

Part I - The Theory

Directions: For each of the transactions below, record both the “Debit” and “Credit” for each country. You must also decide if the transaction belongs in the “Current Account” or a “Capital Account”. To prove that debits equal credits, the balance of payments should equal zero.

- [a.] Alpha buys a graphing calculator from Omega for \$50.
- [b.] Omega downloads a movie from Alpha for \$5.
- [c.] Alpha immigrants send \$100 back to Omega relatives
- [d.] Alpha corporations pay \$20 dividends to Omega stockholders.
- [e.] The Alpha government sells \$75 in bonds to Omega.
- [f.] Rouge Omega investors buy Alpha junk bonds for \$15.
- [g.] Alpha investors receive interest payments from Omega Government of \$10
- [h.] Alpha businesses borrow \$65 from Omega Banks.

Alpha				Omega			
Current Account				Current Account			
	Debit	Credit	Net		Debit	Credit	Net
Exports				Exports			
Imports				Imports			
Trade Balance				Trade Balance			
Investment Income Received				Investment Income Received			
Investment Income Paid				Investment Income Paid			
Net Investment Income				Net Investment Income			
Transfers from the World				Transfers from the World			
Transfers to the World				Transfers to the World			
Net Unilateral Transfers				Net Unilateral Transfers			
Current Account Balance				Current Account Balance			
			=====				=====
Capital Account				Capital Account			
Capital Inflows				Capital Inflows			
Capital Outflows				Capital Outflows			
Net Capital Inflow				Net Capital Outflow			
Statistical Discrepancy				Statistical Discrepancy			
Balance of Payments				Balance of Payments			
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Part II - Individual work

Directions: For each of the transactions below, record both the “Debit” and “Credit” for each country. You must also decide if the transaction belongs in the “Current Account” or a “Capital Account”. When all of your transactions are completed, make sure the sum of the Current Account and Capital Account equals zero.

- [a] Omega buys \$80 of agricultural products from Alpha.
- [b] Alpha charities donate \$20 to flood victims in Omega.
- [c] Alpha receives \$10 in interest payments for ownership of Omega junk bonds.
- [d] Alpha residents buy \$90 in Omega stock.
- [e] Higher interest rates in Alpha attract an inflow of \$20 from Omega.

Alpha				Omega			
Current Account	Debit	Credit	Net	Current Account	Debit	Credit	Net
Exports				Exports			
Imports				Imports			
Trade Balance				Trade Balance			
Investment Income Received				Investment Income Received			
Investment Income Paid				Investment Income Paid			
Net Investment Income				Net Investment Income			
Transfers from the World				Transfers from the World			
Transfers to the World				Transfers to the World			
Net Unilateral Transfers				Net Unilateral Transfers			
Current Account Balance				Current Account Balance			
			=====				=====
Capital Account				Capital Account			
Capital Inflows				Capital Inflows			
Capital Outflows				Capital Outflows			
Net Capital Inflow				Net Capital Outflow			
Statistical Discrepancy				Statistical Discrepancy			
Balance of Payments				Balance of Payments			
			=====				=====

Part III - Conclusion

Check your work. Does the current account plus the capital account equal zero for Alpha? For Omega?