1. (10%) The United States gives automobiles to Spain as a gift. What accounts are debited and credited in the U.S. BOP system?

2. Suppose that you observed the following market prices and suppose transactions costs and bid/ask spreads are zero.

\[
\begin{array}{ccc}
\text{spot} & \frac{e}{leva} = \frac{1}{12} \text{ lats} & \frac{e}{kyat} = \frac{1}{6} \text{ kyat} & \frac{e}{lats} = \frac{1}{kyat} \\
\text{forward} 1 & e = 16 \text{ lats} & e = 2 \text{ kyat} & e = 1 \text{ lats} \\
\text{1 year i}_{\text{Myanmar}} = 170\% & \text{1 year i}_{\text{Bulgaria}} = 710\% & \text{1 year i}_{\text{Latvia}} = 208\frac{4}{7}\% \\
\end{array}
\]

(i) (10%) Please select the letter which makes the statement correct. To engage in profitable arbitrage, you would
a. sell lati and get paid with kyat in the spot market.
b. sell kyat for lati in the spot market.
c. no spot market transaction between lati and kyat contributes to a profitable arbitrage.

(ii) (10%) Please select the letter which makes the statement correct. To engage in profitable arbitrage, you would
a. sell leva and get paid with lati in the spot market.
b. sell lati and get paid with leva in the spot market.
c. no spot market transaction between lati and leva contributes to a profitable arbitrage.

(iii) (10%) Please select the letter which makes the statement correct. To engage in profitable arbitrage, you would
a. sell kyat and get paid with leva in the spot market.
b. buy kyat and pay with leva in the spot market.
c. no spot market transaction between kyat and leva contributes to a profitable arbitrage.

(iv) (10%) Please select the letter which makes the statement correct. To engage in profitable arbitrage, you would
a. buy kyat and pay with lati in the forward market.
b. sell kyat for lati in the forward market.
c. no forward market transaction between lati and kyat contributes to a profitable arbitrage.

(v) (10%) Please select the letter which makes the statement correct. To engage in profitable arbitrage, you would
a. buy lati and pay with leva in the forward market.
b. sell lati and get paid with leva in the forward market.
c. no forward market transaction between lati and leva contributes to a profitable arbitrage.

(vi) (10%) Please select the letter which makes the statement correct. To engage in profitable arbitrage, you would
a. sell kyat for leva in the forward market.
b. buy kyat with leva in the forward market.
c. no forward market transaction between kyat and leva contributes to a profitable arbitrage.

(vii) (10%) Please select the letter which makes the statement correct. To engage in profitable arbitrage, you would
a. sell new debt instruments denominated in lati
b. lend lati

c. neither borrowing nor lending lati contributes directly to a profitable arbitrage.

(viii) (10%) Please select the letter which makes the statement correct. To engage in profitable arbitrage, you would
   a. sell new debt instruments denominated in kyat
   b. buy new debt instruments denominated in kyat
   c. neither borrowing nor lending kyat contributes directly to a profitable arbitrage.

(ix) (10%) Please select the letter which makes the statement correct. To engage in profitable arbitrage, you would
   a. sell new debt instruments denominated in leva
   b. buy new IOUs denominated in leva
   c. neither borrowing nor lending leva contributes directly to a profitable arbitrage.