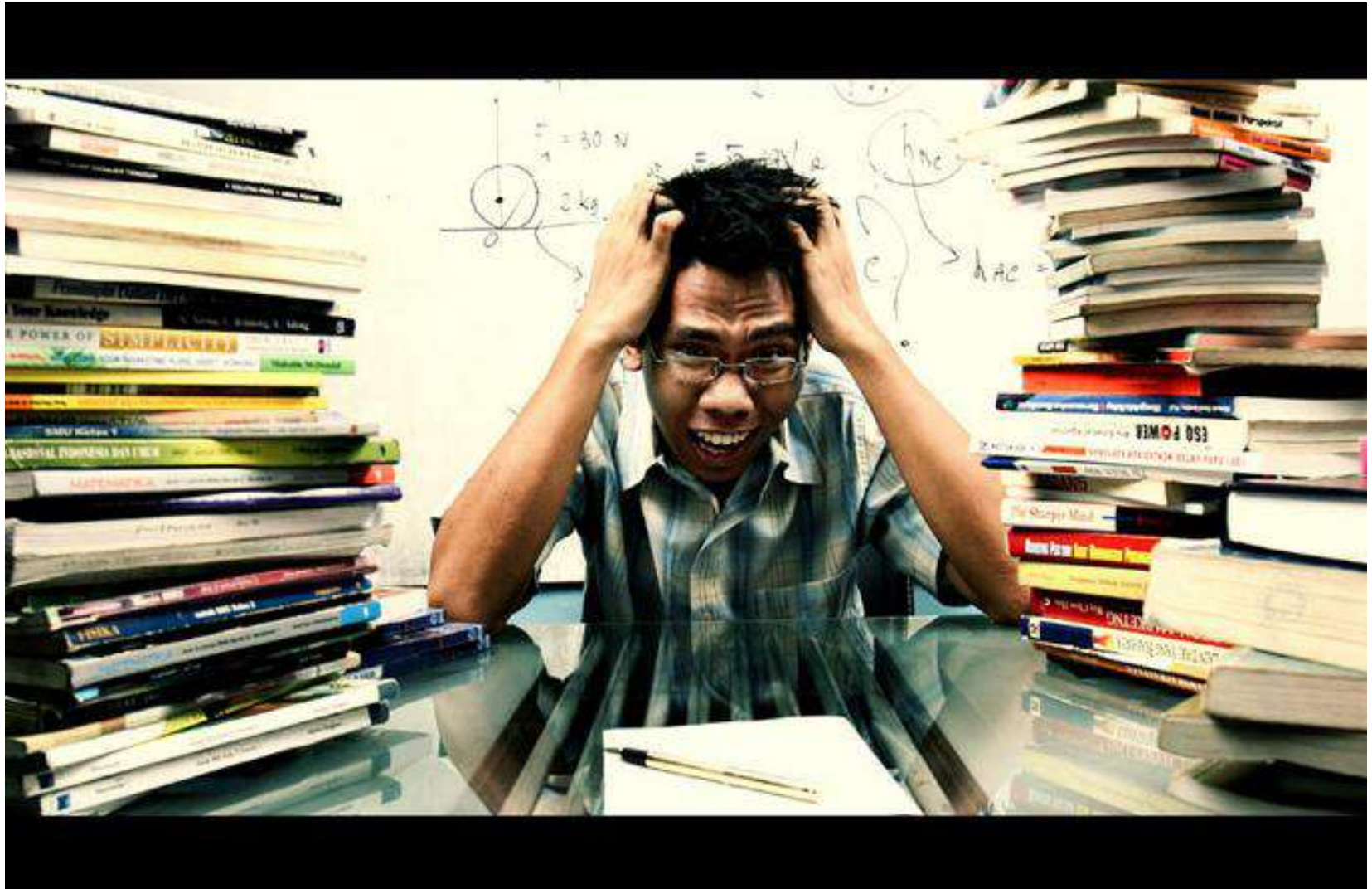


The Open Economy: International Trade and Finance



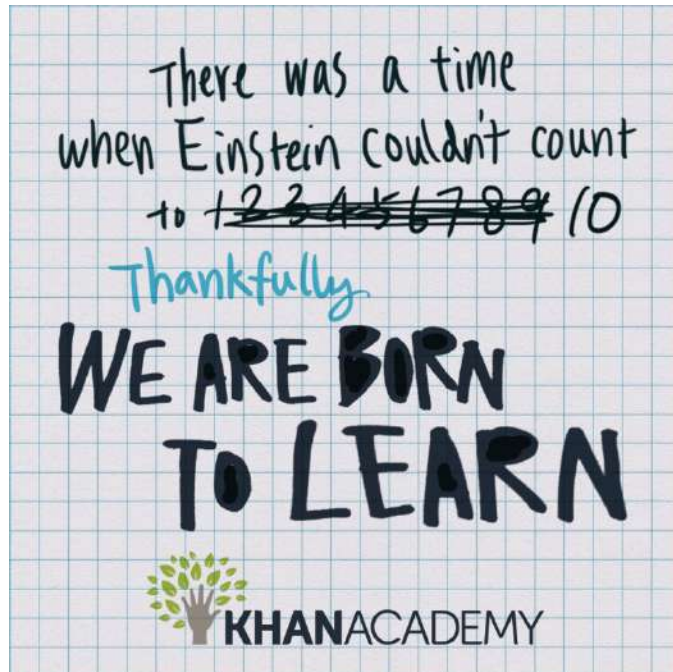
$$C + I + G + (X - M)$$

Too much too fast!!



Lets break this down a bit.

- Try Khan Academy
- <https://www.youtube.com/watch?v=dirBYVjDk7A&list=PLAEA5E9ACA1508F92>



Trade Balance

- American Exports

- In 2013 \$1.579 T
- In 2014 \$2.343 T
- Machinery: \$213,108,199,000 (13.5% of total exports)
- Electronic equipment: \$165,604,449,000 (10.5%)
- Mineral fuels including oil: \$148,426,743,000 (9.4%)
- Vehicles excluding trains and streetcars: \$133,640,479,000 (8.5%)
- Aircraft and spacecraft: \$115,380,944,000 (7.3%)

- American Imports

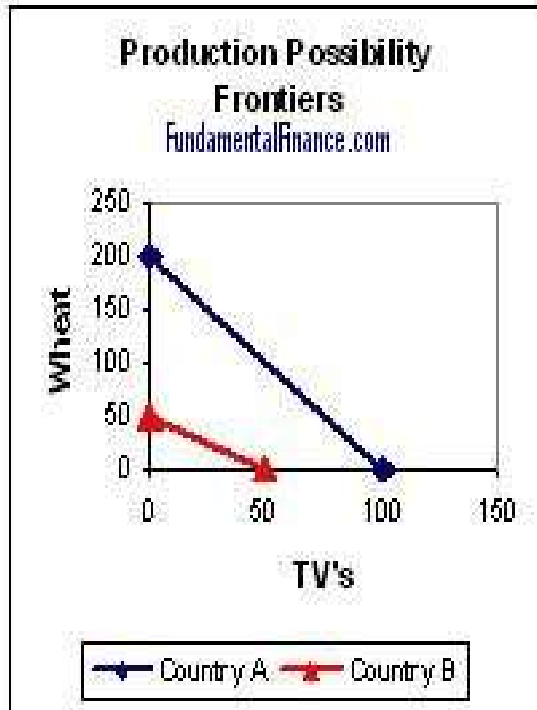
- In 2013 \$2.330 T
- In 2014 \$2.851 T
- Oil \$389,300,000,000 (16.7% of total imports)
- Machinery \$311,200,000,000 (13.4%)
- Electronic Equipment \$303,500,000,000 (13%)
- Vehicles \$253,300,000,000 (10.9%)
- Medical and Technical Equipment \$72,100,000,000 (3.1%)

Current Trade Deficit in
November 2014 was **-\$39 B**



Why does the USA trade?

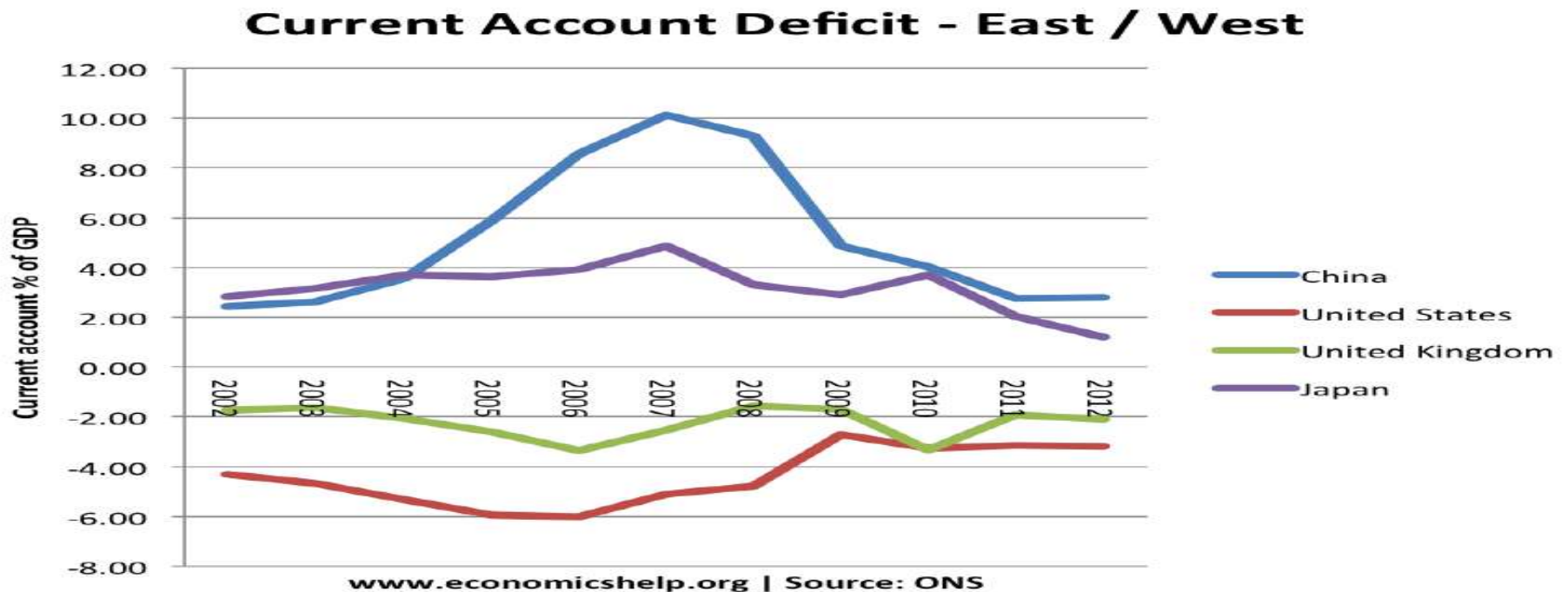
Comparative Advantage



Product	Country A	Country B
Wheat	200	50
TVs	100	50

Current Account page #412

- Balance of payments on goods and services plus net international transfer payments and factor income



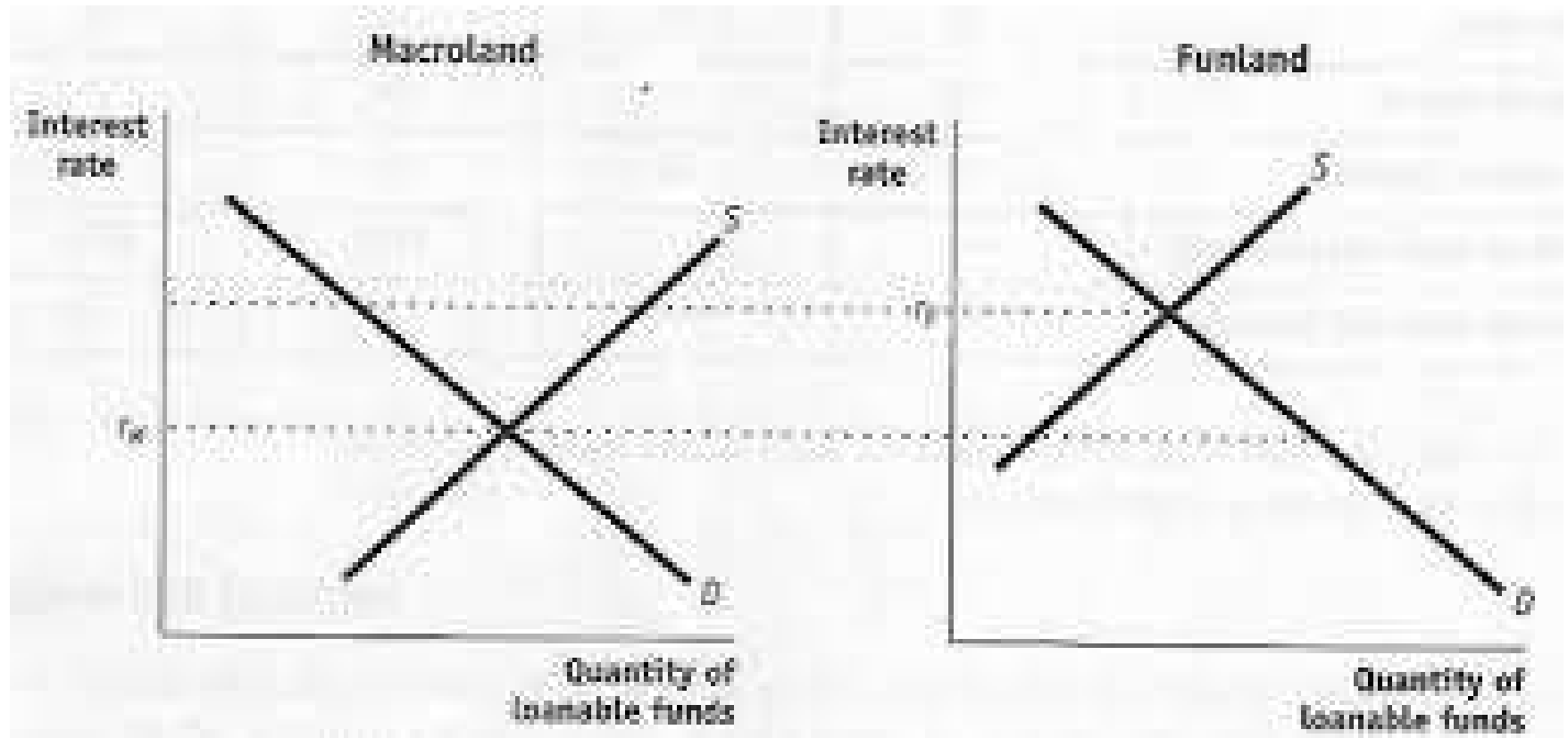
Capital (Financial) Accounts

- Measures international sales of financial assets
- Stocks, securities, savings bonds
- Capital inflows and outflows

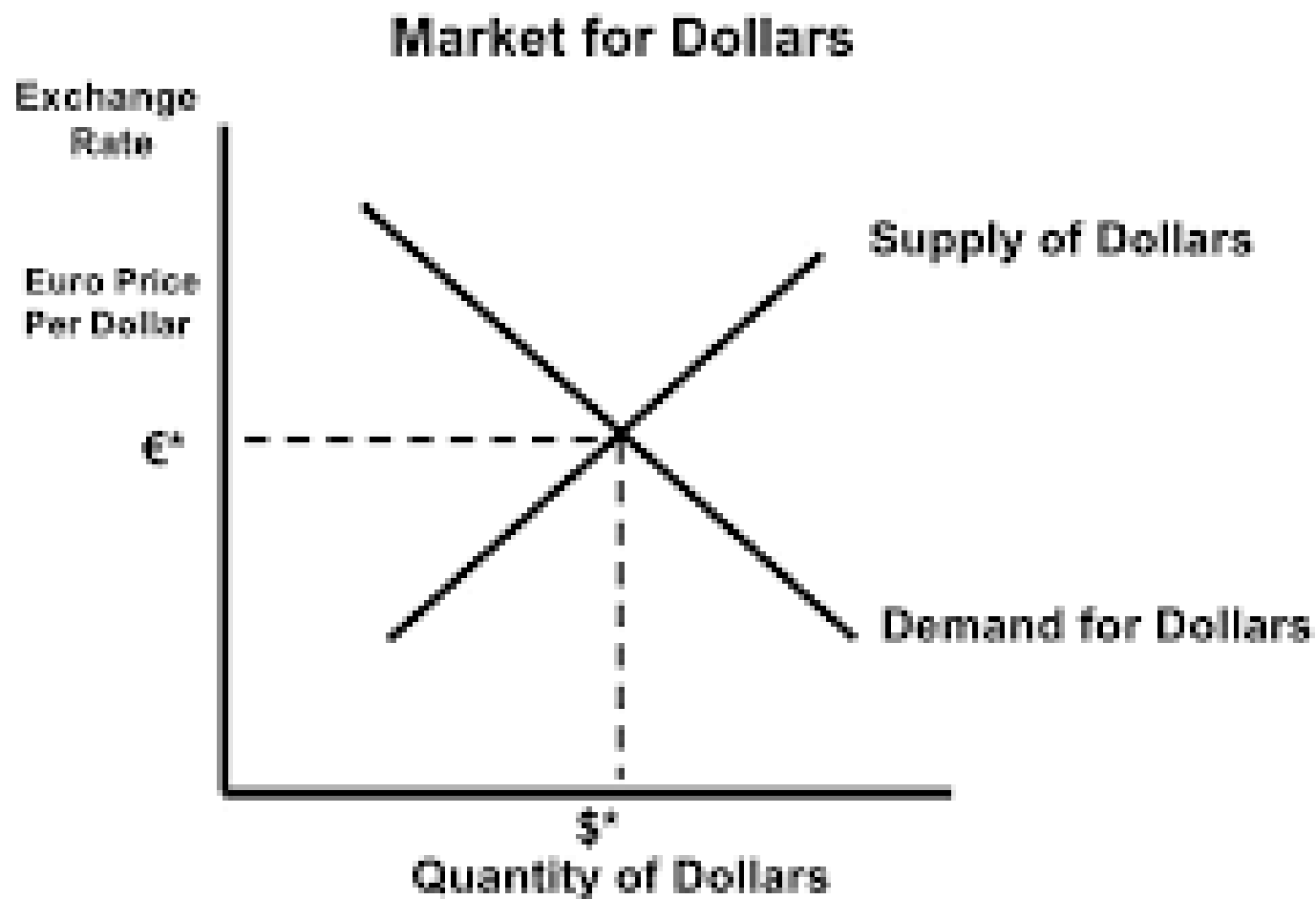
Current Account + Capital Account = 0

- If there is a current account deficit ($X < M$) than capital inflows will be greater than capital outflows The Chinese have to invest those US dollars back in America
- If there is a current account surplus ($X > M$) than capital outflows will be greater than capital inflows. (What to do with the foreign currency we hold?)

Loanable Funds Market

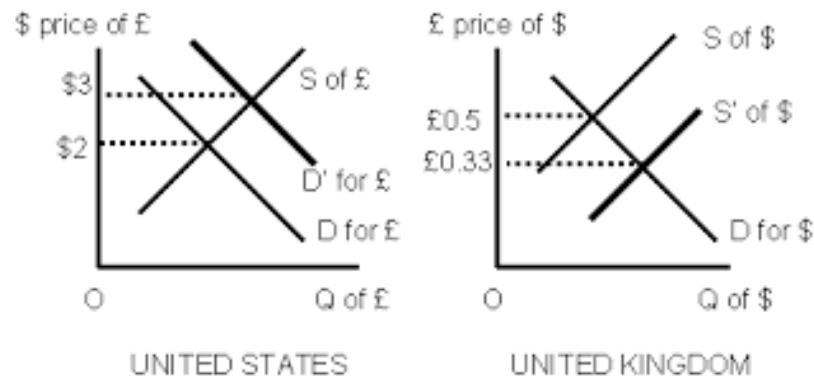


The FOREX Graph



Why does demand shift?

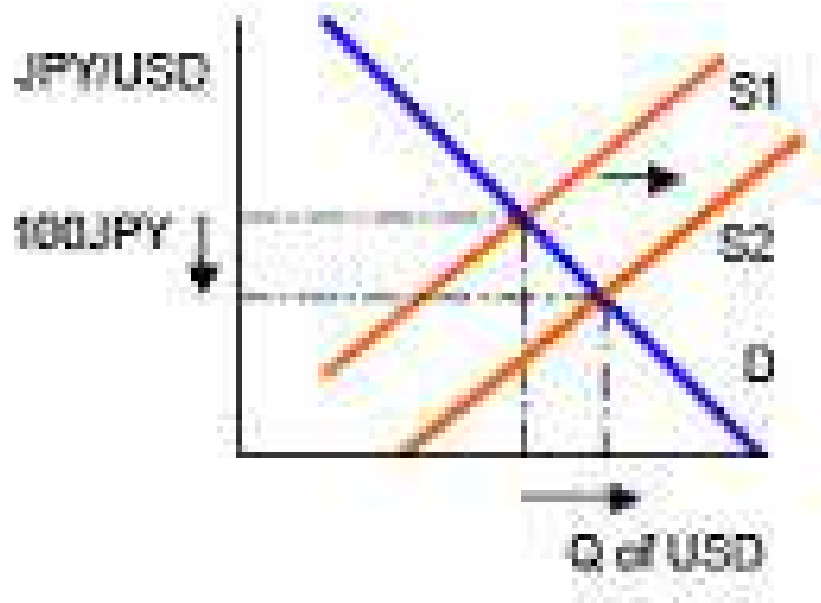
- Changes in tastes and preferences
- Changes in Price Level
- Changes in Income
- Changes in Real Interest Rates



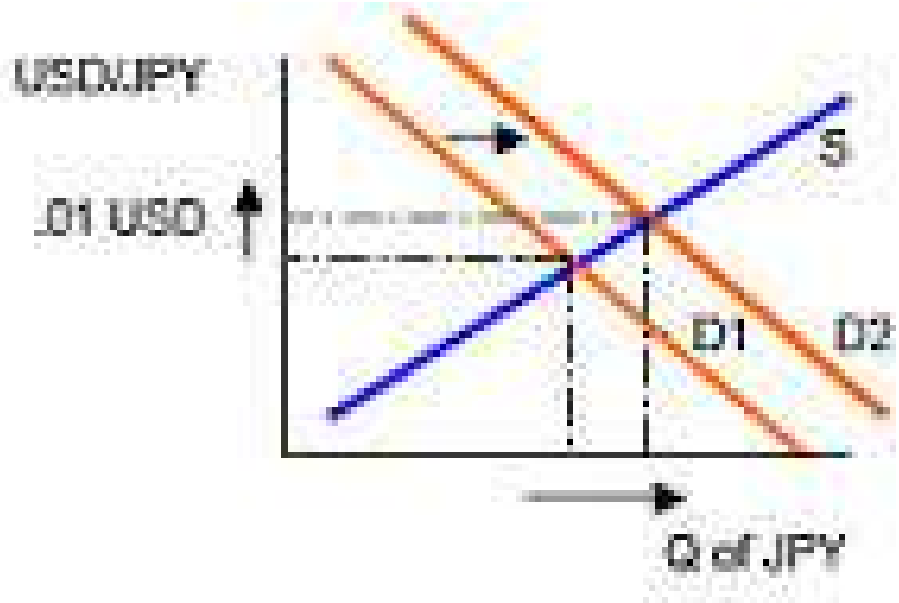
Supply and Demand Move Together

What happens when Americans want more Japanese goods?

Dollar Market



Yen Market



Currency Value

Appreciation

- Demand Increases
- Supply Decreases
- Foreigners Love American Products
- Higher Interest Rates in US
- Higher Foreign Inflation Rates

Depreciation

- Demand Decreases
- Supply Increases
- US Cuts taxes
- Tariffs on American Products
- FED buys government securities