Business 4079

Assignment 1

Due Thursday January 30 2003, 7:00pm (beginning of class)

1. (5 points) How will the following transactions be reflected in the U.S. balance of payments?

   (a) A U.S. MNE sells $5 million in automotive parts to a firm in Italy, receiving a check drawn on the Italian company's U.S. bank account.

   (b) A Japanese corporation purchases a plant in the United States for $200 million, using the proceeds of a loan from a U.S. bank.

2. (5 points) Assume that the Spanish peseta (which is no longer used since the adoption of the euro) exchange rate is fixed at Pt50/$ (U.S. dollars), and the peseta is freely convertible into all major currencies including the U.S. dollar. Also assume that comparable one-year interest-bearing securities in the United States and in Spain yield 6$ per annum. Because of a domestic recession in Spain, its central bank lowers the domestic interest rate to 4% per annum. Explain what might happen.

3. (10 points) Construct the balance-of-payment table for Canada and Argentina for 1999, 2000, and 2001 which is comparable in format to Exhibit 3.2 in *Eiteman et al., Multinational Financial Mangement*. You may consult *International Financial Statistics* published by IMF (you can access the data with a trial membership) or search for useful websites for the data yourself. Compare the two countries in terms of current account balance, capital account balance, financial account balance, basic balance, and overall balance.

4. (10 points) One of the key "sides" of *The Impossibility Trinity* is the degree of capital mobility into and out of a country. Use the International Finance subsection of Yahoo! (or any other source of information) to determine the current state of capital movement freedom for the following countries: Chile, China, Malaysia, Taiwan and Russia.