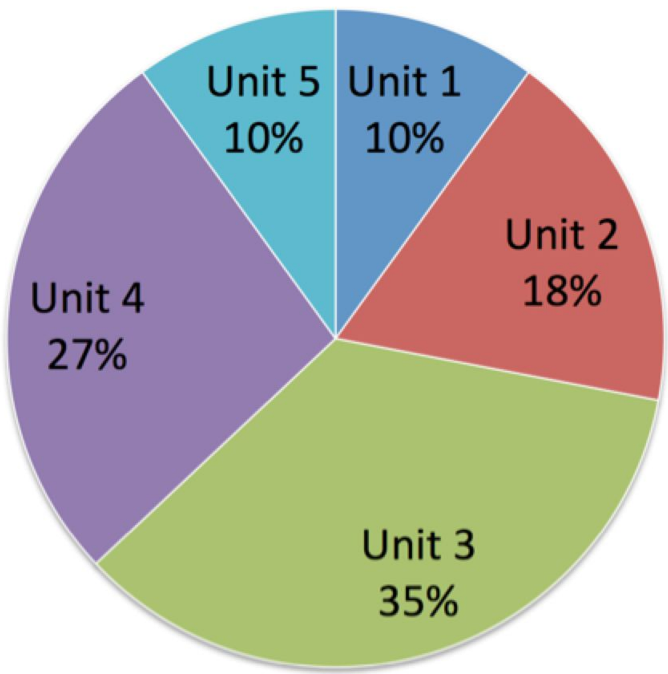
I love my students!
Wed, March 27 & Thurs., March 28

Warm up: Talk to your neighbor about what kinds of transactions the U.S. government, U.S. businesses and citizens have with the rest of the world. And tell your neighbor they look nice today!

Learning target: I can explain the balance of payments, including the current account and the financial account.

Unit 5: International Trade and Foreign Exchange



Unit 1:
Basic Concepts

Unit 2:
Macro Measures

Unit 3:
AD/AS & Fiscal Policy

Unit 4:
Money, Banking & Monetary Policy

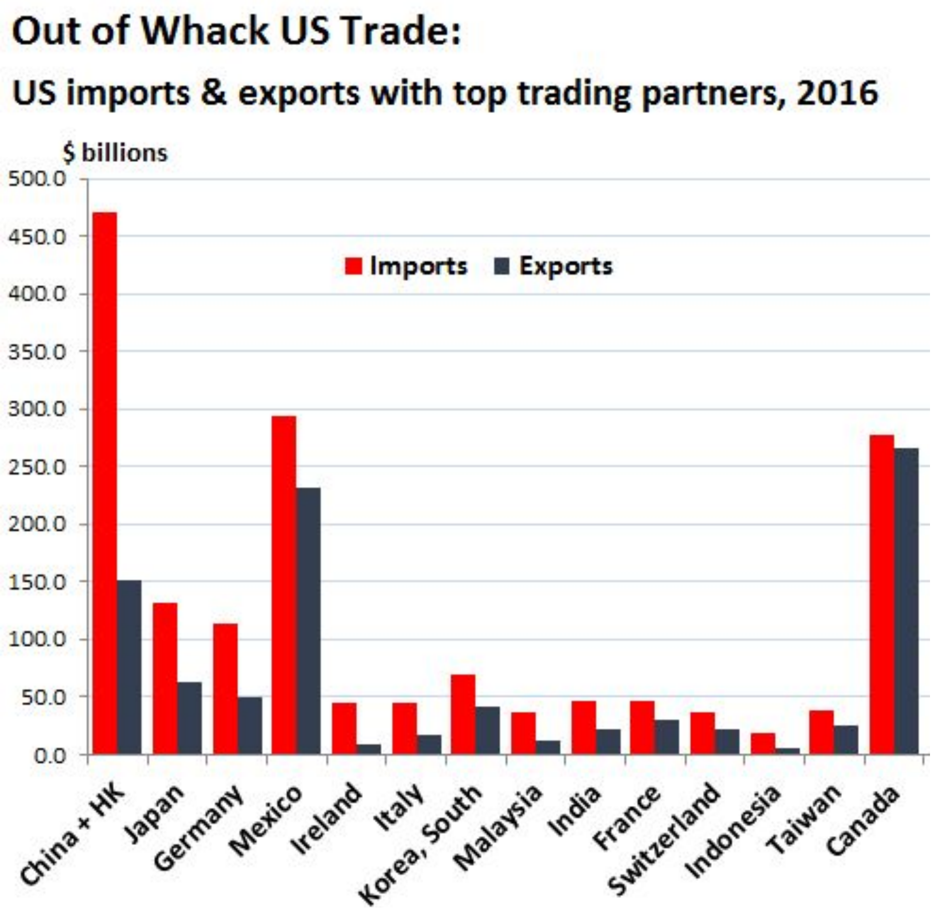
Unit 5:
Trade & Foreign Exchange

Balance of Trade

Net Exports (X_N) = Exports – Imports

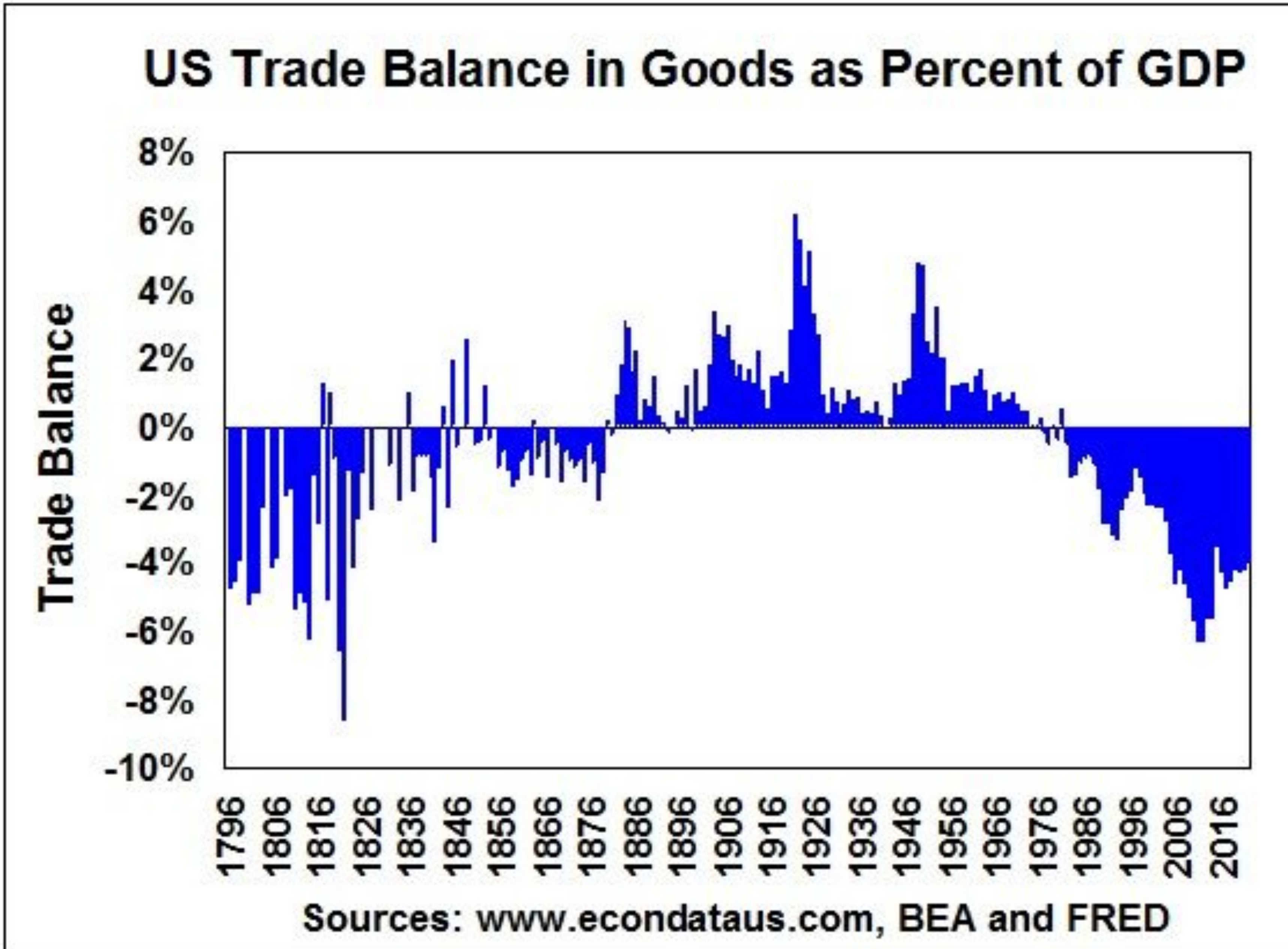
Trade Surplus = Exporting more than is imported.

Trade Deficit (aka. trade gap) = Exporting less than is imported.




Total value of U.S. trade in goods (export and import) worldwide from 2004 to 2016 (in billion U.S. dollars)
Billion U.S. dollars
5,000
4,000
3,000
2,000
1,000
0
2004
2005
2006
2007
2008
2009
2010
2011
2012
2013
2014
2015
2016
2,289.6
819
1,471
2,575.7
904.3
1,671.4
2,892.7
1,037.3
1,855.4
3,117
1,163.3
1,953.6
3,400.9
1,300.5
2,100.4
2,615
1,056.9
1,558.1
3,190.2
1,278.1
1,912.1
3,687.6
1,480.7
2,207
3,822.2
1,547.1
2,275
3,846.4
1,578.9
2,267.6
3,969.1
1,623.3
2,345.8
3,746
1,504.9
2,241.1
2,188.9
1,454.6
3,643.6
Year
Total
Exports
Imports
Source
US Census Bureau
© Statista 2017
Additional Information:
United States; US Census Bureau; 2004 to 2016
statista

Balance of Trade



Balance of Payments (BOP)

Balance of trade includes only goods and service but balance of payments considers ALL international transactions.

<u>Balance of Payments (BOP)</u>- Summary of a country's international trade.

The BOP summary is within a given year prepared in the domestic country's currency

Ex: BOP of the U.S. is in U.S. dollars.

The balance of payments is made up of two accounts: the <u>current account</u> and the <u>financial account</u>.

Current Account

The <u>Current Account</u> is made up of three parts:

1. Trade in Goods and Services (Net Exports)- Difference between a nation's exports of goods and services and its imports of goods and services.

Ex: Toys imported from China, US cars exported to Mexico.

Current Account

The <u>Current Account</u> is made up of three parts:

2. Investment Income- income (interest and dividends) from the factors of production including payments made to foreign investors and payments received from foreign investments made by U.S. citizens.

Ex: Money earned by Japanese car producers in the US.

Current Account

The Current Account is made up of three parts:

3. Net Transfers- Money flows from the private or public sectors.

Ex: donations, aids and grants, official assistance, and remittance

Which countries have the highest account surpluses and account deficits?

Which countries have the highest account surpluses and account deficits?

RANK	COUNTRY	CURRENT ACCOUNT BALANCE	DATE OF INFORMATION
1	EUROPEAN UNION	$387,100,000,000	2016 EST.
2	GERMANY	$296,000,000,000	2017 EST.
3	JAPAN	$175,000,000,000	2017 EST.
4	CHINA	$162,500,000,000	2017 EST.
5	KOREA, SOUTH	$85,140,000,000	2017 EST.
6	NETHERLANDS	$82,440,000,000	2017 EST.
7	TAIWAN	$79,000,000,000	2017 EST.
8	SWITZERLAND	$67,330,000,000	2017 EST.
197	INDIA	-$33,680,000,000	2017 EST.
198	TURKEY	-$38,950,000,000	2017 EST.
199	CANADA	-$55,570,000,000	2017 EST.
200	UNITED KINGDOM	-$91,420,000,000	2017 EST.
201	UNITED STATES	-$462,000,000,000	2017 EST.

Financial (Capital) Account

The <u>Financial Account</u> measures the purchase and sale of financial assets abroad and the purchase of U.S. assets by foreigners.

Purchases of things that continue to earn money or create a liability

Examples:

- A Korean company buys a factory in Ohio.
- An American buys a Japanese government bond.
- When a foreign company buys business in a different country that is <u>Foreign Direct Investment.</u>

Financial (Capital) Account

Net Capital Outflow- The difference between the purchase of foreign assets and domestic assets purchased by foreigners.

Financial Account Surplus = Inflow > Outflow

Financial Account Deficit = Inflow < Outflow

Draw the AD/AS and loanable funds markets for both the USA and China

AD/AS (USA)

AD/AS (China)

Current Account

(Not exactly, but close)

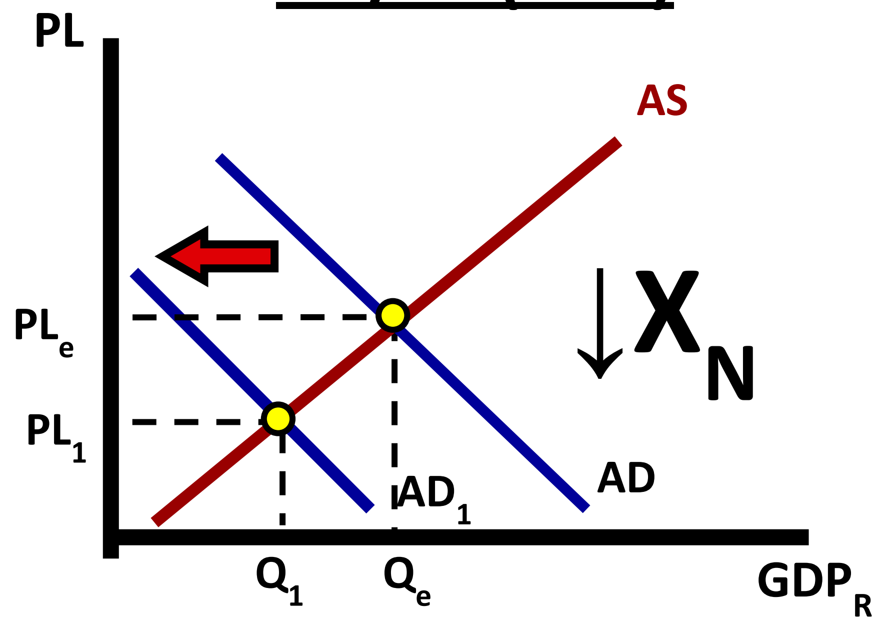
Loanable Funds (USA)

Loanable Funds (China)

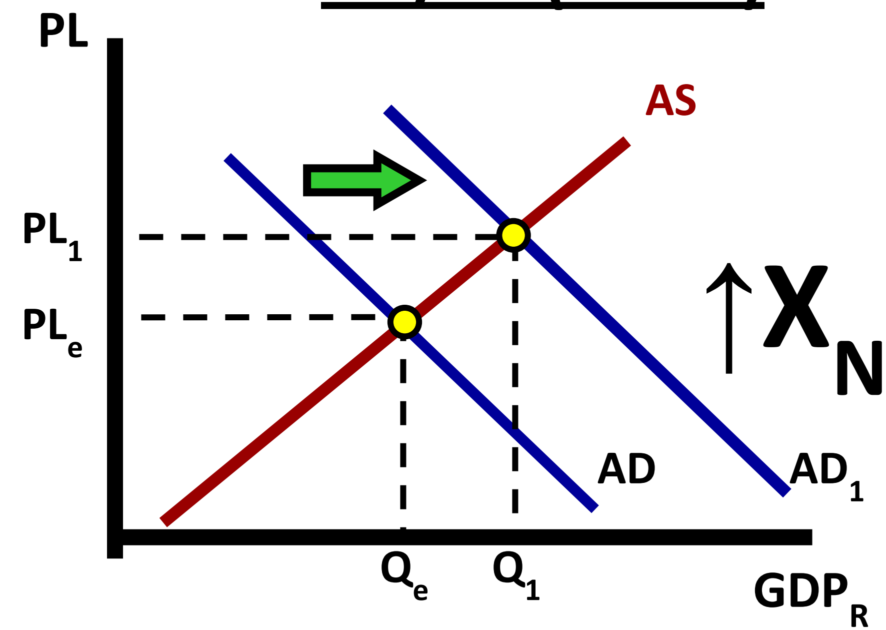
Financial Account

Assume the US and China have balanced trade. What happens on the graphs if the US imports more from China?

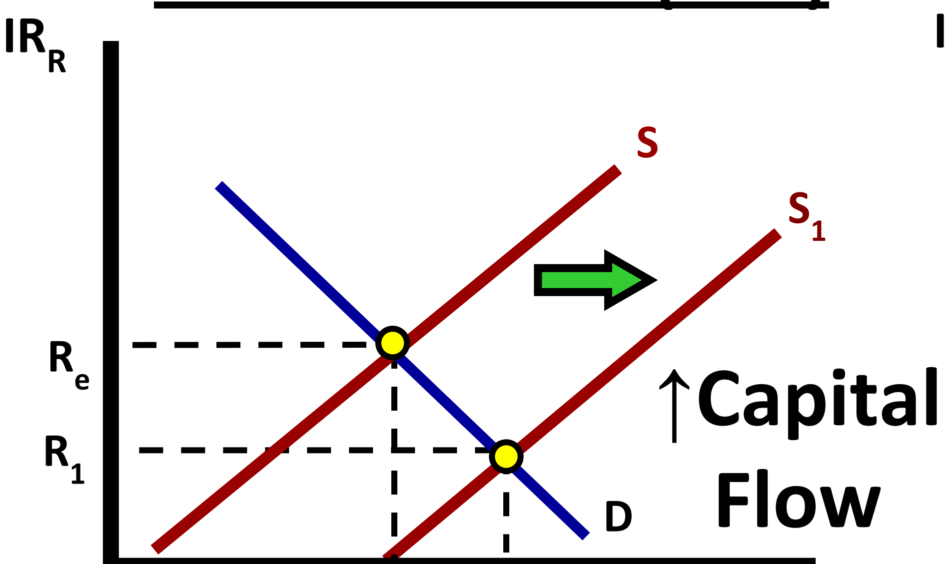
AD/AS (USA)



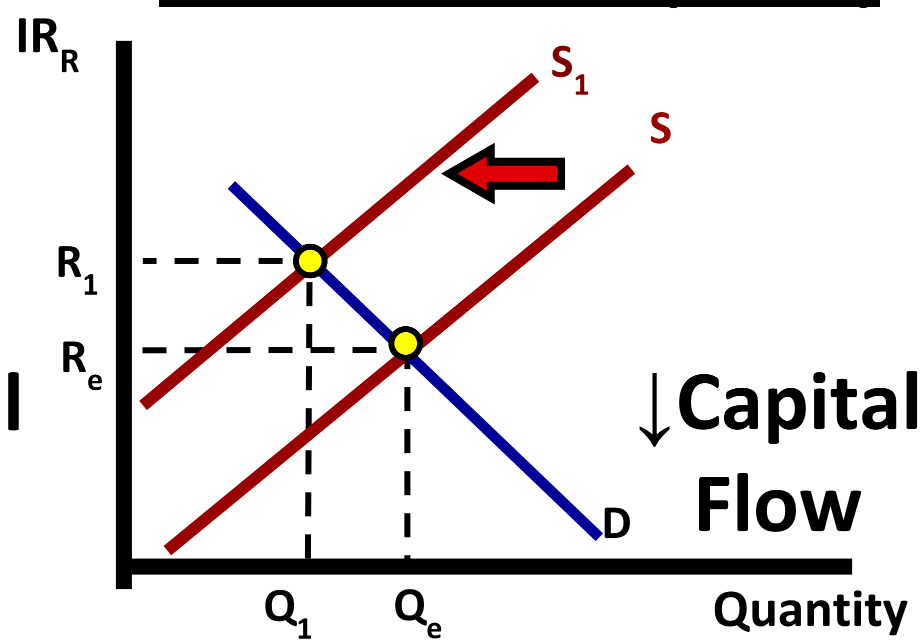
AD/AS (China)



Loanable Funds (USA)



Loanable Funds (China)

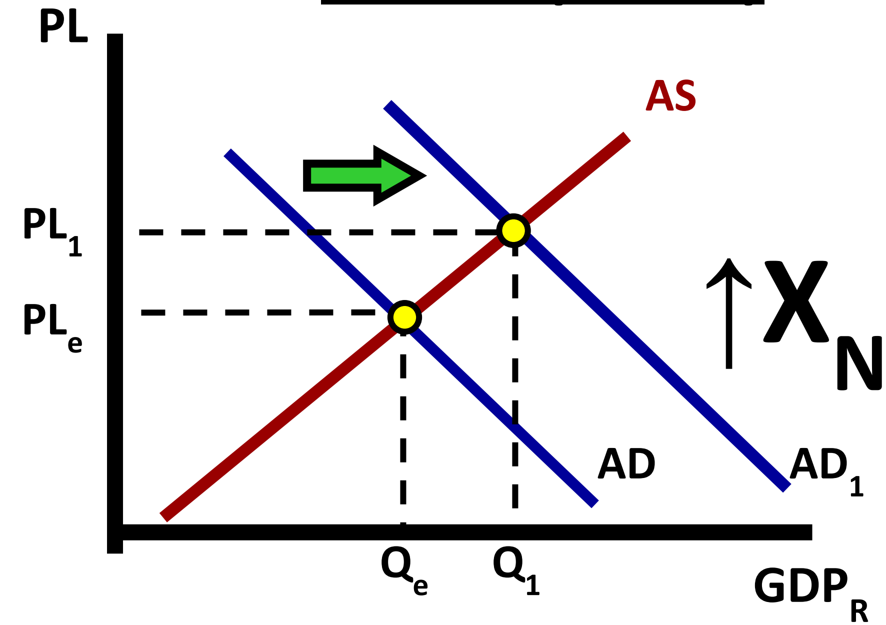


USA

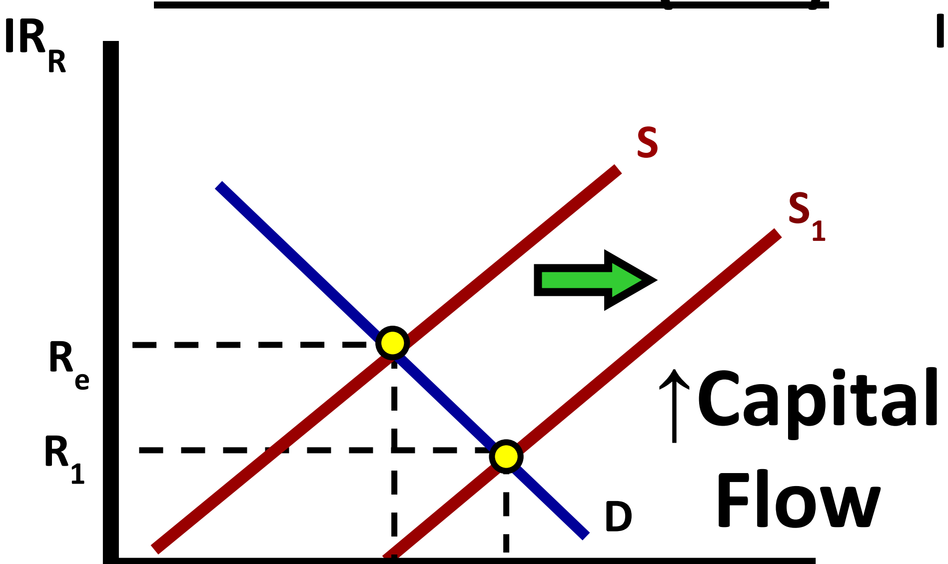
Current Account Deficit

↓X_N

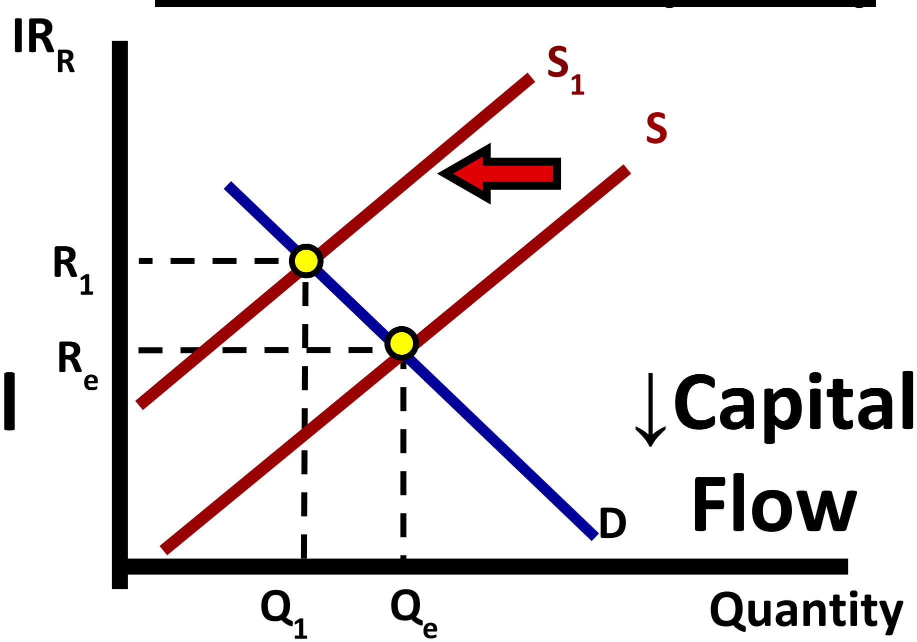
AD/AS (China)



Loanable Funds (USA)



Loanable Funds (China)



USA

Current Account Deficit

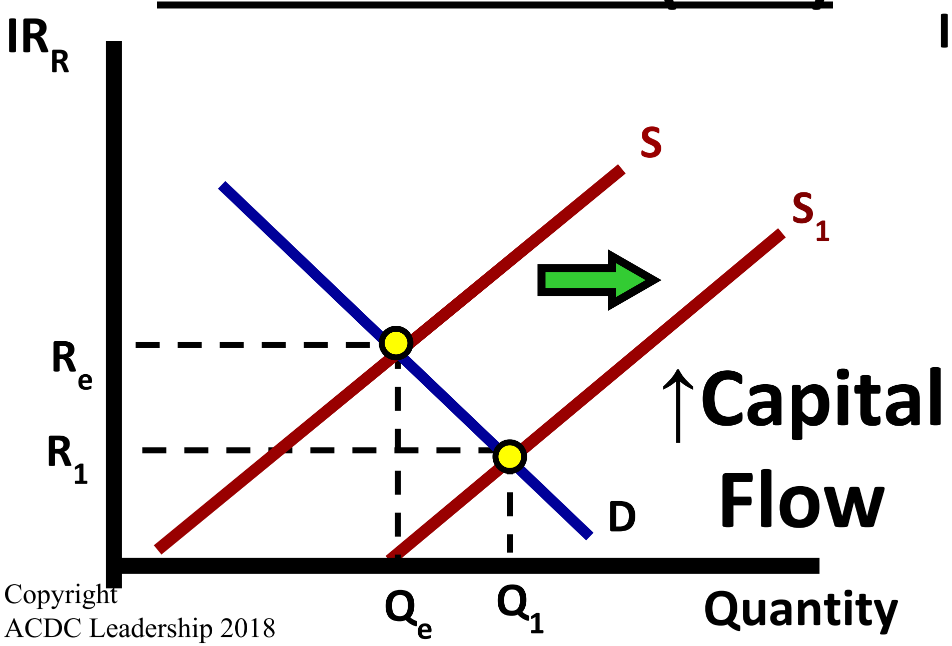
$\downarrow X_N$

China

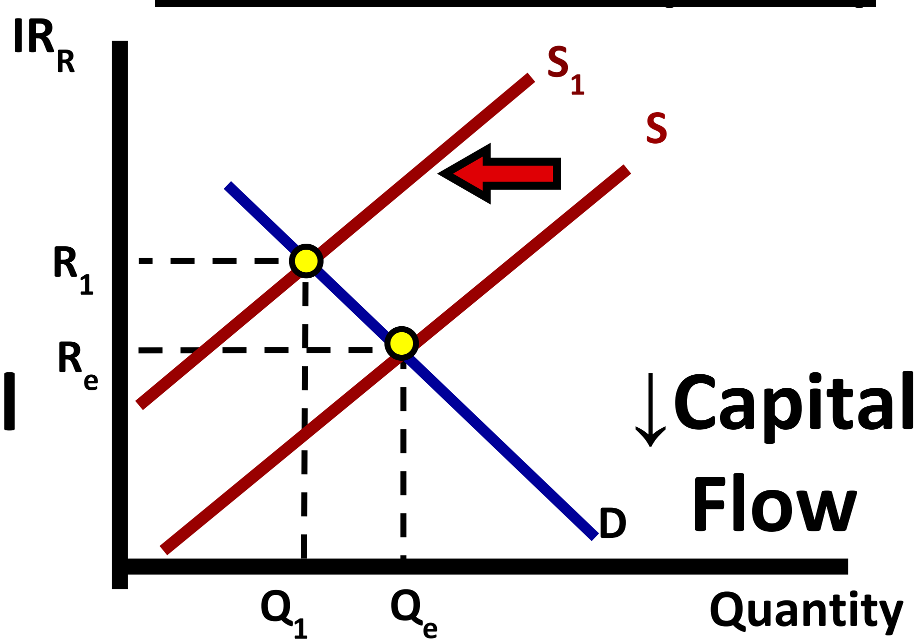
Current Account Surplus

$\uparrow X_N$

Loanable Funds (USA)



Loanable Funds (China)



USA

China

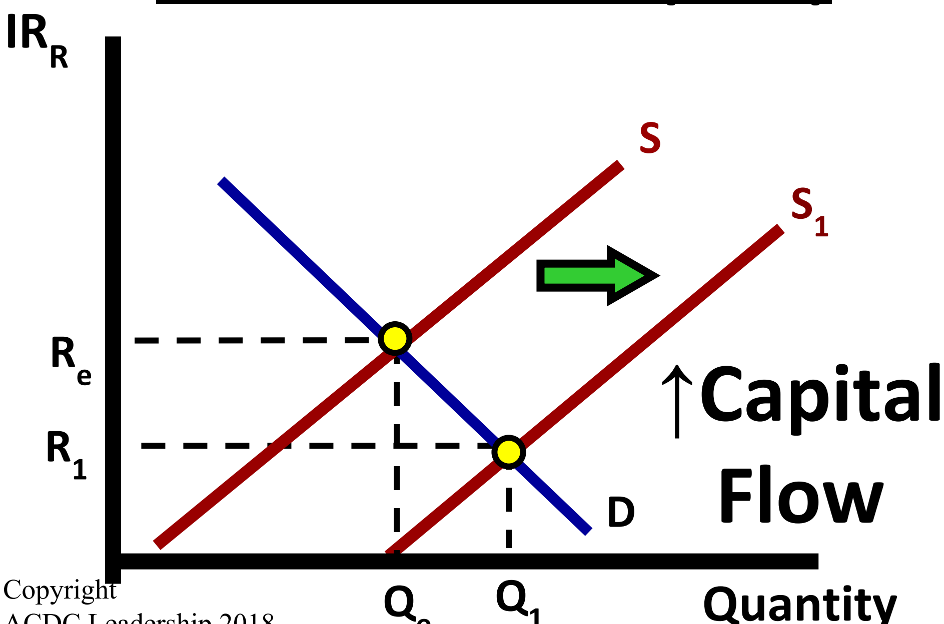
Current Account Deficit

$\downarrow X_N$

Current Account Surplus

$\uparrow X_N$

Loanable Funds (USA)



Financial Account Deficit

$\downarrow$Capital Flow

USA

Current Account Deficit

$\downarrow X_N$

Financial Account Surplus

↑Capital Flow

China

Current Account Surplus

$\uparrow X_N$

Financial Account Deficit

↓Capital Flow

Balance of Trade vs. Balance of Payments

Who wants another FUN set?