**EC304Z INTERNATIONAL ECONOMICS II**

**Problem Set I**

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1. Refer to the Balance of Payments Table for Turkey for January 2016 and January 2017. Calculate the following for these two months:
2. the balance on trade
3. the balance on services
4. the balance on income
5. the current account
6. Which of these items indicate a deficit? A surplus?
7. Refer to the Balance of Payments Table for Turkey for January 2016 and January 2017.
8. What is tourism revenue?
9. Does the balance on investment income indicate an inflow or outflow of income?
10. What are the items that constitute investment income?
11. What information regarding capital flows in and out of Turkey can we infer from investment income data ?

**Recording Transactions under the Financial Account**

**a credit entry indicates**; an increase in liabilities or a decrease in assets

**a debit entry indicates;** a decrease in liabilities or an increase in assets

Please look at page 6 of the manuel on **BP Methodology** by CB of Turkey.

*A syndicated loan in the amount of 100 units provided by nonresident banks to a resident bank is recorded as shown below.*

|  |  |  |
| --- | --- | --- |
|  | Credit | Debit |
| ***Financial Account*** |  |  |
| Other Investment/Currency and Deposits/ **Net Acquisition of Financial Assets**/Banks |  | **100** |
| Other Investment/Loans/ **Net Incurrence of Liabilities**/Banks | **100** |  |

*Repayment of a loan in the amount of 100 units by a resident export company to a non resident creditor is recorded as shown below.*

|  |  |  |
| --- | --- | --- |
|  | Credit | Debit |
| ***Financial Account*** |  |  |
| Other Investment/Currency and Deposits/ **Net Acquisition of Financial Assets**/Banks | **100** |  |
| Other Investment/Trade Credit and Advances/ **Net Incurrence of Liabilities** |  | **100** |

Also, on pg 5 of the same document, the sign convention of Balance of Payments Financial Account to be used as the guideline in interpreting a balace of payments table is explained as follows.

* a ***positive sign*** showing *an* ***increase*** in assets or liabilities and
* a ***negative sign*** showing a ***decrease*** in assets or liabilities.
* **The account balances under which asset and liability transactions are netted out, can be positive or negative.**

Look at the same excel worksheet and calculate the following for January 2016 and January 2017

* **Direct Investment: Net acquisition of financial assets:**
* **Direct Investment: Net incurrence of liabilities:**
* The balance on **direct investment** = [*net acquisitions of financial assets ]-[net incurrence of liabilities*] :
* Is this a net inflow or outflow of of FDI ?
* Fill in the relevant figures in the table below. Is the government debt increasing or decreasing ?

|  |  |  |  |
| --- | --- | --- | --- |
|  |  | Jan 2016 | Jan 2017 |
| **13.** | **Other Investment: Net incurrence of liabilities** |  |  |
| **13.1.** | **Central Bank** |  |  |
| **13.2.** | **General Government** |  |  |

* Calculate the **balance on financial account. (**Remember that the **balance on financial account** = [*net acquisitions of financial assets ]-[net incurrence of liabilities*])
* Is there a net inflow or a net outflow in January 2016? January 2017?

1. Calculate the following:

a)the balance on direct investment

b) the balance on portfolio investment

c) the balance on other investment

d) the balance on financial account

1. What is net incurrence of liabilities under portfolio investments in january 2016 and january 2017? Does this balance imply an increase or decrease in liabilities? Does this figure imply an inflow or outflow of capital? What is the breakdown of this capital flow into bonds and securities? What is the likely impact of these movements on the BIST index and bond rates?
2. For the two months under review, compare the deficit of the current account and the balance on financial account (excluding reserves) and capital accounts. What is the net balance of these three items? Does this imply a net receipt over payments by residents , or the opposite?
3. Is the change in reserves an increase or a decrease?
4. Look at the PDF document entitled bop. Please consider Table 4, Balance of Payments – Yearly Analytic Presentation (1996- 2017): Notice the rise in CA deficits during the 2000’s. Can you identify any relation between strong economic performance and large deficits (or vice versa)? There is only one year when the CA balance is positive. Which one? Also, compare 2009 with 2013 and 2017.
5. Another comparison to be made is between Financial Account balance and the Current Account balance. Look at Chart 21 below. (NEO stands for net errors and omissoins.) Can you verify that the availibility of foreign savings is a determinant of the current account deficit by looking at this chart and the table mentioned in the above question?



**The following two questions are taken from previous exams.**

|  |  |
| --- | --- |
| Current account deficit | 32,192 |
| Capital and Financial account surplus *(excluding changes in reserves)* | 10,703 |
| Change in Reserve Assets (*decrease*) | 11,831 |
| Net errors and omissions (*may be increase or decrease)* | 9,658 |

1. Consider the information above which shows the balance of payments figures for Turkey during 2015. Figures are expressed in millions of US$. Based on this information, what can you infer about the Turkish economy as of the said period?
2. GNP exceeds aggregate demand and there is a net inflow of capital .
3. GNP exceeds aggregate demand and there is a net outflow of capital .
4. Aggregate demand exceeds GNP and there is a net outflow of capital .
5. Aggregate demand exceeds GNP and there is a net inflow of capital .
6. Consider the information given above. Based on this information, what can you infer about the Turkish economy as of the said period?
   1. There is an overall payments surplus of (21,489) in the balance of payments and an decrease in reserve assets (11,831) and an unrecorded outflow of foreign exchange (9,658).
   2. There is an overall payments gap of (21,489) in the balance of payments and it is covered by a depletion in reserve assets (11,831) and an unrecorded influx of foreign exchange (9,658).
   3. There is an overall payments gap of (32,192) in the balance of payments, reserve assets reached the level of 11,831 and an unrecorded inflow of foreign exchange ( 9,658 ).
   4. There is an overall payments surplus of (32,192) in the balance of payments, a decrease in reserve assets (11,831) and an unrecorded inflow of foreign exchange (9,658).