

Introductory Macroeconomics

In-Tutorial #11
Week Starting 24th May 2021

Questions.

1. Consider the following balance of payments data for Australia.

Item	Balance
Exports of goods and services	30000
Imports of goods and services	29000
Net income	-3500
Net current transfers	-1200
Net capital transfers	300
Net acquisition of non-financial assets	0
Foreign investment in Australia	43000
Foreign investment abroad	39600

Based on the information in the table, compute the balance of the capital account and the balance of the current account.

2. According to the required reading “Unpacking the Trade Deficit”, the trade deficit in the US is not so severe as we think. Why does the author think so? Did Mr. Trump’s increased tariff on imports of Chinese goods help to reduce the trade deficits in the US?

Solutions to In-Tutorial Work.

1. Exports/Imports of goods and services, net income, net current transfers are components of the current account. Exports are noted as credits, increasing the balance of the current account by 30000. Imports are noted as debits, decreasing the balance of the current account by 2900. Minus net income is noted as debits, decreasing the balance of the current account. Minus net current transfers are noted as debits, decreasing the balance of the current account. Thus, adding up the values of these components, the balance of the current account is $30000 + (-29000) + (-3500) + (-1200) = -3700$.

Net capital transfers, Net acquisition of non-financial assets, Foreign investment in Australia, and Foreign investment abroad belong to transactions related to the acquisition or the disposition of financial or real assets and are components of the capital account. Net capital transfers are noted as credits, increasing the balance of the capital account. Net acquisition of non-financial assets is noted as credits, increasing the balance of the capital account. Foreign investment in Australia is noted as credits, increasing the balance of the capital account. Foreign investment abroad is noted as debits, decreasing the balance of the capital account. Thus, adding up the values of these components, the balance of the capital account is $300 + 0 + 43000 + (-39600) = 3700$.

2. According to the required reading, Mr. Trump refers to just imports and exports of physical goods when he talks about the trade deficit. However, when it comes to services (entertainment and tourism, for example), the US has a surplus with China and with the world. Therefore, once services are included in the trade, it is unclear whether the trade imbalance between the US and the world is so severe.

Mr. Trump's tariffs on imports of Chinese goods did not help to reduce the trade deficits in the US. Since Mr. Trump began imposing tariffs, American exports to China have fallen by 21 percent because of the Chinese government's retaliation. Meanwhile, American imports of Chinese goods have dropped by only 8 percent.

