

AP[®] Macro Unit 6: Open Economy- International Trade/Finance

Topic 6.1- Balance of Payments Accounts

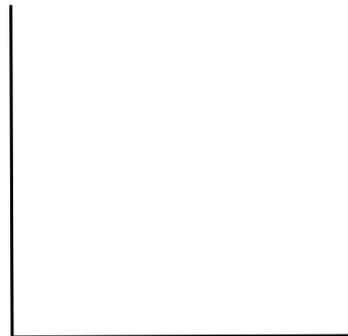
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| <p>1. What do balance of payments (BOP) accounts measure?</p> <p>2. Define net exports (X_N)</p> <p>3. What is the difference between the current account (CA) and the financial/capital account (CFA)?</p> | <p>4. A trade deficit is when _____ are greater than _____.</p> <p>5. A trade surplus is when _____ are greater than _____.</p> <p><i>Identify if each is included in the current account (CA) or the financial/capital account (CFA) for the US</i></p> <p>6. An US company sells jets in Canada</p> <p>7. An American buys a beach resort in Mexico</p> <p>8. An American on vacation buys Japanese government bonds</p> <p>9. A Chinese company sells toys in the US</p> <p>10. An immigrant living in the US sends a portion of his earning to his family overseas</p> <p>11. An American company sells cars in the US</p> <p>12. A Canadian buys lumber in the US</p> |
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Topic 6.2- Exchange Rates

1. What is the difference between appreciation and depreciation?
2. Why can't two currencies both appreciate relative to each other at the same time?
3. Assume it now takes 100 yen to purchase 1 US dollar instead of 120 yen. Which currency appreciated and which currency depreciated?
4. Assume 1 US dollar went from equaling .9 euros to equaling 1 euro. Which currency appreciated and which currency depreciated?
5. If 1 US dollar equals 19 Mexican pesos, 1 peso equals how many dollars?

Topic 6.3- The Foreign Exchange Market

1. Draw a foreign exchange market for Canadian dollars (CAD) relative to Mexican pesos (MXN) with an equilibrium exchange rate at 15 pesos



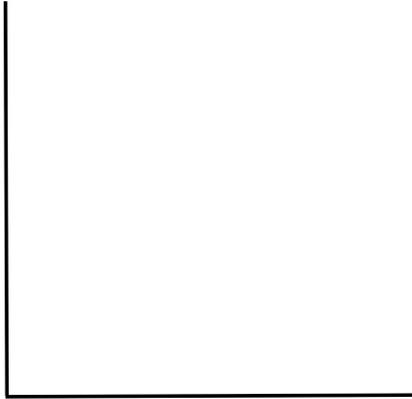
2. Why is the demand for CAD downward-sloping?
3. Why is the supply for CAD upward-sloping?

Topic 6.4- Changes in the Foreign Exchange Market

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| <p>1. What are the four shifters of demand and supply in the foreign exchange market?</p> | <p>2. Which shifters shift both the demand and the supply of a currency at the same time? Explain</p> |
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Topic 6.4- Changes in the Foreign Exchange Market (continued)

3. Draw the foreign exchange market for Mexican pesos (MXN) relative to US dollars (USD). What happens if inflation increases in Mexico?



4. Will pesos appreciate or depreciate?
5. Will dollars appreciate or depreciate?

- 6. If American tourists increase visits to Japan, the supply of US dollars will _____ and the demand for Japanese yen will _____. The dollar will _____. The yen will _____.
- 7. If the US economy experiences rapid growth, incomes in the US will _____, the US dollar will _____ and the yen will _____.
- 8. If inflation in the Japan rises significantly faster than in the US, the US dollar will _____ and the yen will _____.
- 9. If the central bank of Japan sells bonds and increases Japanese interest rates, the US dollar will _____ and the yen will _____.
- 10. If Japan places tariffs on US imports, the dollar will _____ and the yen will _____.
- 11. The US suffers a larger recession causing incomes to fall, the dollar will _____ and the yen will _____.

Topic 6.5- Foreign Exchange and Net Exports

- 1. If a country's currency appreciates, net exports will _____.
- 2. If a country's currency depreciates, net exports will _____.
- 3. The US dollar will appreciate relative to another currency if the demand for the dollar _____ or if the supply of the dollar _____. This will cause US exports to _____ and imports to _____.
- 4. The US dollar will depreciate relative to another currency if the demand for the dollar _____ or if the supply of the dollar _____. This will cause US exports to _____ and imports to _____.

Topic 6.5- Real Interest Rates and International Capital Flows

- 1. What is net capital inflow?
- 2. Why does an increase in the real interest rate cause an increase in net capital inflow?
- 3. Will a decrease in the real interest rate move a country's capital/financial account (CFA) toward a deficit or toward a surplus? Explain
- 4. Why does an increase in the real interest rate shift both the demand and the supply for currency?

5. Draw the foreign exchange market for the US dollar (USD) relative to euros (EUR). What happens if real interest rates increase in the US?



- 6. Do dollars appreciate or depreciate?
- 7. Do euros appreciate or depreciate?
- 8. Will the supply of loanable funds in the US increase or decrease?