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ECO 209Y
MACROECONOMIC THEORY

Problem Set 7

1. Consider the following information regarding the Balance of Payments account of Canada (all figures in millions of dollars):

Exports of merchandise	60,310
Imports of merchandise	55,249
Travel by Canadians outside Canada	3,722
Direct investment in Canada from foreign sources	779
Net short term capital movements	2,734
Travel by foreigners in Canada	3,800
Interest and dividends paid to foreigners	11,019
Freight and shipping sold to foreigners	2,282
Direct investment by Canadians in foreign countries	2,406
Long-term portfolio investment by Canadians abroad	1,813
Long-term portfolio investment by foreigners in Canada	5,618
Freight and shipping bought from foreigners	2,145
Interest and dividends paid to Canadians by foreigners	3,550

a) Compute the current account based on these figures.
b) Compute the capital account based on these figures.

2. Consider the following information regarding the Balance of Payments account of a small country (all figures in millions of dollars):

Capital inflows	2,000
Dividends and interest received from abroad	800
Exports of goods and services	1,000
Capital outflows	1,800
Gifts made to non-residents	100
Imports of goods and services	1,100
Dividends and interests paid abroad	700
Rise in foreign exchange reserves	400

a) What is the current account balance?
b) What is the capital account balance?
c) What is the balance on the official settlement account?
d) What are the errors and omissions?
e) What is the balance of payments?

3. Assume that purchasing power parity holds in the following questions:
   a) The Canadian inflation rate is 10 percent and the U.S. inflation rate is 7 percent. All else equal, what will happen to the value of the Canadian dollar expressed in U.S. dollars?
   b) The Canadian dollar is appreciating by 4 percent per year and the U.S. inflation rate is 6 percent. All else equal, what is the Canadian inflation rate?
   c) The Canadian dollar is depreciating by 3 percent per year and the Canadian inflation rate is 4 percent. What is the U.S. inflation rate?