

THINGS TO KNOW FOR THE FINAL EXAM

THE BASICS

- Covers Chapters 12, 13, and 14
- Tues, May 25
- ECON 136 FINAL EXAM **0715-0930**

DEFINITIONS, CONCEPTS, AND ISSUES

NATIONAL SAVINGS

BALANCE OF PAYMENTS

THE CURRENT ACCOUNT

GROSS DOMESTIC PRODUCT vs. GROSS NATIONAL PRODUCT

$$Y = C + I + G + CA$$

$$CA = EX - IM = Y - (C + I + G)$$

NET FOREIGN WEALTH

$$S^p + S^g = S$$

private saving vs. government saving

◆ *Which is better?*

◆ *How is each accomplished?*

(True, False, Uncertain; Explain) A country that imports more than it exports has low national saving relative to investment.

(True, False, Uncertain; Explain) a current account deficit implies a financial asset inflow or negative net foreign investment.

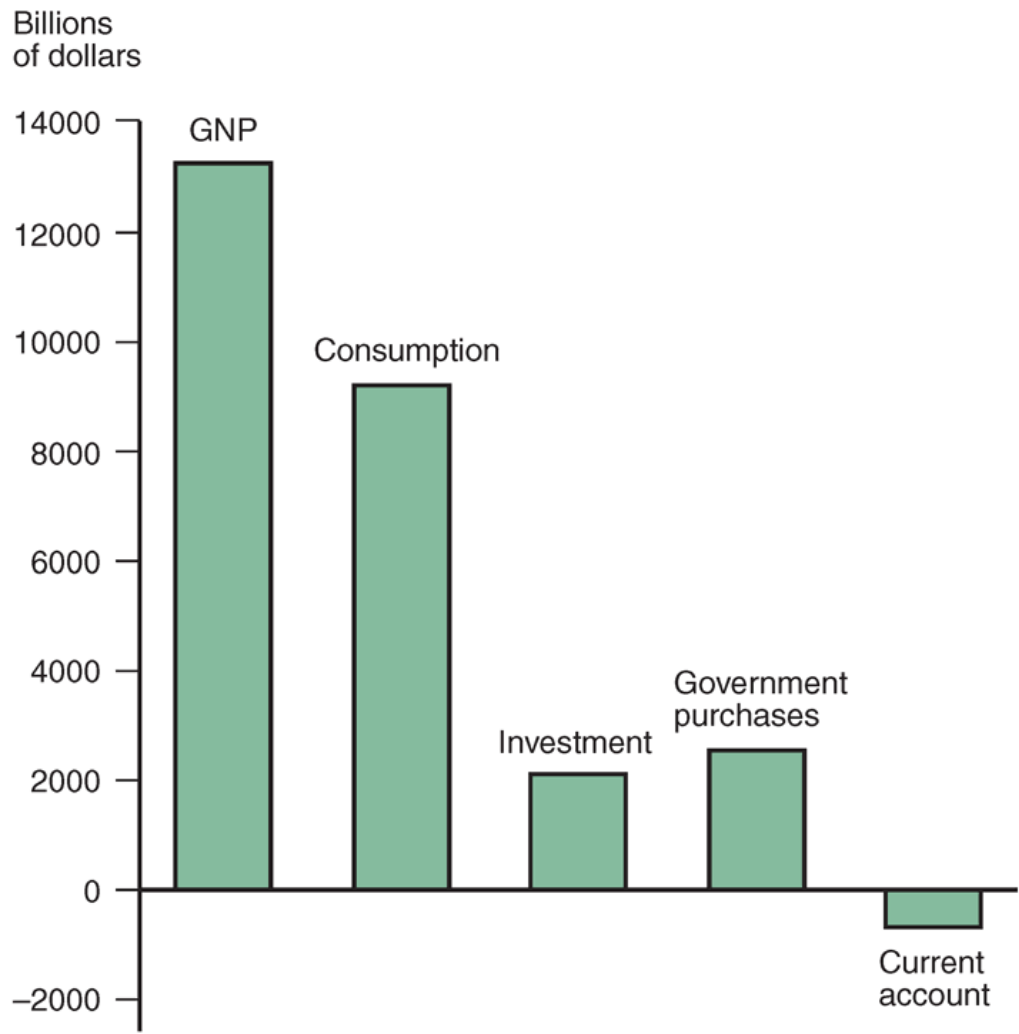
(True, False, Uncertain; Explain) A high government deficit causes a negative current account balance when other factors remain constant.

$$\text{current account} + \text{financial account} + \text{capital account} = 0$$

appreciations vs. depreciation of one currency in terms of another

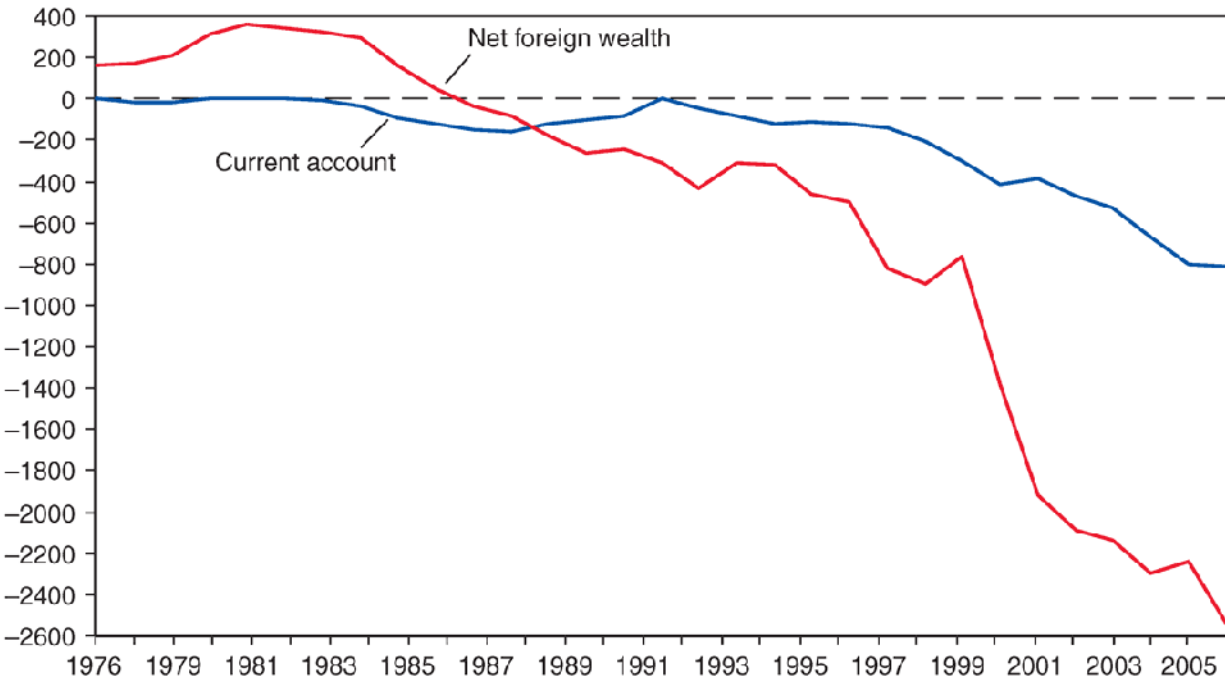
implications of appreciation or depreciation for exports

(nominal) rate of return vs. real rate of return



In what ways would this graph differ for Japan or China?

Current account,
net foreign wealth (billions of dollars)



Good or bad? Explain.

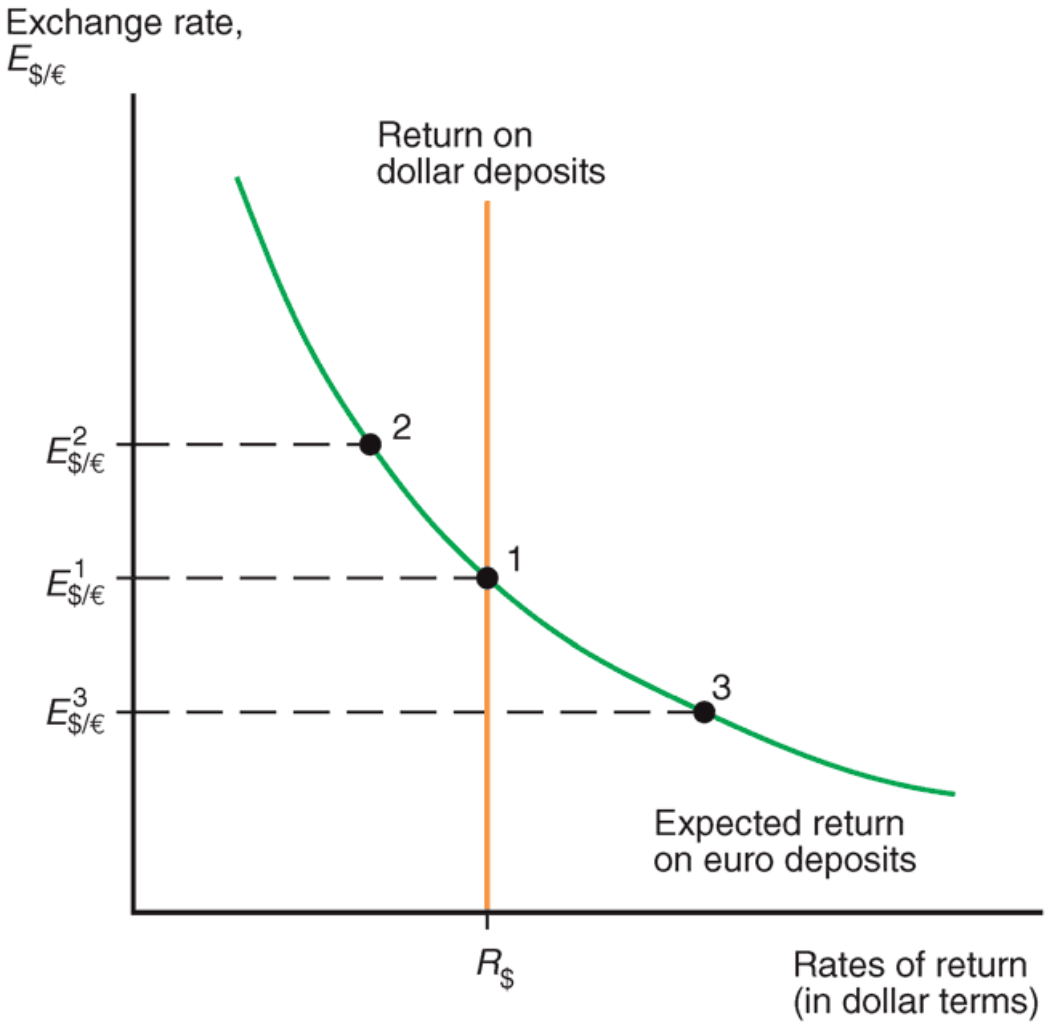
Spot rate vs. Forward rate

$$R_{\$} - (R_{\epsilon} + (E_{\$/\epsilon}^e - E_{\$/\epsilon})/E_{\$/\epsilon}) = 0 \text{ know every part of this equation}$$

Be able to complete a table like this if there is one blank in each row:

	Dollar Interest Rate	Euro Interest Rate	Expected Rate of Dollar Depreciation Against Euro	Rate of Return Difference Between Dollar and Euro Deposits
Case	$R_{\$}$	R_{ϵ}	$\frac{E_{\$/\epsilon}^e - E_{\$/\epsilon}}{E_{\$/\epsilon}}$	$R_{\$} - R_{\epsilon} - \frac{(E_{\$/\epsilon}^e - E_{\$/\epsilon})}{E_{\$/\epsilon}}$
1	0.10	0.06	0.00	0.04
2	0.10	0.06	0.04	0.00
3	0.10	0.06	0.08	-0.04
4	0.10	0.12	-0.04	0.02

Why is this an equilibrium?



What can cause the vertical line to shift?

What can cause the downward sloping line to shift?

Will that cause appreciation or depreciation of the currency?

What is money?

Who controls the supply of money?