

1. This question is based on the article, “[The contradiction at the heart of Trumponomics](https://www.economist.com/briefing/2017/05/13/the-contradiction-at-the-heart-of-trumponomics),” published by *The Economist* on May 13, 2017. The article argues that having tax cuts, an investment boom, and a smaller trade deficit cannot be jointly achieved.

(<https://www.economist.com/briefing/2017/05/13/the-contradiction-at-the-heart-of-trumponomics>)

- (a) The article points out that “foreigners own American assets worth \$8.1trn more than the assets Americans own overseas, a difference equivalent to 43% of America’s GDP.” Then, why does the US receive more income from its investments abroad than it pays out? [10]
- (b) Based on the discussion in the article, what is likely to happen to the total supply of funds available for investment and the cost of borrowing in America if the US government manages to restrict the economy’s trade and eliminate its trade deficit? [10]
- (c) The article claims that closing of the US trade gap contradicts the tax-cut and high investment components of Trump administration’s economic strategy. What is the article’s reasoning behind this claim? [7] What is Trump’s counter argument? [5] Does he claim that this contradiction can be dealt with immediately or over time? [6] What is the article’s reasons and evidence for doubting Trump’s counter argument? [10]
- (d) According the article, why a rise in productivity growth may lead to increased, rather than reduced trade deficit for the US economy, at least in the short run? [11]
- (e) The article claims that changing tax policies to encourage American firms to bring home the massive cash they have parked abroad may also increase the trade deficit, and to the extent that it may appear to reduce the trade deficit, its effect will not affect actual production in the US. What is the reasoning offered by the articles for this claim? [11]