PROBLEMS CHAPTER 11
TRADE AND INVESTMENT IN THE NATIONAL ACCOUNTS

The table on the next page provides flows and stocks in the national accounts of a fictitious economy. The various variables are as defined in the text on *Trade and Investment in the National Accounts*. The stock variables denote values at the *beginning* of each period. The return on government bonds (foreign or domestic) is $r = 8\%$ and the depreciation rate on domestic capital is $\delta = 10\%$. Government bonds are the only form of foreign asset holdings and they do not depreciate. The population size and productivity level are assumed constant over time and we abstract from the possibility of human capital accumulation.

(1) Use the identities provided in the document on *Trade and Investment in the National Accounts* in order to fill in the blanks in the table. For years 2000 and 2001, state the identity being used for each calculation.
(2) How would you explain the drop in GDP between years 2000 and 2001? Are people poorer in 2001 as a consequence? Explain.
(3) How would you explain the increase in GDP between years 2001 and 2002? Discuss the implication on people's welfare during year 2001.
(4) How did consumers manage to increase their consumption level by so much between 2001 and 2002? Is that sustainable in the long run? Begin the discussion by calculating the *net international asset position* in 2005.

year t	Y	C	I	X	Q	NX	B	rB	Y^N	CA	K
2000	100	70	20		10		0				250
2001	99.2	60	35	20							
2002	100.5	80	25	20							
2003	100.45	80		10	20						
2004	101.2	80		10	20						