1. Describe how each of the following transactions affects the U.S. Balance of Payments. (Recall that each transaction gives rise to two entries in the Balance-of-Payments Accounts.)

(a) An American university buys several park benches from Spain and pays with a $120,000 check.
(b) Floyd Townsend, of Tampa Florida, buys 5,000.00 dollars worth of British Airlines stock from Citibank New York, paying with U.S. dollars.
(c) A French consumer imports American blue jeans and pays with a check drawn on a U.S. bank in New York.
(d) An American company sells a subsidiary in the United States and with the proceeds buys a French company.
(e) A group of American friends travels to Costa Rica and rents a vacation home for $2,500. They pay with a U.S. credit card.
(f) The United States sends medicine, blankets, tents, and nonperishable food worth 400 million dollars to victims of an earthquake in a foreign country.
(g) Bonus items. The following two transactions involve a component of the balance of payments that we have ignored because it is quantitatively insignificant. If you decide to answer this question, take a look at footnote 1 in the book.
   i. A billionaire from Russia enters the United States on an immigrant visa (that is, upon entering the United States she becomes a permanent resident of the United States.) Her wealth in Russia is estimated to be about 2 billion U.S. dollars.
   ii. The United States forgives debt of $500,000 to Nicaragua.

2. Find the figures corresponding to the U.S. current account components for 2011. Present your answer in a form similar to table 1.1 of the textbook, that is, show figures in both current dollars and as a percentage of GDP. For current account and GDP data visit the Bureau of Economic Analysis’ website, http://www.bea.gov, and follow the respective links under the heading “interactive data”. Note that the BEA may have introduced revisions to the 2010 figures, so the numbers currently shown in the BEA’s website may not exactly coincide with the ones shown in table 1.1 of the textbook.

3. Chapter 1 of the textbook shows that over the past 20 years the NIIP of the United States greatly benefited from valuation changes. In this homework, analyze how valuation changes affected the NIIP of China between 1981 and 2007. For the net foreign asset position of China use the time series constructed by Lane and Milesi-Ferretti (http://www.philiplane.org/EWN.html) rather than the China’s official NIIP data. Current account data is available from the IMF’s World Economic Outlook Database, which you should download. Use these two time series to construct a time series for valuation changes in China’s net foreign asset position. Using a software package such as Excel or Matlab, plot a time series for the net foreign asset position, the cumulative current account, and valuation changes for China, since 1981. Make one graph in which the units are billions of U.S. dollars and one graph in which the units are percent of GDP. GDP data are also in the Lane and Milesi-Ferretti spreadsheet. Then use these graphs to contrasts the valuations changes experienced by China and by the United States. To which extent do your findings regarding the sign of the valuation changes support a view that on net China holds more low risk/low return assets than high risk/high return assets.