**Modules 41-42**

Current or Financial Account? Identify if the examples are counted in the current or financial (capital) account and determine if it is a debit or credit for the U.S.

1. Bill, an American, invests $20 million in a ski resort in Canada.

2. A Korean company sells vests to the U.S. military

3. A U.S. company, Boeing, sells twenty 747’s to France

4. A Chinese company buys a shopping mall in San Diego.

5. An illegal immigrant living in the U.S. sends a portion of his earning to his family in Bora Bora

6. A German investor buys $50,000 worth of U.S. Treasury bonds.

7. Italian tourists spend $5 million in the U.S. while American tourists spend $8 million in Italy.

8. Germany invests $4 million in the U.S. stock market

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9. U.S. income increases relative to other countries. Does the balance of payments on the current account move toward a deficit or a surplus?

10. If the U.S. dollar depreciates relative to other countries, does the balance of payments on the current account move toward a deficit or surplus?

11. If real interest rates in the U.S. decrease relative to other countries, does the balance of payments on the financial account move toward deficit or surplus?

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12. Does the U.S. dollar appreciate or depreciate if it changes from:

a. $1.50 = 2 yen to $1.75 = 2 yen

b. $2.00 = 1 euro to 2.50 = 1 euro

c. $3.00 = 1 peso to $2.00 = 1 peso

What effect do each of the above have on imports and exports?

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13. Draw and correctly label a foreign exchange market for the:

a. U.S. dollar against the euro dollar b. Mexican peso against the British pound

c. Japanese yen against the Canadian dollar d. Euro dollar against the Mexican peso

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In each of the following situations, an underlying event causes a change in foreign exchange markets. Graph the effects on the equilibrium exchange rate and currency exchanged in the foreign exchange markets. Draw two graphs for each situation. Also indicate the effect on each country’s currency (appreciate or depreciate?)

14. French tourists visit Mexico

15. U.S. children want videos produced in Japan

16. Real interest rates increase in Germany compared to Japan

17. Real GDP increases in the U.S. compared to Canada

18. Prices in the U.S. fall in comparison to Britain