1. (2 points) Is it possible for a country to have a current account surplus at the same time and has deficits in balance of payments? In this case, does this country experience capital inflows or outflows? Explain your answer using hypothetical figures.

2. (2 points) The nation of Pecunia had a current account deficit of $1 billion and a nonreserve financial account surplus of $500 million in 2002. What was the balance of payments of Pecunia in that year? What happened to the country’s net foreign assets?

3. (2 points) Following Question 2, assume that foreign central banks neither buy nor sell Pecunian assets. How did the Pecunian central bank’s foreign reserves change in 2002? How would this official intervention show up in the balance of payments accounts of Pecunia?

4. (2 points) How would your answer to Question 3 change if you learned that foreign central banks had purchased $600 million of Pecunian assets in 2002?

5. (2 points) Why a government might be concerned about a large current account deficit or surplus? Why might a government be concerned about its official settlements balance?