

## Chapter 8 Selected Answers

### Problem 8.1:

- (a) “Other Foreign Assets in the U.S.” (Receipts, line 4) rises by \$15 billion; “Balance on Capital Account” (Payments, line 11) rises by \$15 billion; both “Capital Receipts from the Rest of the World” (Receipts, line 6) and “Capital Payments to the Rest of the World” (Payments, line 12) also rise by \$15 billion.
- (c) “Other Foreign Assets in the U.S.” (Receipts, line 4) rises by \$1 billion; “Balance on Capital Account” (Payments, line 11) rises by \$1 billion; both “Capital Receipts from the Rest of the World” (Receipts, line 6) and “Capital Payments to the Rest of the World” (Payments, line 12) also rise by \$1 billion.
- (e) “The purchase of the Treasury bills is a \$20 billion increase in “Foreign Official Assets in the U.S.” (Receipts, line 3), but the surrender of the cash is a \$20 billion decrease in the same item. Since there is an exact offset, the entries in the table do not change.

**Problem 8.3:** 7.14 percent.

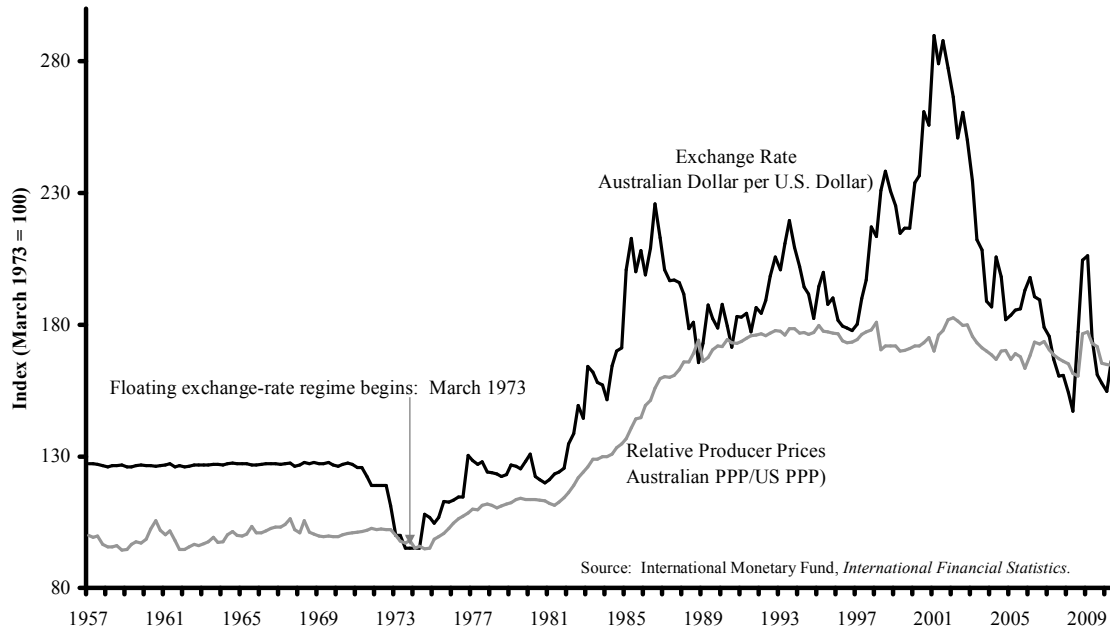
### Problem 8.6:

- (a) 66.67 rupee/euro.
- (c) 1.46 dollar/euro.
- (e) 60.61 rupee/euro; 48.04 rupee/dollar; 1.26 dollar/euro.

**Problem 8.7:** 1.25 C\$/US\$.

**Problem 8.11:** (*Case of Australian dollar/U.S. dollar only.*) See Figure 8.11.2. The Australian Dollar/U.S. dollar exchange rate follows purchasing-power parity in a broad way throughout the sample, though there are some large deviations.

**Figure 8.11.2**  
**Australian Dollar/U.S. Dollar Purchasing-Power Parity**



**Problem 8.13:** The yen is overvalued by 20 percent.

**Problem 8.18:**  $r_{German} \approx 14$  percent.