Fiscal and Financial System in Japan A / International Finance
Quiz #3
December 6, 2013

ID		Name	

Assume that net factor income from abroad and net unilateral transfer are small enough to be neglected, and answer the following questions.

1. The highest component of GDP is
   (a) the current account.
   (b) investment.
   (c) government expenditure.
   (d) consumption.
   (e) none of the above.

Answer (d)

2. Suppose a country's current account has worsened. Which of the following statements is most *un*likely?
   (a) GDP has decreased.
   (b) Consumption has increased.
   (c) Investment has decreased.
   (d) Government purchases have increased.
   (e) None of the above.

Answer (c)

3. A country with a current account surplus
   (a) uses more output than it produces.
   (b) buys more goods from foreigners than sells to them.
   (c) is increasing its net foreign wealth.
   (d) Borrows from foreign countries.
   (e) None of the above.

Answer (c)

4. From the late 1990s up to now, large current account deficit of the United States has been financed by
   (a) current account surpluses of advanced countries.
   (b) current account surplus of Japan and China.
   (c) current account surpluses of emerging economies.
   (d) current account surpluses of Japan and emerging economies.
   (e) current account surpluses of Japan, emerging economies, and oil-exporting countries.

Answer (e)

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5. If net factor income from abroad and net unilateral transfers are both zero, a nation's income (gross national disposable income, GNDI) is equal to its output (gross domestic product, GDP). Explain *briefly* how GNDI is equal to GDP.

GNDI is defined as;

$GNDI = C + I + G + CA$.

The current account is defined as;

$CA = TB + NFIA + NUT$,

where TB, NFIA, and NUT denote trade balance, net factor income from abroad, and net unilateral transfers.

By assumption, CA=TB, and GNDI can be rewritten as;

$GNDI = C + I + G + TB = GDP$.