. Then create a new variable Risky Investment Income (RII) = Net Direct Investment Income + Net Income on Equity and Investment Fund Shares + Net Other Investment Income. Plot RII and Investment on Debt Securities. How do you interpret your findings?