

Answers to Homework 4

1. For each of the following transactions, indicate whether the transaction is a negative item on the U.S. balance of payments (mark it with a D for debit), or a positive item (mark it with a C for credit.) Indicate which account the transaction falls into: Trade Balance (TB), Income Balance (IB), net Unilateral Transfers (UT), or Financial Account (FA). The first transaction is worked as an example:

(0) The U.S. imports \$1 billion of automobiles from Korea	TB <u>D</u> IB <u>    </u> UT <u>    </u> FA <u>    </u>
and pays with a transfer to a U.S. bank account	TB <u>    </u> IB <u>    </u> UT <u>    </u> FA <u>C</u>
(a) Boeing sells \$3billion of aircraft to Japan	TB <u>C</u> IB <u>    </u> UT <u>    </u> FA <u>    </u>
Japan agrees to pay later and receives a loan from Boeing	TB <u>    </u> IB <u>    </u> UT <u>    </u> FA <u>D</u>
(b) UBS, a Swiss bank, buys US Treasury bonds from an American	TB <u>    </u> IB <u>    </u> UT <u>    </u> FA <u>C</u>
Pays by making a transfer from its account at a U.S. bank	TB <u>    </u> IB <u>    </u> UT <u>    </u> FA <u>D</u>
(c) Apple pays dividends to Canadian investor	TB <u>    </u> IB <u>D</u> UT <u>    </u> FA <u>    </u>
Pays by check that is subsequently deposited in US bank account	TB <u>    </u> IB <u>    </u> UT <u>    </u> FA <u>C</u>
(d) The Federal Reserve purchases British pounds from foreigner	TB <u>    </u> IB <u>    </u> UT <u>    </u> FA <u>D</u>
It pays by bank transfer to Foreigner	TB <u>    </u> IB <u>    </u> UT <u>    </u> FA <u>C</u>
(e) The Philippines donates \$1 billion to U.S. to help fight drug trafficking	TB <u>    </u> IB <u>    </u> UT <u>C</u> FA <u>    </u>
It pays by remitting U.S Treasury bonds it had previously acquired	TB <u>    </u> IB <u>    </u> UT <u>    </u> FA <u>D</u>
(f) Honda of America borrows \$250 million from its parent company in Japan	TB <u>    </u> IB <u>    </u> UT <u>    </u> FA <u>C</u>
The loan is credited to Honda of America's account at a U.S. bank	TB <u>    </u> IB <u>    </u> UT <u>    </u> FA <u>D</u>
(g) A U.S. citizen buys \$120,000 of gold from French jeweler	TB <u>D</u> IB <u>    </u> UT <u>    </u> FA <u>    </u>
Pays with a bank transfer	TB <u>    </u> IB <u>    </u> UT <u>    </u> FA <u>C</u>
(h) A Brazilian buys one acre of land near Milwaukee from an American	TB <u>    </u> IB <u>    </u> UT <u>    </u> FA <u>C</u>
In exchange, the American receives land of comparable value near Sao Paolo in Brazil	TB <u>    </u> IB <u>    </u> UT <u>    </u> FA <u>D</u>

(i) Ernst and Young, an American accounting firm, provides services for an Irish brewing company	TB <u>C</u> IB <u>    </u> UT <u>    </u> FA <u>    </u>
The brewing company pays by making a transfer from its account at a U.S. bank	TB <u>    </u> IB <u>    </u> UT <u>    </u> FA <u>D</u>
(j) A U.S. importer-exporter makes an agreement with Anaconda Copper to import \$30 million of copper	TB <u>D</u> IB <u>    </u> UT <u>    </u> FA <u>    </u>
In exchange, the importer-exporter sends an wheat of equal value to Chile	TB <u>C</u> IB <u>    </u> UT <u>    </u> FA <u>    </u>