

Tutorium International Economics and Trade

Worksheet 3 - Part Krüger

Exercise 1

In the context of a nation's Balance of Payments, which of the following transactions would typically be included in the Current Account and which in the Financial Account? Select the correct option for each transaction.

1. A multinational corporation headquartered in your country purchases a factory overseas.
2. A tourist from abroad spends money on a hotel within your country.
3. Your government provides humanitarian aid to another country.
4. A foreign investor buys stocks in your country's stock market.
5. An immigrant sends part of their income to their family back home.

Options:

- A) 1 - Current Account, 2 - Financial Account, 3 - Financial Account, 4 - Current Account, 5 - Financial Account
- B) 1 - Financial Account, 2 - Current Account, 3 - Current Account, 4 - Financial Account, 5 - Current Account
- C) 1 - Current Account, 2 - Current Account, 3 - Financial Account, 4 - Financial Account, 5 - Current Account
- D) 1 - Financial Account, 2 - Current Account, 3 - Financial Account, 4 - Current Account, 5 - Financial Account

Exercise 2

What will be recorded in the balance of payments accounts of Fantasy-Land when a multinational corporation headquartered there receives dividends from its overseas investments?

Choose 1 answer:

- (Choice A) The current account moves to a surplus
- (Choice B) The financial account moves to a surplus
- (Choice C) Imports decrease
- (Choice D) Financial capital outflows increase
- (Choice E) Financial capital inflows increase

Exercise 3

What change will occur in the balance of payments accounts in Fantasy-Land when it sells bonds to Hamsterville?

Choose 1 answer

- (Choice A) Remittances increase
- (Choice B) Exports increase
- (Choice C) The financial account moves to a deficit
- (Choice D) Financial capital outflows increase
- (Choice E) Financial capital inflows increase

Exercise 4

Which of the following would NOT be included in the current account of Fantasy-Land?

- A) The nation of Buystan buys a bond from Fantasy-Land
- B) Exports from Fantasy-Land to the nation of Buystan
- C) Imports to Fantasy-Land from Hamsterville
- D) Remittances from workers in Hamsterville sent back to family members in Fantasy-Land
- E) Factor income earned by citizens of Fantasy-Land on real assets held in the nation of Homego

Exercise 5

Mr. M is a citizen of Fantasy-Land. He wants a better return on his savings than he gets in Fantasy-Land, so he buys newly issued government bonds from the nation of Hamsterville.

- A) A debit in Fantasy-Land's current account; a credit in Hamsterville's current account.
- B) A credit in Fantasy-Land's financial account; a debit in Hamsterville's financial account.
- C) A debit in Fantasy-Land's financial account; a credit in Hamsterville's financial account.
- D) No impact on Fantasy-Land's balance of payments; a credit in Hamsterville's current account.

Exercise 6

Which of the following statements is true about the balance of payments account?

- A) The sum of all debit entries is greater than the sum of all credit entries
- B) The sum of all credit entries is greater than the sum of all debit entries
- C) Only the movement of financial assets is included in the balance of payments
- D) Only imports and exports are included in the balance of payments
- E) A surplus in the financial account means there is a deficit in the current account

Key term	Definition
balance of payments	a record of all funds going in and out of a country
current account (CA)	a record of international transactions that <i>do not</i> create liabilities
capital financial account (CFA)	a record of international transactions that <i>do</i> create liabilities; the capital and financial account includes official and private sales and purchases of financial assets, such as bonds.
factor income	the net of payments received and payments made on investments overseas; for example, if an American resident owns stock in a Japanese car company, any income earned on that stock is factor income in the U.S. current account.
remittances	money that is received from another country that is not in exchange for a good, service, or financial asset; for example, when someone is working abroad and sends money home to their family, that is a remittance.

Source: <https://www.khanacademy.org/economics-finance-domain/ap-macroeconomics/ap-open-economy-international-trade-and-finance/the-balance-of-payments/a/the-balance-of-payments>

Tutor: Marcel Rother