Econ 233 - Problem Set 5
Balance of Payments Accounting

This problem set has two parts. In the first part you will practice recording international transactions into the balance of payments. In the second part you will analyze the external balance of "your" country.

Part I:

1. Record the following transactions in the Polish balance of payments.

   a) Poland buys \$200 worth of computers from the U.S.

   b) American tourists spend \$5 on restaurant meals in Warsaw.

   c) A U.S. investor buys a Polish chemical factory for \$100.

   d) The Polish central bank pays \$20 in interest on its debt to a U.S. investor.

   e) The Polish central bank repays a \$10 loan from the IMF.

   f) The Polish central bank intervenes in the foreign exchange market by buying \$70 worth of zloty and selling its dollar reserves.

Polish Balance of Payments:

	Credit	Debit
1. Current account	**Credit**	**Debit**
A. Goods and services		
Goods		
Services		
B. Income		
Investment income		
2. Capital and financial account		
A. Capital account		
B. Financial account		
Direct investment		
Portfolio investment		
Other investment		
Deposits		
Use of IMF credit		
Reserve assets		
Foreign exchange		

2. Calculate the following memorandum items:

Trade balance
Current account(CA)
Nonreserve capital account (KA)
Overall balance
Reserves and related items($-\Delta$R)

3. Did Poland run a current account deficit or surplus?

4. Did the Polish central bank gain or lose reserves?

5. Did Poland increase or decrease its foreign debt?

Part II:

Using the data in the IFS, describe your country's external position in the most recent year. Answer the following questions:

1. Did your country run a current account deficit or surplus? How large was the surplus/deficit in terms of percent of GDP? How much of it was due to the trade balance and how much due to the trade in services?

2. Was your country losing or gaining official reserves?

3. Did your country experience capital inflows or capital outflows?

4. If the development in your country persists for a several years, what types of risks do you see in maintaining an external balance? Would this trend be sustainable?