Final Review

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Today’s Plan

• Tariffs, Quotas & Subsidies
• Current Account Identities
• Q&A
Balance of Payments

• Current Account
  • Flow of goods & services into and out of a country
• Capital & Financial Accounts
  • Flow of capital into and out of a country
    • Borrowing and lending (debt)
    • Buying and selling assets (equity)
These three accounts always balance out

• Current Account Balance + Financial Account Balance + Capital Account Balance = 0
  • An implication of the double-entry book-keeping methodology
  • Example of double-entry methodology: An export transaction is recorded in 2 countries (once with plus (export) and once with a minus (import).
Exports: 2,105 B
Income Receipts: 739 B
Imports: 2,165 B
Income Payments: 518 B
Net Transfers: 135 B

Δ in Foreign-owned assets in U.S. (+ derivatives) 625 B
Δ in Foreign Reserves 165 B
Δ in U.S. assets abroad 380 B
Δ in U.S. Reserves 16 B
International Accounting Identities

\[ Y = C + T + S \]  \hspace{1cm} \text{eq. 1}
\[ Y + M = C + G + I + X \]  \hspace{1cm} \text{eq. 2}
\[ X - M = Y - (C + I + G) \]  \hspace{1cm} \text{eq. 3}
\[ X - M = (C + T + S) - (C + I + G) = (S - I) + (T - G) \]  \hspace{1cm} \text{eq. 4}

\begin{align*}
X &= \text{Exports} \\
Y &= \text{National Income} \\
S &= \text{Savings} \\
T &= \text{Taxes} \\
M &= \text{Imports} \\
C &= \text{Domestic consumption} \\
I &= \text{Investment} \\
G &= \text{Government consumption}
\end{align*}