

Lecture 1

International Macroeconomics

National Income Account in Open Economy

Balance of Payments Account

International Macroeconomics

- 2 Determination of the unemployment rate in open economies;
- 2 Saving in open economies;
- 2 Role of trade imbalances;
- 2 Monetary economics: money as a medium of exchange, different currencies for different countries;

National Income Accounting in Open economy

² GNP: value of goods and services produced by the factors of production of a country.

² Expenditure view: classification depends on who bought the goods and services

-consumption: C;

-investment: I;

-government consumption: G;

-net exports: CA;

² GDP: value of goods and services produced within a country's borders.

-example: American who earns rent on an apartment in London) US GNP but UK GDP.

Identities:

2 Closed economy:

$$Y = C + I + G$$

2 Open economy: foreign trade

$$Y = C + I + G + EX - IM$$

IM=imports; EX= exports;

2 Current account is defined as the value of exports minus value of imports

$$CA = EX - IM$$

-CA > 0 : surplus ! the country is lending abroad;

-CA < 0 : deficit ! the country is borrowing from abroad;

Saving and the Current Account

² Saving: portion of final goods not devoted to consumption

² Closed economy:

$$S = Y - C - G = I$$

² Open economy:

$$S = Y - C - G = I + CA$$

-increase in savings do not need to be matched by corresponding increase in investment;

-current account surplus is referred as net foreign investment because country's saving can be borrowed by a second country;

Budget Deficits and the Current Account

2 Private saving:

$$S^p = Y - T - C$$

2 Government saving:

$$S^g = T - G$$

2 Rewrite:

$$S^p = I + CA + (G - T)$$

-empirical relation between lower current account surplus and budget deficit;

-no relation of causality from a theoretical point of view;

Balance of Payment (BOP) Account

BOP accounts record all the economic transactions in a specific time interval between residents of a country and the rest of the world.

Two types of transactions:

1. Transactions that involves goods and services ! current account;
2. Transactions that involves assets ! capital account;

Payment to foreigners: debit (-)

Receipt from foreigners: credit (+)

example: buy a car abroad paying \$10000. debit in the current account and credit in the capital account

Balance of Payment Identity

Capital account balance + Current account balance = 0

Official Reserve Transaction: (one type of transaction in the capital account)

purchase or sales of official reserve assets by central banks.

Official Reserve Assets: foreign assets held by central banks. Change in official reserve assets could be made by official foreign exchange rate intervention.

nonreserve capital account + current account = change in official reserves