

Imbalance of Payments

Part A

To make sure you understand the components of the current account, the capital account and the difference between a credit (transaction that earns foreign exchange) and a debit (transaction that uses foreign currency), identify each of the following transactions on the U.S. balance of payments. Complete Figure 52.1 by putting check marks in the appropriate boxes for credit or debit and for capital or current account. The first one has been done for you.



Figure 52.1
Transactions on the U.S. Balance of Payments

	Credit +	Debit -	Current Account	Capital Account
1. Harley Davidson USA purchases \$25 million in production machinery from a Japanese company.		✓		✓
2. André Prenoor, U.S. entrepreneur, invests \$50 million to develop a theme park in Malaysia.		✓		✓
3. A Chinese company sells \$1 million worth of berets to the U.S. Army.		✓	✓	
4. BMW pays \$1 million to a U.S. shipper for transporting cars from Germany to the United States.	✓		✓	
5. Each month, Ima Grent, who recently arrived in the United States, sends half her paycheck to her sister in Poland.		✓	✓	
6. Bank of America pays \$5 million in interest to French depositors.		✓	✓	
7. Senor Ramos from Spain buys a shopping center in Florida.	✓			✓
8. A Brazilian investor buys five \$10,000 U.S. Treasury bonds.	✓			✓
9. German tourists spend \$3 million in the United States; U.S. tourists spend \$5 million in Germany.		✓	✓	
10. Brit-Disz, a London record store, spends \$10,000 on CDs by the Generic Gurls, a U.S. kiddy-pop group.	✓		✓	
11. Sam Boney, U.S. ice-rink magnate, buys stock in a Chilean ice-rink chain.		✓		✓

Part B

12. Analyze the data in Figure 52.2. Compute the missing figures, and answer the questions that follow.



Figure 52.2

2002 Balance of Payments, Z-Land

Current Account

Z-Land exports of goods	\$ +300	
Z-Land imports of goods	-400	
Z-Land exports of services	+150	
Z-Land imports of services	-120	
Balance of trade		<u>-70</u>
Net investment income	+10	
Net transfers	-14	
Balance on current account		<u>-74</u>

Capital Account

Z-Land capital going abroad	-110	
Foreign capital coming into Z-Land	+160	
Balance on capital account		<u>+50</u>

Balance on Current Account

Plus Balance on Capital Account		<u>-24</u>
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Official Reserves Account

Official reserves transactions balance		<u>+24</u>
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Total		<u>\$ 0</u>
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13. Does Z-Land have a current account deficit or surplus? How do you know? *Z-Land is running a current account deficit. Imports of goods and services exceed exports of goods and services.*
14. Without central bank intervention, does Z-Land carry a balance of payments surplus or deficit? How do you know? *Z-Land is running a balance of payments deficit because the capital account surplus (+\$50) does not fully offset the current account deficit (-\$84).*
15. If Z-Land runs a balance of payments deficit, how can this difference be made up? If it carries a balance of payment surplus, what will happen? *Z-Land must either borrow to bring its balance of payments deficit to \$0, or it must use its official reserves to make up the difference. If Z-Land runs a balance of payments surplus, it can add the excess earned currency to its official reserves.*