Homework Essay Assignment 1

Due: Thursday, September 3

The deep recession, financial sector bailouts and fiscal stimulus have caused a dramatic increase in the U.S. Federal government budget deficit this year, and the White House estimates that combined deficits over the next decade will be $9 trillion. (See the article, “Estimate for 10-Year Deficit Raised to $9 Trillion,” The New York Times, August 25, 2009.)

Write an essay explaining how the rising budget deficits will affect the U.S. Current Account balance. How will the effect depend on the response of U.S. consumers to rising Federal deficits, and how will it depend on the willingness of foreign residents to finance the shortfall? Should we be concerned about this development?

Your essay should be double-spaced, typed, with 1-1/2 inch margins, and at most 600 words. Please include a word count at the bottom of your essay.