

ANSWERS KEY – ANSWERS AT END

ECONOMICS 353

L. Tesfatsion/Spring Semester 2011

EXERCISE 9: Eight Questions (8 Pts Total)

DUE: Tues., April 5, 12:40pm

****PLEASE NOTE: EXERCISES ARE DUE AT THE BEGINNING OF CLASS ON THE DUE DATE. LATE EXERCISES WILL NOT BE ACCEPTED AFTER DISCUSSION OF ANSWERS HAS BEGUN – NO EXCEPTIONS****

EXERCISE INSTRUCTIONS:

- (1) Please **fill in your name and student ID number** on Side 1 of your red bubble sheet and write **353 Exercise 9** in the top margin of Side 1. (Red bubble sheets will be handed out in class each Tuesday and can also be obtained from the Econ Undergraduate Office in 174 Heady during normal business hours M-F.)
- (2) Use a number 2 pencil to **mark your answers** on Side 1 of the bubble sheet to the multiple-choice questions Q1 through Q8 below.
- (3) Each question is worth 1 point. Questions Q1 through Q5 can be answered using required online html and ppt course notes for Mishkin Chapter 21 (“The International Financial System”). Questions Q6 through Q8 on the International Monetary Fund can be answered using these html and ppt notes plus an accompanying link to an additional online reading.

Q1. The HC CURRENT ACCOUNT CA keeps track of _____

- A. financial asset trades between HC and ROW.
- B. payment transfers and trades in final goods and services between HC and ROW (including income received from financial asset holdings).
- C. secondary physical asset trades between HC and ROW.
- D. net payments received by HC from ROW through reserve currency transactions.

Q2. Which items below would appear as items in the 2011 U.S. CURRENT ACCOUNT:

- A. U.S. foreign aid to Egypt during 2011.
- B. A Malaysian citizen’s 2011 purchase of U.S. Treasury bonds issued in 2011.
- C. Purchases by Japan in 2011 of soybeans harvested in 2011 by Iowan farmers.
- D. Interest payments received in 2011 by U.S. holders of a German bond issued in 2000.
- E. All but B.

- Q3.** If the U.S. is running a CURRENT ACCOUNT DEFICIT, then U.S. national saving is _____ U.S. total investment, and the U.S. is _____ the rest-of-the-world.
- A. greater than; a net lender to
 - B. greater than; a net borrower from
 - C. less than; a net lender to
 - D. less than; a net borrower from
- Q4.** According to the post-1999 U.S. national income and product account (NIPA) principles explained in the html notes on Mishkin Chapter 21, the U.S. FINANCIAL ACCOUNT FA keeps track of _____
- A. unilateral asset transfers between the U.S. and the rest of the world.
 - B. financial asset trades and secondary physical asset trades between the U.S. and the rest of the world.
 - C. net payments received by the U.S. from the rest-of-the-world through trades in newly produced goods and services.
 - D. net payments received by the U.S. from the rest-of-the-world through trades in newly produced capital goods.
- Q5.** According to the post-1999 U.S. NIPA principles explained in the html notes on Mishkin Chapter 21, the U.S. is in a BALANCE OF PAYMENTS EQUILIBRIUM during a particular time period T if _____
- A. the U.S. current account CA equals zero for period T.
 - B. the U.S. central bank is actively intervening in the foreign exchange market to ensure demand equals supply for U.S. dollars during period T.
 - C. the net change in U.S. official reserve assets (BOP) is zero during period T.
 - D. the sum of the U.S. Current Account CA, the U.S. Capital Account KA, and the U.S. Financial Account FA is zero (i.e., $CA + KA + FA = 0$) for period T.
 - E. in net terms the U.S. is neither borrowing from nor lending to the rest of the world in period T.

SEE THE FOLLOWING PAGE FOR Q6-Q8.

Q6-Q8: Questions on the International Monetary Fund. Please use the following required online readings to answer Q6-Q8 below.

** [1] L. Tesfatsion, “HTML Notes on Mishkin Chapter 21 (International Financial System)”
www.econ.iastate.edu/classes/econ353/tesfatsion/Mish21a.htm

** [2] L. Tesfatsion, “PPT Notes on Mishkin Chapter 21 (International Financial System)”
www.econ.iastate.edu/classes/econ353/tesfatsion/Mish21a.pdf

** [3] Staff Writer, “IMF Calls for Dollar Alternative,” CNNMoney.com, Feb 10, 2011
www.econ.iastate.edu/classes/econ353/tesfatsion/IMFCallForDollarReplacement.10Feb2011.pdf

Q6 (1 Point). According to Ref. [1], the IMF member countries currently consist of ____.

- A. the more developed industrialized countries who have come together in a venture-capital form of organization with the purpose of finding profitable ways to invest in emerging market economies.
- B. the richer countries of the world who have come together to form a for-profit corporate bank with the primary purpose of providing a high rate of return to shareholders (IMF members).
- C. emerging market countries who have come together to form a collective bargaining type of organization for the solicitation of loans from the more developed industrialized countries.
- D. over 180 countries who have voluntarily agreed to form a credit-union type of organization in which “quota subscription” deposits are collected from member countries in rough proportion to their size and used to make loans to member countries in times of need.

Q7 (1 Point). According to Refs. [1-2], since 1971 the IMF has ____.

- A. sought to keep the exchange rates of IMF member countries at fixed specified levels.
- B. continued to function as a collector of international data and as an advisor to countries experiencing balance of payments problems.
- C. increasingly functioned as a lender of last resort for IMF member countries experiencing balance of payments problems.
- D. All of the above.
- E. Only B and C above.

Q8 (1 Point). According to Ref. [3], in February 2011 the IMF issued a controversial report in which it proposes the replacement of the U.S. dollar as the world's reserve currency with SPECIAL DRAWING RIGHTS (SDRs), which are _____.

- A.** shares in an international mutual fund managed by the IMF consisting of a basket of international currencies.
- B.** stock shares in the IMF, hence claims against the equity value of the IMF.
- C.** special assets awarded to each IMF member country in an amount determined by its quota subscription contribution that can be converted into whatever currency the country requires when it wishes to borrow funds in time of need.
- D.** shares in world GDP, measured by a basket of the world's goods and services constructed in accordance with purchasing power parity principles.

Multiple Choice Answers: Q1-B, Q2-E, Q3-D, Q4-B, Q5-C, Q6-D, Q7-E, Q8-C