

There are 10 questions, worth 10 points each. When a question asks for a brief explanation, that means 1-2 sentences.

Facts about Globalization

1. Describe the education distribution of the foreign-born (immigrant) population of the US.
2. List three ways in which world trade in goods and services has changed in the last 30-40 years.
3. For the US, which has grown faster: merchandise trade or international investment?

Balance of Payments

4. Using the national output = national income accounting identity, write down the equation showing on what the trade balance depends.
5. How can international borrowing raise a country's future income?
6. Does international borrowing necessarily raise a country's future consumption levels? Briefly explain.

The following set up is used in questions 7-10.

Suppose the country initially has a zero trade balance. Congress passes a new program to provide prescription drug benefits to senior citizens at a cost of \$400 billion but does not raise taxes to pay for the benefit or cut other spending programs.

Suppose (Q7-8) that private savings and domestic investment are unchanged.

7. How will this affect national savings and the trade balance?
8. What happens to the net foreign wealth of the US ? Briefly explain.
9. We initially supposed that domestic investment stayed constant. What might cause domestic investment to fall as a result of the changes in policy? Briefly explain.
10. We initially supposed that private savings stayed constant. Give two distinct reasons that private savings might rise as a result of the changes in policy. Briefly explain.