Chapter 38

■ PROBLEMS

1. Assume a U.S. exporter sells $3 million worth of wheat to an importer in Colombia. If the rate of exchange for the Colombian peso is $.02 (2 cents), the wheat has a total value of 150 million pesos.

a. There are two ways the importer in Colombia may pay for the wheat. It might write a check for 150 million pesos drawn on its bank in Botogá and send it to the U.S. exporter.

(1) The American exporter would then sell the check to its bank in New Orleans and its demand deposit there would increase by $_______________ million.

(2) This New Orleans bank now sells the check for 150 million pesos to a correspondent bank (a U.S. commercial bank that keeps an account in the Botogá bank).

(a) The New Orleans bank's account in the correspondent bank increases by _______________ million (dollars, pesos) _______________; and

(b) the correspondent bank's account in the Botogá bank increases by _______________ million (pesos, dollars) _______________.

b. The second way for the importer to pay for the wheat is to buy from its bank in Botogá a draft on a U.S. bank for $3 million, pay for this draft by writing a check for 150 million pesos drawn on the Botogá bank, and send the draft to the U.S. exporter.

(1) The U.S. exporter would then deposit the draft in its account in the New Orleans bank and its demand deposit account there would increase by $________ million.

(2) The New Orleans bank collects the amount of the draft from the U.S. bank on which it is drawn through the Federal Reserve Banks.

(a) Its account at the Fed increases by $________ million; and

(b) the account of the bank on which the draft was drawn decreases by $ _______________ million.

c. Regardless of the way used by the Colombian importer to pay for the wheat,

(1) the export of the wheat created a (demand for, supply of) _____________________ dollars and a _______________ pesos.

(2) The number of dollars owned by the U.S. exporter has (increased, decreased) _______________ and the number of pesos owned by the Colombian importer has _______________.

2. The following table contains hypothetical balance of payments data for the United States. All figures are in billions.

Current account		
(1) U.S. goods exports	$+150	
(2) U.S. goods imports	−200	
(3) *Balance on goods*		______
(4) U.S. exports of services	+75	
(5) U.S. imports of services	−60	
(6) *Balance on services*		______
(7) *Balance on goods and services*		______
(8) Net investment income	+12	
(9) Net transfers	−7	
(10) ***Balance on current account***		______
Capital account		
(11) Foreign purchases of assets in the U.S.	+80	
(12) U.S. purchases of assets abroad	−55	
(13) ***Balance on capital account***		______
(14) *Current and capital account balance*		______
(15) ***Official reserves***		______
		$ 0

a. Compute with the appropriate sign (+ or −) and enter in the table the seven missing items.
b. The United States had a payments (deficit, surplus) ________________ of $ ________________.

3. The following table shows supply and demand schedules for the British pound.

Quantity of pounds supplied	Price	Quantity of pounds demanded
400	$5.00	100
360	4.50	200
300	4.00	300
286	3.50	400
267	3.00	500
240	2.50	620
200	2.00	788

a. If the exchange rates are flexible
(1) what will be the rate of exchange for the pound? $________________
(2) what will be the rate of exchange for the dollar? £________________
(3) how many pounds will be purchased in the market? ________________
(4) how many dollars will be purchased in the market? ________________

b. If the U.S. government wished to fix or peg the price of the pound at $5.00, it would have to (buy, sell) ________________ (how many) ________________ pounds for $________________.
c. And if the British government wished to fix the price of the dollar at £ 2/5, it would have to (buy, sell) ________________ (how many) ________________ pounds for $________________.