1. Use the information in the table to answer the following question(s):

|  |  |
| --- | --- |
| Exports of goods and services  | 1000 |
| Imports of goods and services | 800 |
| Net change in assets owned abroad | 500 |
| Net change in foreign owned assets at home | 400 |
| Unilateral transfers received | 100 |
| Unilateral transfers paid | 200 |
| Investment income paid to foreigners | 300 |
| Investment income received from foreigners | 400 |

1. Study the table below. Calculate the balance on the current account. (Show all calculations

|  |
| --- |
| BALANCE OF PAYMENTSSOUTH AFRICA – AN EXTRACT |
|  | 2006 (R millions) |
| Current account  |  |
| Merchandise exports | 398 532 |
| Merchandise imports | 476 545  |
| Net gold exports | 35 470 |
| Service receipts | 81 353 |
| Payment for services | 96 950 |
| Income receipts | 40 234  |
| Income payments | 75 990 |
| Current transfers (net receipts) | – 18 494 |
| Balance on current account | ? |
| Financial account  |  |
| Direct investments | – 47 350 |
| Portfolio investments | 130 583  |
| Other investments | 19 278 |
| Balance on the financial account | 102 511  |
| Unrecorded transactions | 39 466  |

[Source: SARB Quarterly Bulletin, June 2006]

1. Table 3.4 shows hypothetical transactions, in billions of U.S. dollars, that took place during a year. Answer the next seven questions on the basis of this information.

Table 3.1. International Transactions of the United States

|  |  |
| --- | --- |
| Transaction | Amount(billions of dollars) |
| Allocation of SDRs | 10 |
| Changes in U.S. assets abroad | 100 |
| Statistical discrepancy | –15 |
| Merchandise imports | –400 |
| Payments on foreign assets in U.S. | –20 |
| Remittances, pensions, transfers | –60 |
| Travel and transportation receipts, net | 30 |
| Military transactions, net | –10 |
| Investment income, net | 100 |
| Merchandise exports | 350 |
| U.S. government grants (excluding military) | –20 |
| Changes in foreign assets in the U.S. | 190 |
| Other services, net | 80 |
| Receipts on U.S. investments abroad | 30 |
| Compensation of employees | –10 |

a. The merchandise-trade balance registered a deficit of\_\_\_\_\_\_\_\_\_\_\_.

b. The services balance registered a surplus of\_\_\_\_\_\_\_\_\_\_.

c. The goods-and-services balance registered a surplus of\_\_\_\_\_\_\_\_\_\_.

d. The unilateral-transfers balance registered a deficit of\_\_\_\_\_\_\_\_\_\_.

e. The current-account balance registered a surplus of\_\_\_\_\_\_\_\_.

f. The “net exports” component of the U.S. gross domestic product registered\_\_\_\_\_\_.

g. The payments data suggest that the United States was a “net demander” of \_\_\_\_\_\_\_\_ billion from the rest of the world.

4.You are given the following spot exchange rates: $1 = 3 francs, $1 = 4 schillings, and 1 franc = 2 schillings. Ignoring transaction costs, how much profit could a person make via three-point arbitrage?

Study the graph below and answer the questions that follow:

a. At what point on the graph does equilibrium for foreign exchange originally occur?

b. What happens to the demand for dollars when DD shifts to D1 D1? Give one reason.

c. What happens to the value of the rand when DD shifts to D1D1? Motivate your answer.



5.Figure 5.1 illustrates the market for Swiss francs in a world of market-determined exchange rates. Assume the equilibrium exchange rate is $0.5 per franc, given by the intersection of schedules S0 and D0. Answer the next two questions on the basis of this information.

Figure 5.1. – Market for Francs

Refer to Figure 5.1. a shift in the demand for francs from D0 to D1 or a shift in the supply of francs from S0 to S2, would result in a (an):

a. depreciation in the dollar against the franc;

b. appreciation in the dollar against the franc;

c. unchanged dollar/franc exchange rate;

d. none of the above.

Refer to Figure 5.1. a shift in the demand for francs from D0 to D2, or a shift in the supply of francs from S0 to S1, would result in a (an):

a. depreciation in the dollar against the franc;

b. appreciation in the dollar against the franc;

c. no change in the dollar/franc exchange rate;

d. none of the above.