Problem Set 11

Lecture 11: Balance of Payments, the Foreign Exchange Market and Exchange Rates, Nominal vs. Real Exchange Rates, Exchange Rate Systems, and the Impact of Government Policies

1. Boblandia, last year. Boblandia exported $250 worth of stuff and imported $280 worth of stuff. Its residents received $80 in interest payments from abroad, and its firms and government paid $75 to foreigners in interest payments. A Boblandia firm built a factory abroad for $120. A bank in Boblandia purchased $130 worth of foreign government bonds. Foreigners built a $100 factory in Boblandia. Foreigners also purchased $150 worth of Boblandia government bonds.

(a) What was the change in Boblandia's reserves of foreign currency?