Achievable

AP MACROECONOMICS DUMP SHEET

Unit 6: Open economy, international trade and finance

Balance of payments

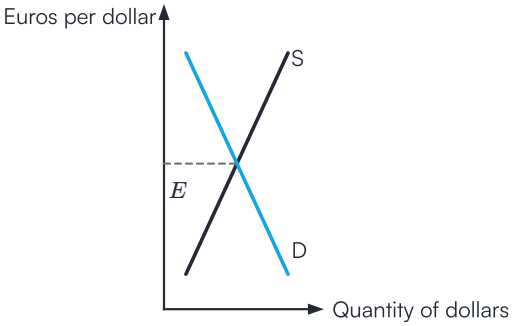
$$CA + CFA = 0 \qquad CA = -CFA$$

- **Current account (CA):** net exports $X - M$, net factor income, net transfers
- **Capital and financial account (CFA):** foreign purchases of our assets minus our purchases of theirs: FDI, stocks and bonds, bank accounts, reserves
- A **current account deficit** is matched by a **CFA surplus** (net capital inflow)
- **Credit:** money flows in. **Debit:** money flows out. Credits match debits

Exchange rates

- E in euros per dollar is the price of a dollar
- E ↑: the dollar **appreciates**, the euro **depreciates**
- Cancel units to convert: €1.19 ÷ 0.8604 € per $ = $1.38
- **Appreciation:** exports ↓, imports ↑, NX ↓, AD left
- **Depreciation:** exports ↑, imports ↓, NX ↑, AD right

Foreign exchange market



- **Demand for dollars:** foreigners buying US goods, services, assets
- **Supply of dollars:** the US buying foreign goods, services, assets

Capital flows

- Capital flows to the country with the **higher real interest rate**
- US rate ↑ → inflow → demand for dollars ↑ → dollar appreciates
- The inflow also adds to loanable funds supply, pulling the rate back down
- **Identity** (taking $CA = NX$): $I - S = -NX = CFA$

What moves the exchange rate

Change	Shifts	E
Domestic real interest rate ↑	S left, D right	↑
Foreign real interest rate ↑	S right, D left	↓
Domestic price level ↑	S right, D left	↓
Foreign price level ↑	S left, D right	↑
Domestic income ↑	S right	↓
Foreign income ↑	D right	↑
Domestic taste for foreign goods ↑	S right	↓
Foreign taste for domestic goods ↑	D right	↑
Tariff or quota on foreign goods	S left	↑
Foreign tariff or quota on our goods	D left	↓

Policy in an open economy

- **Expansionary monetary:** rate ↓, capital out, currency depreciates, NX ↑. AD moves more than in a closed economy
- **Bigger deficit:** real rate ↑, capital in, currency appreciates, NX ↓. AD moves less
- **Tariff or quota (no retaliation):** imports ↓, NX ↑, AD right in the short run; SRAS and LRAS left in the long run