

**ECO209Y**  
**MACROECONOMIC THEORY**  
**Solution to Problem Set 7**  
**(Odd numbers only)**

1. a) Items that enter positively into the current account balance are:

Exports of merchandise	60,310
Travel by foreigners in Canada	3,800
Interests and dividends paid to Canadians by foreigners	3,550
Freight and shipping sold to foreigners	2,282
<b>TOTAL</b>	<b>69,942</b>

Items that enter negatively into the current account balance are:

Imports of merchandise	55,249
Travel by Canadians abroad	3,722
Interests and dividends paid to foreigners by Canadians	11,019
Freight and shipping bought from foreigners	2,145
<b>TOTAL</b>	<b>72,135</b>

Therefore, the current account balance is:

$$69,942 - 72,135 = -2,193.$$

- b) Items that enter positively into the capital account balance are:

Direct investment in Canada	779
Long-term portfolio investment in Canada	5,618
<b>TOTAL</b>	<b>6,397</b>

Items that enter negatively into the current account balance are:

Direct investment by Canadians abroad	2,406
Long-term portfolio outside Canada	1,813
<b>TOTAL</b>	<b>4,219</b>

Finally, the capital account also includes net short-term capital flows. Therefore, the capital account balance is:

$$6,397 - 4,219 + 2,734 = 4,912.$$

3. a) The Canadian dollar depreciates by approximately 3 percent per year.  
b) The Canadian inflation rate is approximately 2 percent.  
c) The U.S. inflation rate is approximately 1 percent.