Teacher Answer Key

Case Study

1. Strong consumer demand, credit-fueled imports, and high fiscal deficits widened the gap.

2. Early outflows depreciated the dollar; later Fed stimulus and bond purchases appreciated it.

Multiple Choice

1. D

2. A

3. C

Matching

1-D, 2-C, 3-A, 4-E, 5-B

Fill-in-the-Blank

1) foreign, 2) Other, 3) reserves

Short Answer (Sample Responses)

Q1: Inflows mask deficits by supplying funds that cover excess imports, delaying adjustments.

Q2: Raising interest rates, direct intervention, or capital controls can deter outflows.

Q3: Surplus countries may face accusations of unfair currency practices or export dumping.