

CH. 16 BALANCE OF PAYMENTS

- ACCOUNT FOR ALL FLOWS OF MONEY, GOODS, SERVICE AND ASSETS BETWEEN 1 COUNTRY + THE WORLD
- EFFECT ON GROWTH, INFLATION, UNEMPLOYMENT ETC...

CURRENT ACCOUNT (NX)

$$(CA) = \text{EXPORTS} - \text{IMPORTS} \quad (-)$$

(GOODS + SERVICES)

+ INCOME RECEIVED FROM FOREIGNERS

- INCOME PAID TO FOREIGNERS
+ NET UNILATERAL TRANSFERS

(GOV'T TO GOV'T AID)

(US GOV'T TO NON-PROFIT)

(PRIVATE TO NON-PROFIT)

CAPITAL ACCOUNT (NCO)

(KA) = +FDI FLOWS FROM U.S. (+)

- FDI FLOWS TO U.S.

+ US PURCHASES OF FOR. STOCKS

- FOR. PURCHASES OF US STOCKS

+ US GOV'T BUYS PROPERTY

ABROAD - FOR. GOV'T

PURCHASES OF U.S. PROP.

+ US HOLDING OF FOR. CURRENCY

- FOR. HOLDING OF US CURRENCY

+ NEW U.S. LOANS ~~FROM~~ TO FOR.

- FOR. LOANS TO U.S.

(H.16) MACROECONOMY + BOP

$$CA = -KA$$

$$NX = NCO$$

$$Y_0 = C + I + G + NX$$

$$Y_I = C + S + T$$

$$Y_0 = Y_I$$

$$\cancel{C} + I + G + NX = \cancel{C} + S + T$$
$$-I - G$$

$$NX = (S - I) + (T - G)$$



GOOD + BAD OF TRADE DEFICIT

BAD: MORTGAGE FUTURE
CONSUMPTION

- SELLING DOMESTIC
ASSETS

GOOD: INDIVIDUALS ACTING
OPTIMALLY

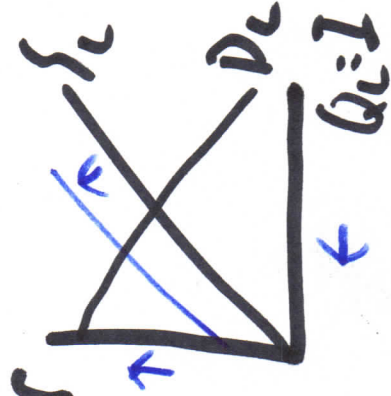
- SLOW + STEADY GROWTH
IN U.S.

AUTOMATIC PROCESS

MARGINAL IMPORTS ↓

$I \downarrow \rightarrow$ PROPENSITY TO IMPORT

$Y \downarrow \rightarrow$ REDUCED DEMAND $\rightarrow$ EXPORTS ↑



(A DEFICIT $\rightarrow$ MONEY SUPPLY

$r \uparrow \rightarrow$ INFLATION ↓

↓ IMPROVED

(HEAPER IN T'L

DOMESTIC $\rightarrow$ COMPETITIVENESS
GOODS