Problem Set 04

Instructions: Answers must be submitted online through the designated Canvas assignment. This Problem Set is due on **February 26 at 01:59pm**. Please write as legible and clearly as possible. You will not be given full credit if your answers cannot be easily understood.

Questions

1. [10 points] Answer the following short questions:

    (a) [4 points] What type of activities does the **capital account** consist of?

    (b) [4 points] Hoes do the **current, capital, and financial accounts** relate to one another when it comes to their numeric value?

    (c) [2 points] Explain the reason why the balance of payments features a **statistical discrepancy value**.

2. [10 points] Consider the following balance of payments for a given country

ID	Description	Billions (USD)
1.	Current Account Balance	1000
2.	Capital Account Balance	200
3.	Financial Account	-
3.a	Net Acq. of Financial Assets, Excl. Financial Der. (Increase/Outflow (+))	470
3.b	Net Inc. of Liabilities, Excl. Financial Der. (Increase/Inflow (+))	-890
3.c	Net Change in Financial Derivatives	-200
4.	Statistical Discrepancy	
5.	Memoranda	
5.a	Balance on Current and Capital Accounts	
5.b	Balance on Financial Accounts	

    (a) [2 points] **In theory**, what should the **difference between items (5.a) and (5.b)** be?

    (b) [2 points] What is the value of **item (5.a)** equal to? Show your work.

    (c) [2 points] What is the value of **item (5.b)** equal to? Show your work.

    (d) [2 points] What is the value of **item (4)** in this case?

    (e) [2 points] Would this country be considered a case of CA surplus or CA deficit?

3. [30 points] Consider a case in which a given economy reports a **GNP** level of $5.4bn. The **primary income net flows** are worth $1.2bn, while **secondary income transfers** are worth $0.2bn.

   (a) [5 points] What is the implied level of **GDP** in this context? Note that primary income is associated with income flows for compensating employees and secondary income is associated with transfers of income.

   (b) [5 points] Take the following equation:

   $$GNP = GDP + \text{Net Primary Income} + \text{Net Secondary Income}$$

   Show how the **Current Acount Suprlus** is present in the measure of **GNP**

   (c) [5 points] Using the found value of GDP, consider the fact that **consumption** is equal to $1.5bn, **Investment** is equal to $1.8bn, and the government runs a balanced budget and collects $0.4 in revenue. **What is the value of Net Exports?** Show your work.

(d) [5 points] What is the value of **savings**? Show your work

(e) [5 points] Suppose there is a shock to the economy, and the government is forced to run a major budget deficit of $1.2bn. What does this imply about the **tax rate for the country**?

(f) [5 points] Update your measure of **GNP** to reflect this change in the government budget balance. What is the **percentage change in GNP**? Show your work.