

OPEN ECONOMY
EQUILIBRIUM

FINDING THE ~~THE~~ NCO, NX EQ.

$$Y = C + I + G + NX$$

$$Y - C - G - NX = I$$

$$Y - C - G - NX = I$$

$$-T + T$$

$$I = XN - (T - G) + (T - G) - Y$$

$$NX = NCO$$

$$I = XN - S$$

$$NCO + NCO$$

$$S = I + NCO$$

$$\rightarrow NCO \downarrow$$

$$\rightarrow S \downarrow$$

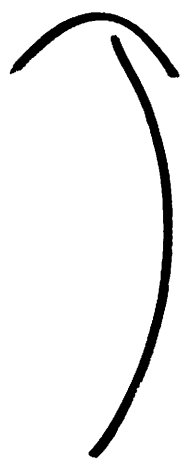
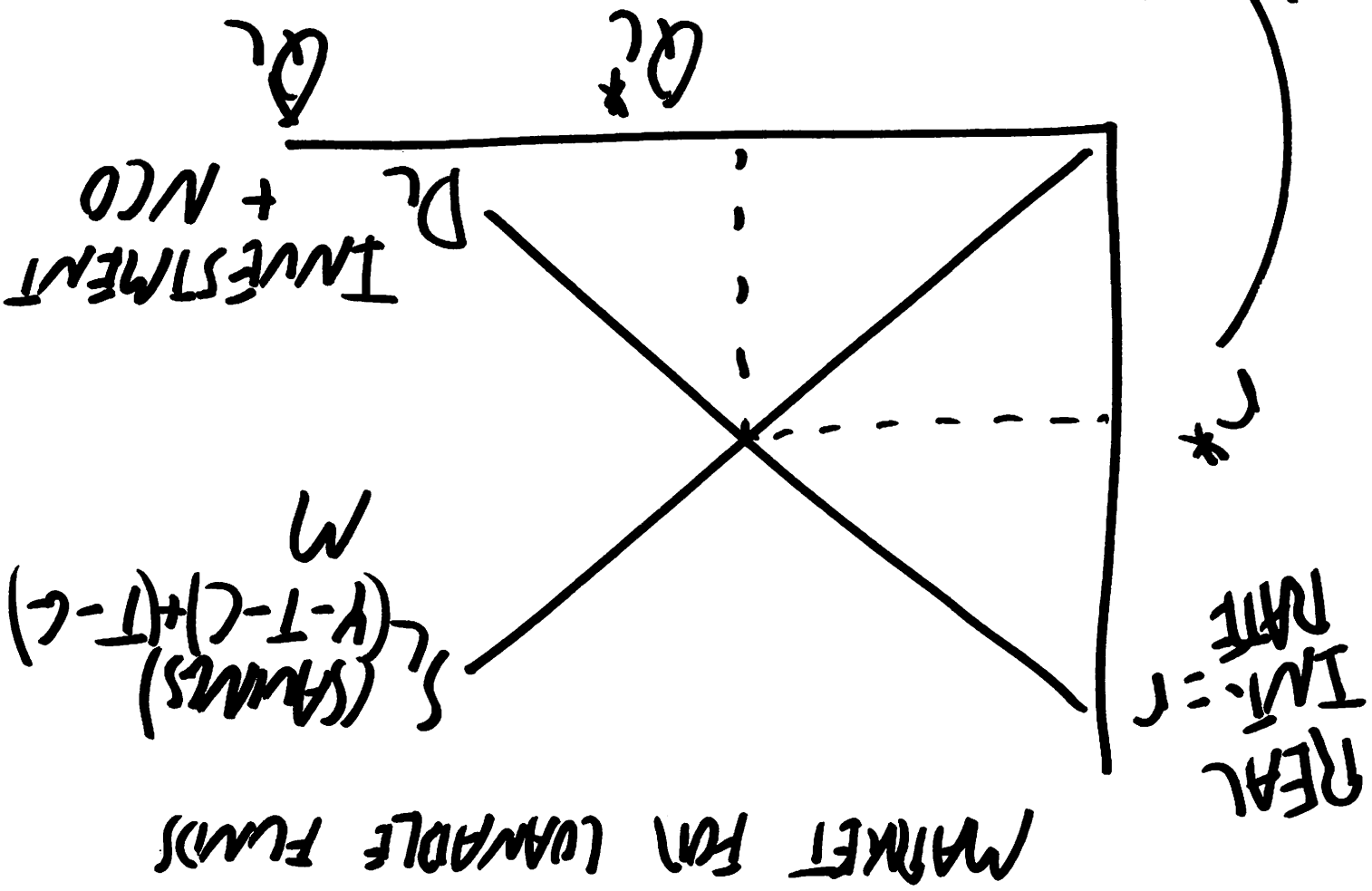
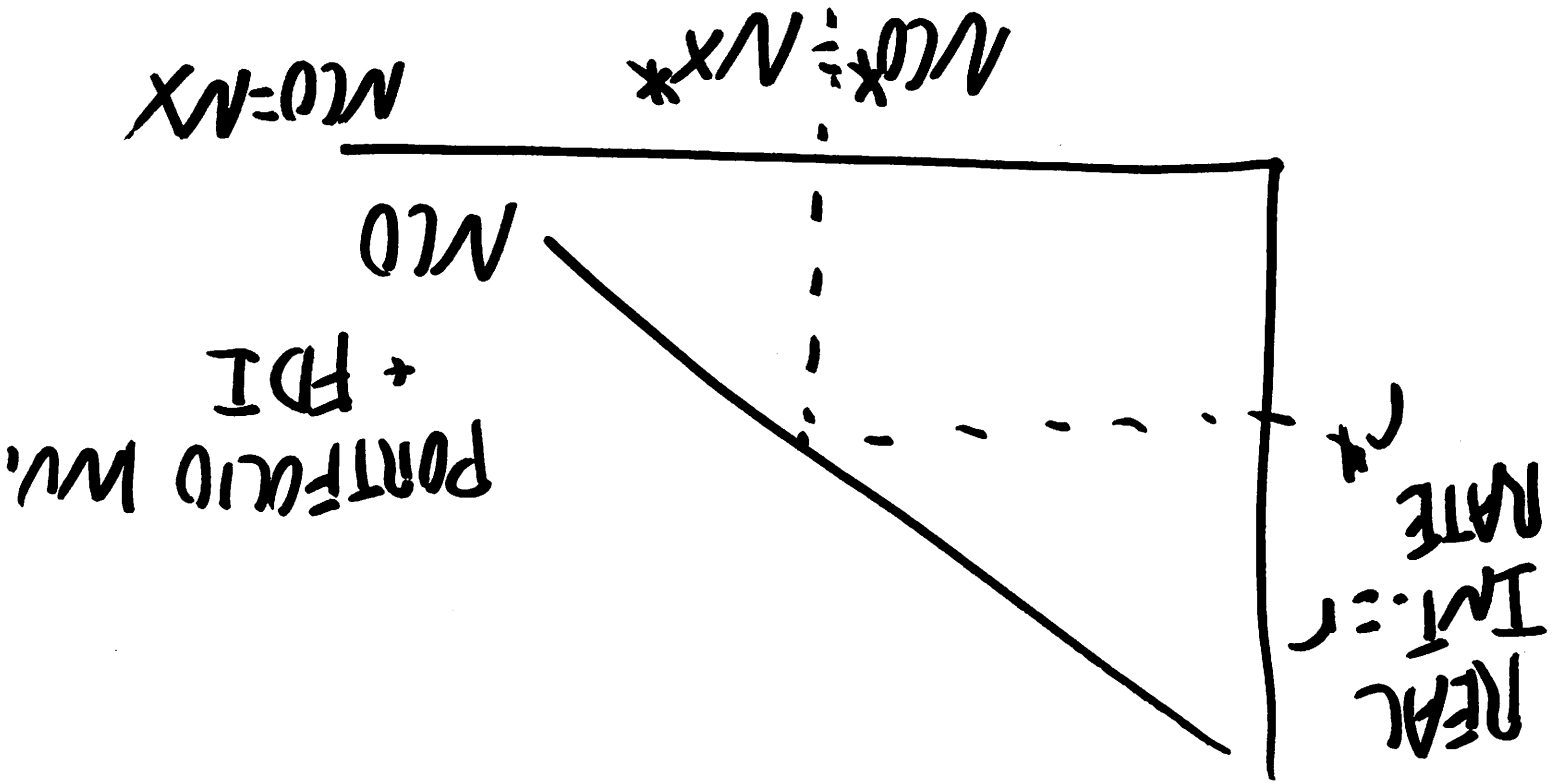
$$\rightarrow I \downarrow$$

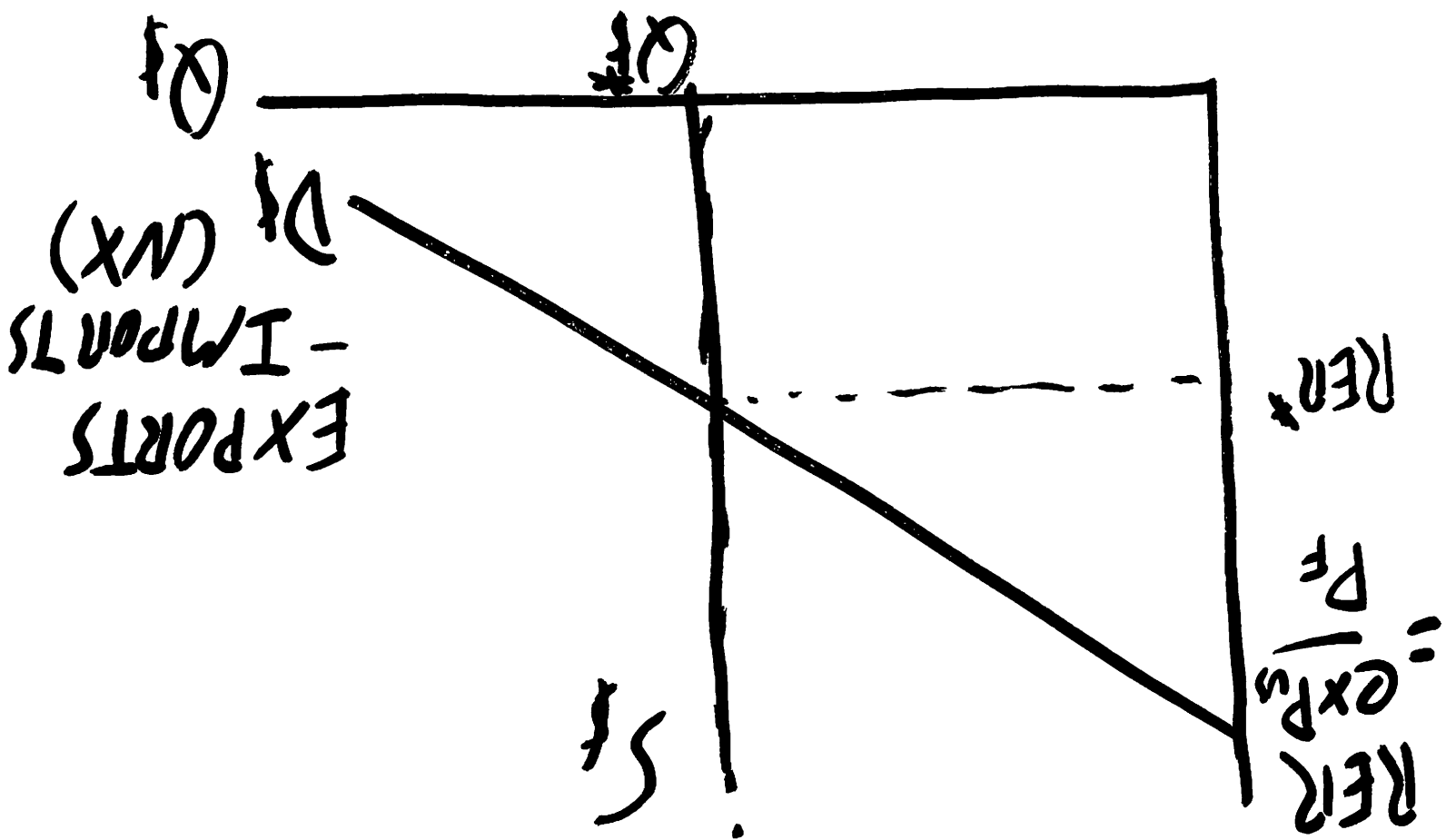
REAL

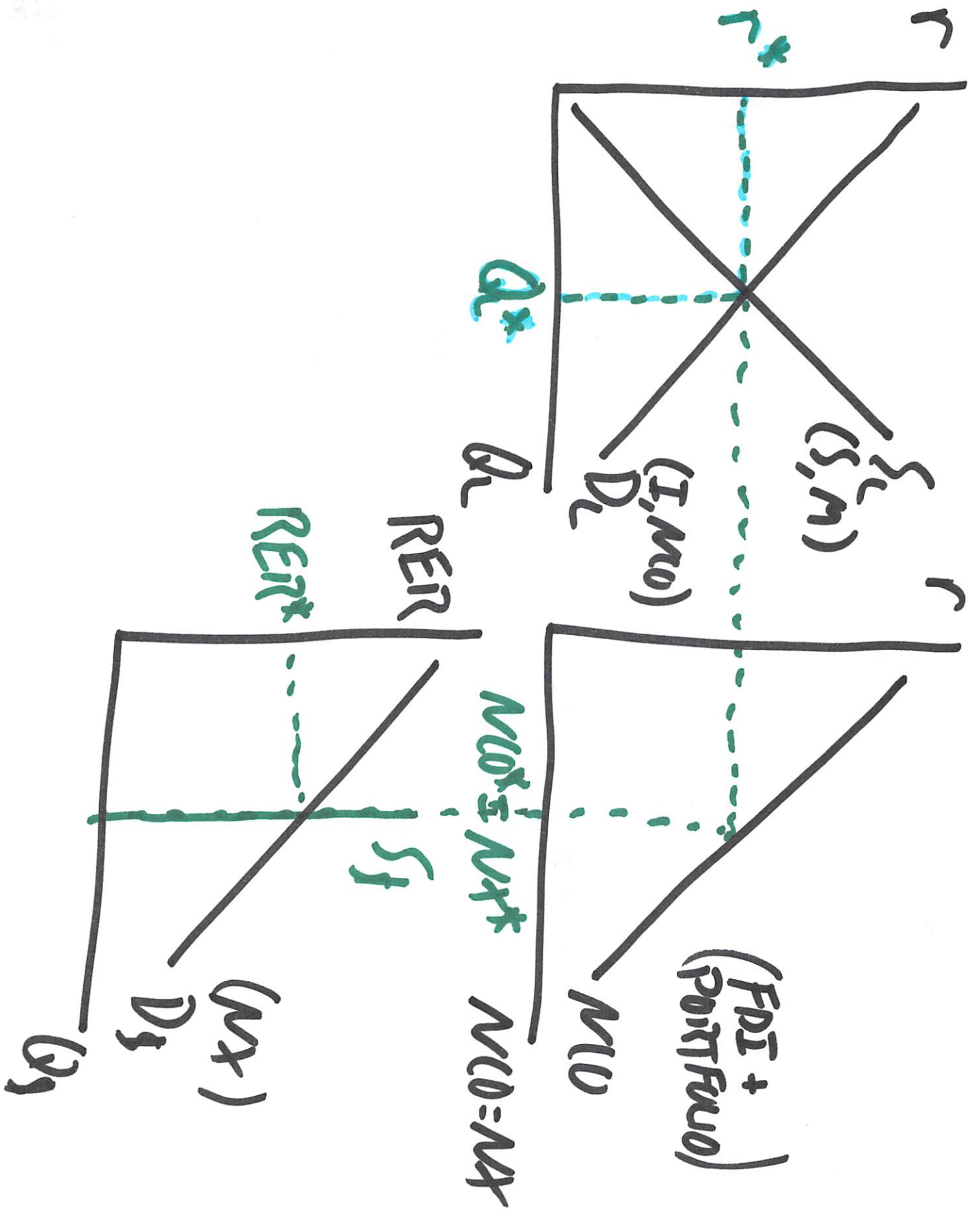
INT.

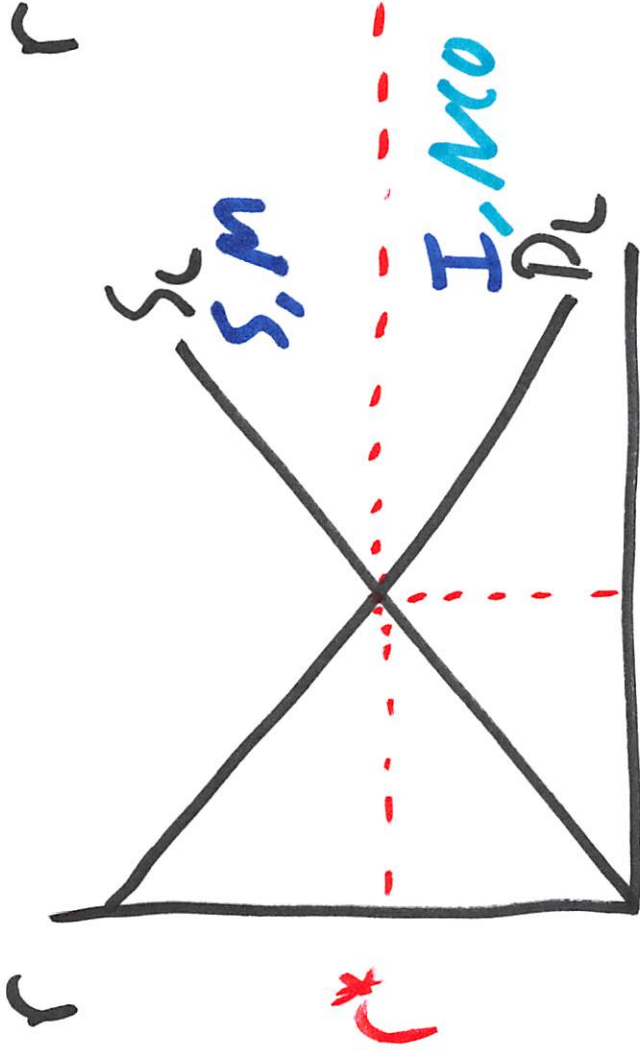
RATE = $r = \downarrow$

(H. 19)









r^*

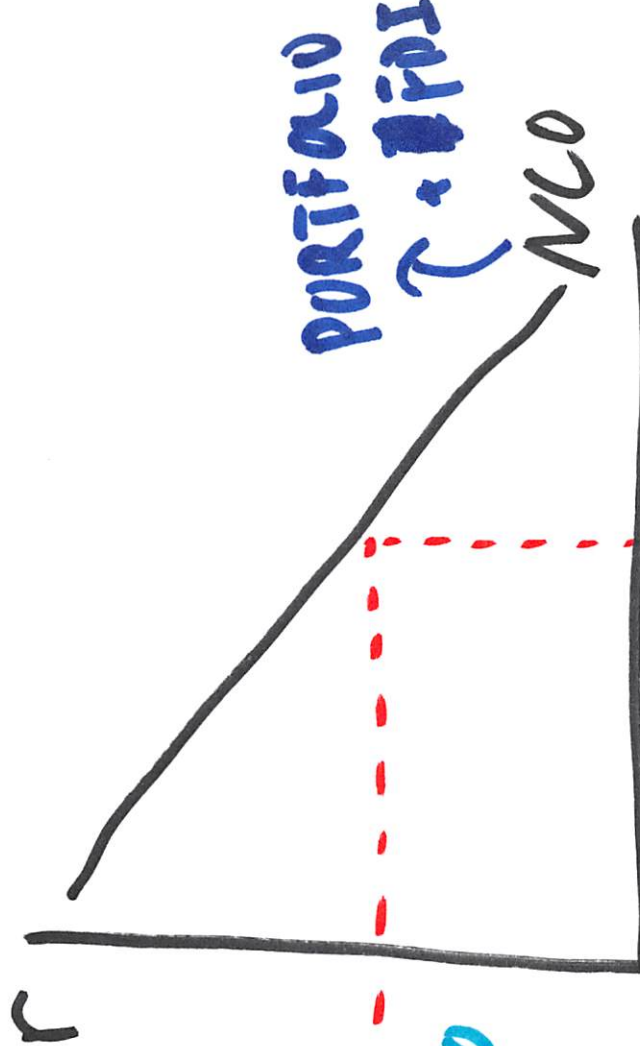
S
 S, M

I, NCO
 D

$Q_I \approx I^*$ $Q_I \approx I$

REER

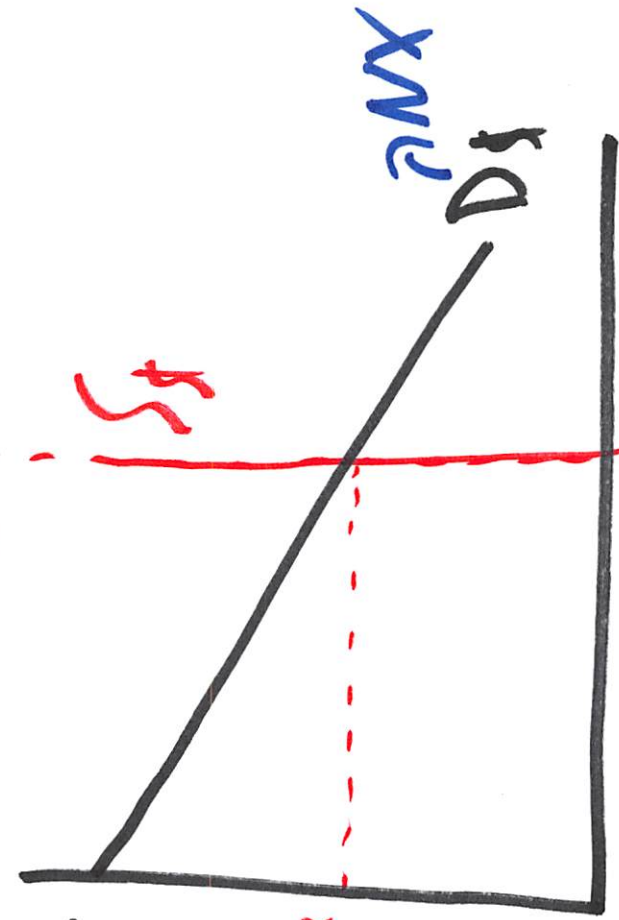
- ① FIND r^* , $Q_I \approx I^*$
- ② USE r^* ; FIND $NCO^* = NX^*$
- ③ USE $NCO^* = NX^*$ $REER^*$
- ④ FIND S_f
- ⑤ FIND $REER^*$



PORTFOLIO
 $r = r_{FDI}$

NCO

$NCO^* = NX^*$ $NCO = NX$

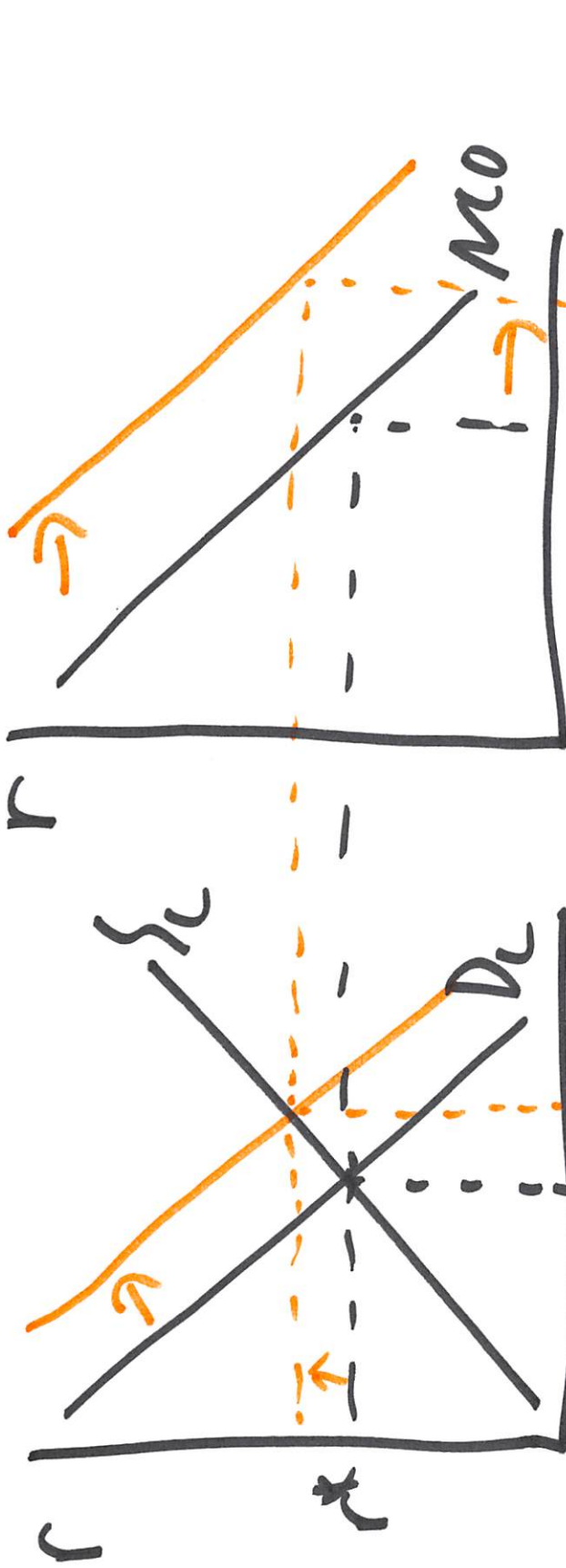


S_f

$r = NX$

D

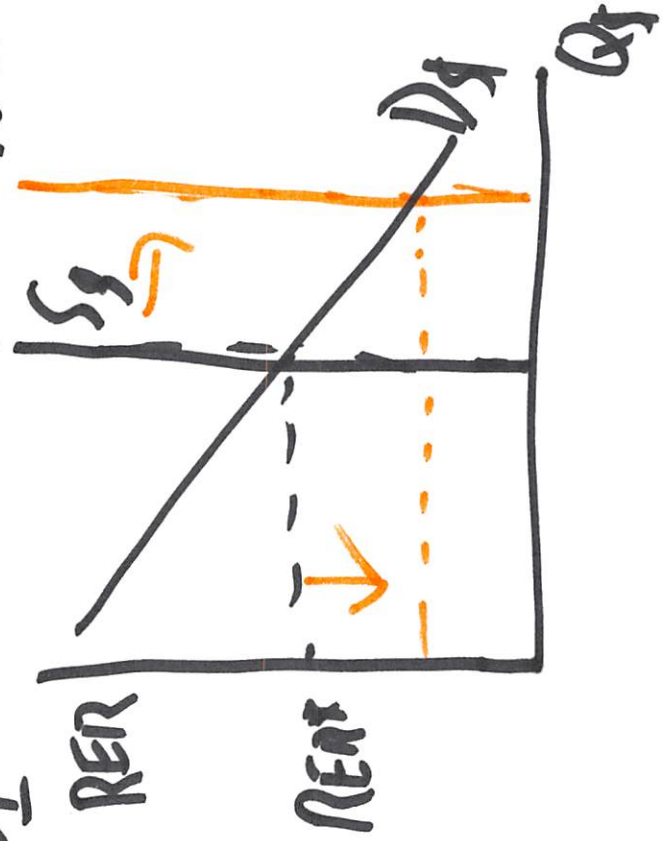
Q_s



$Q^* \rightarrow Q_L \approx I$

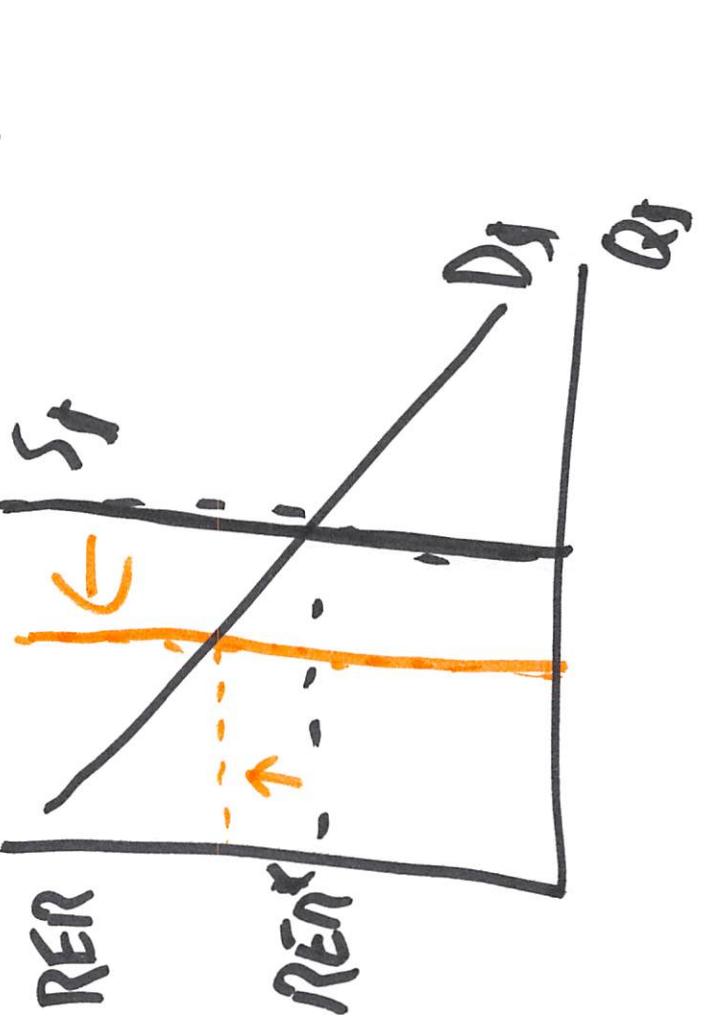
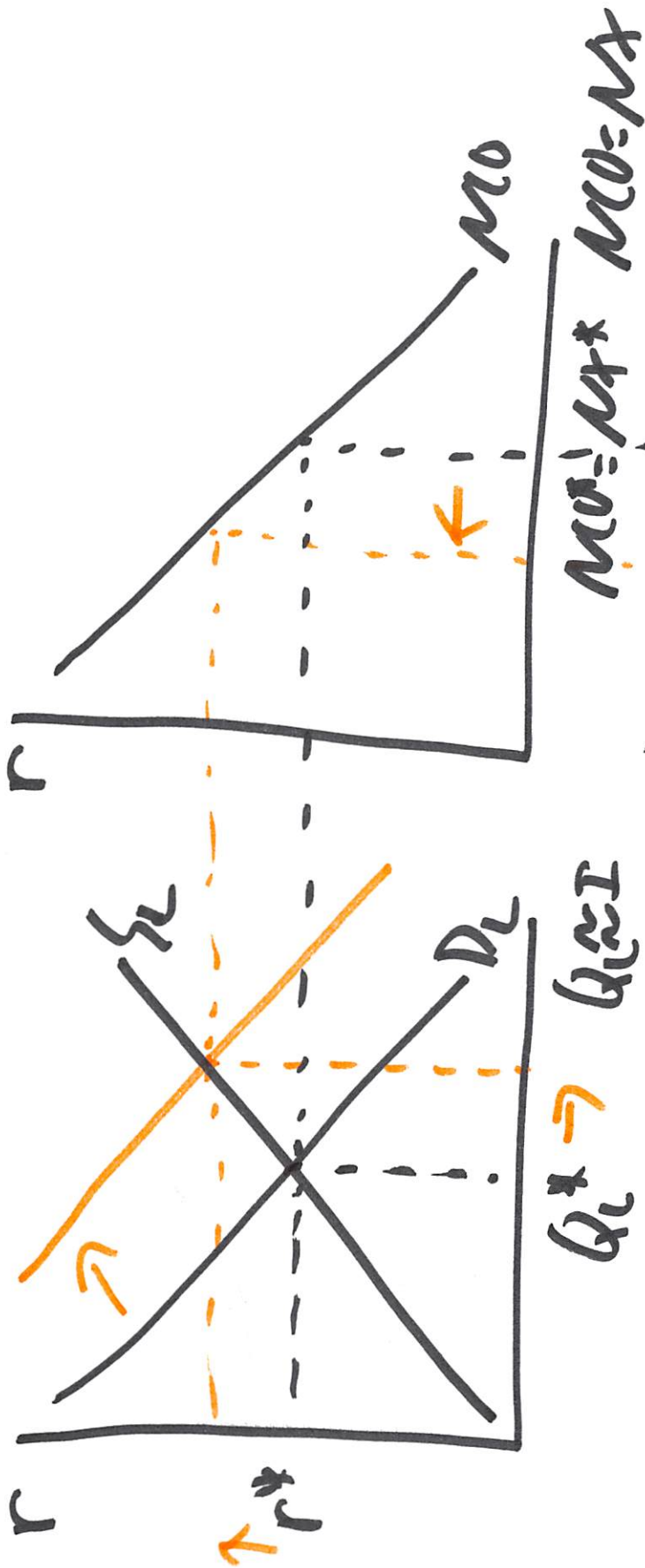
AMERICANS BUY
CHINESE STOCKS

$NCO \uparrow$
 $\hookrightarrow D_C \uparrow$



$NCO \approx NX$

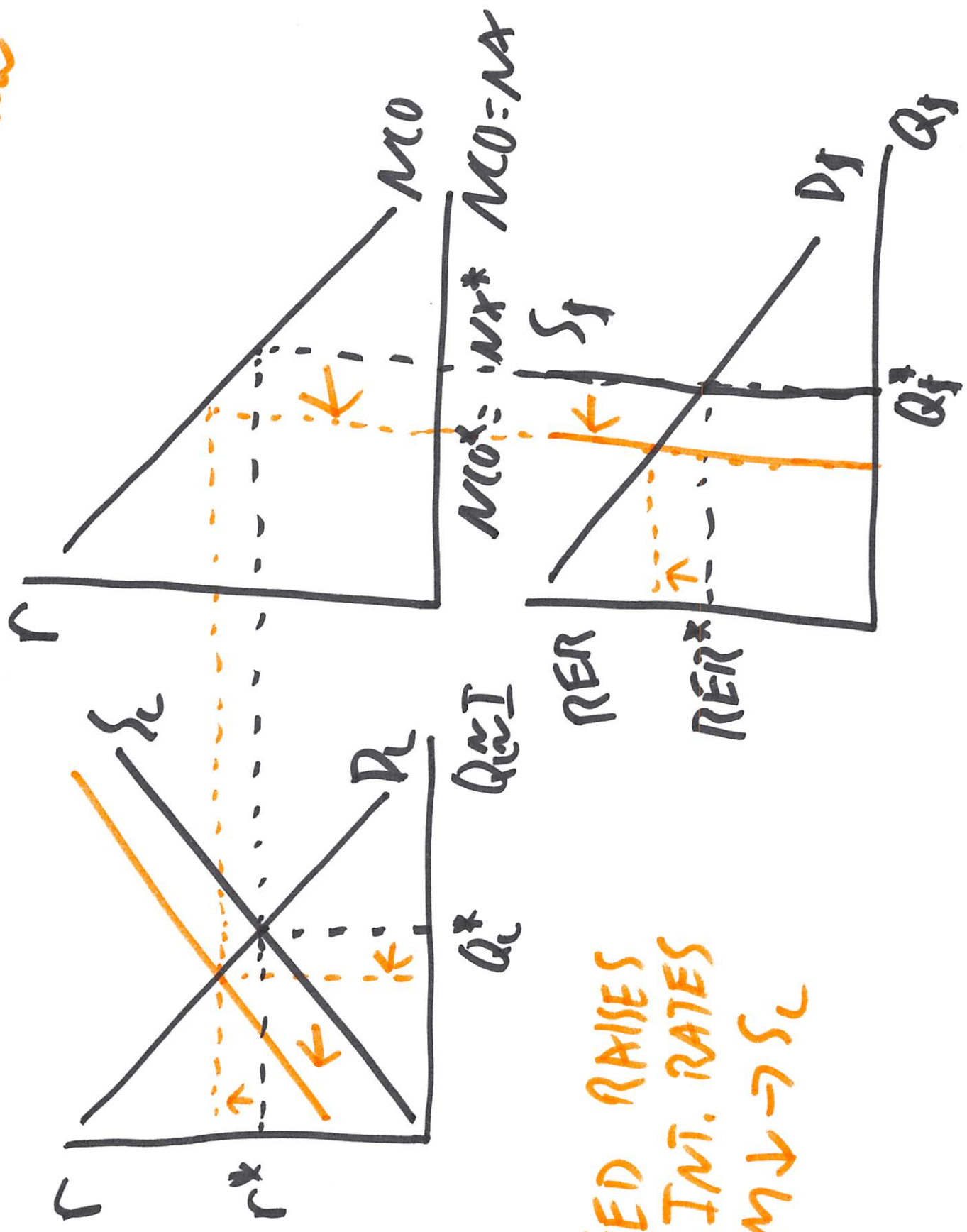
$NCO \approx NX^*$



$MO = NA^*$ $MO = NA$
 $MO = NA^*$ $MO = NA$

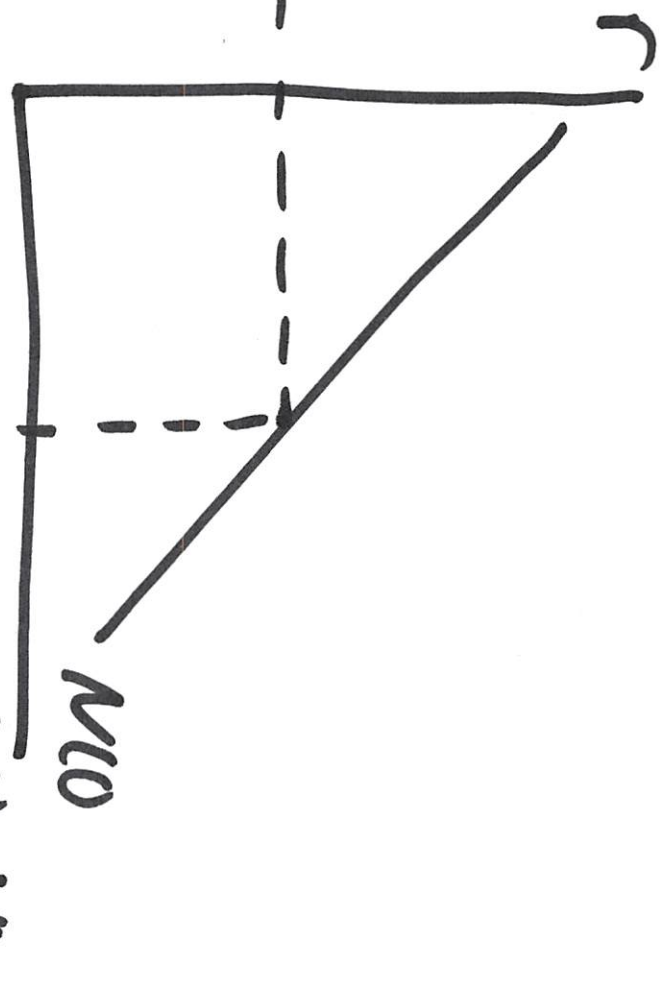
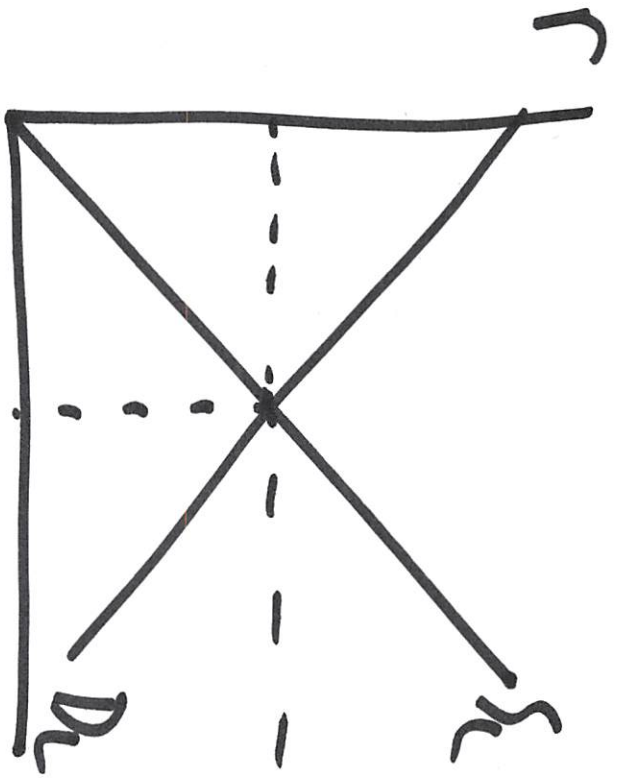
BUSINESSES INVEST
 IN ROBOTICS
 $I \uparrow \Rightarrow D_L \uparrow$

m

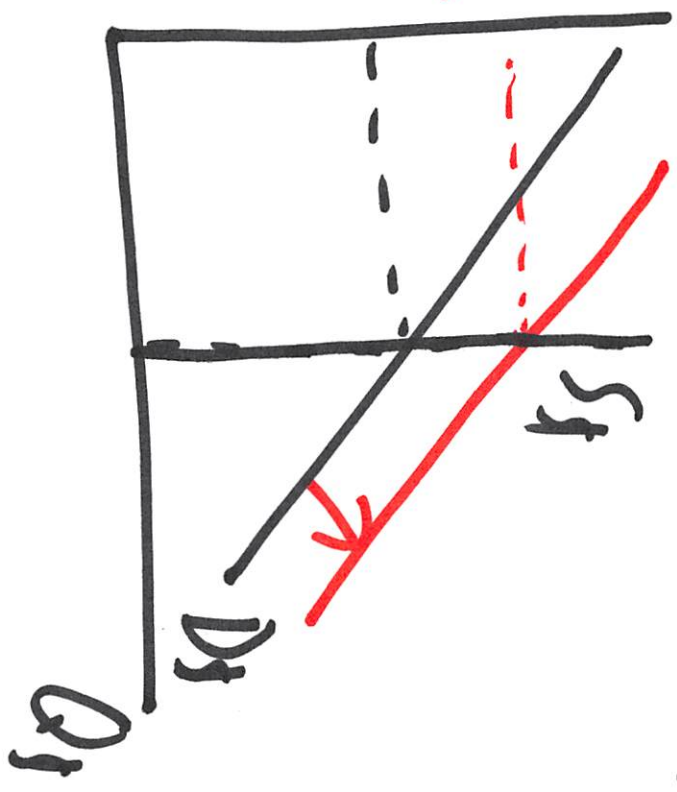


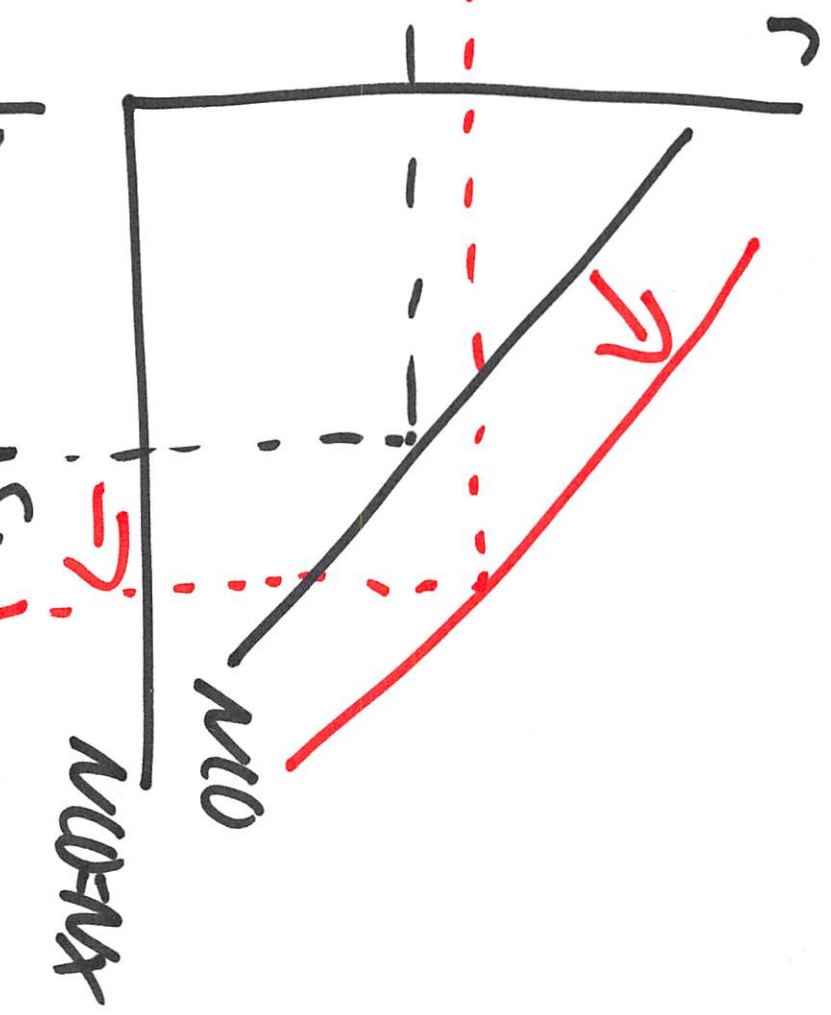
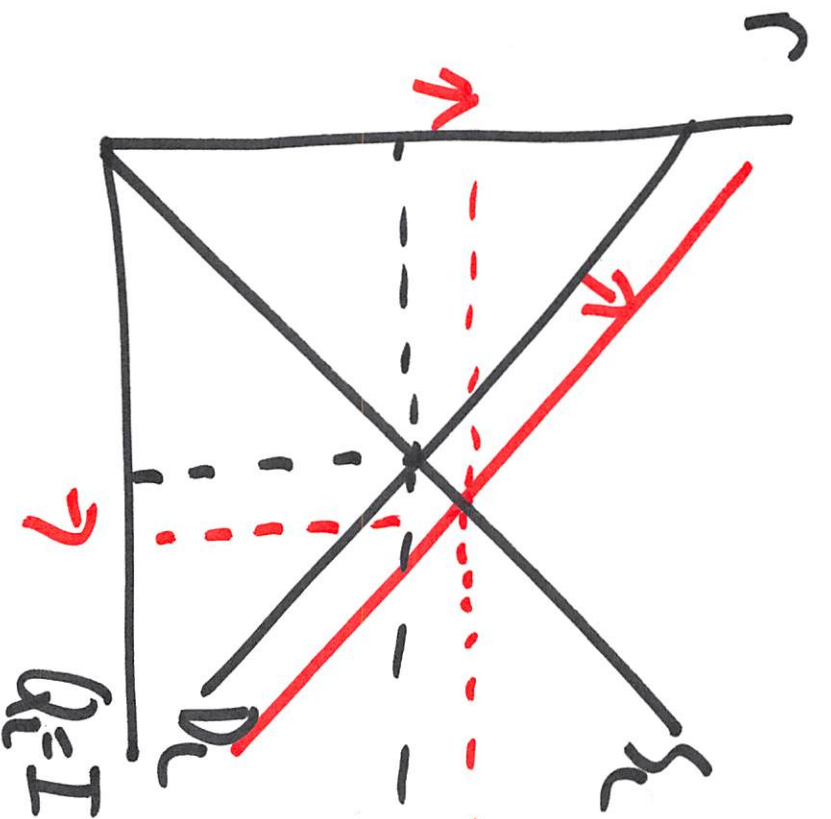
FED RAISES
INT. RATES
 $M \downarrow \rightarrow S_c$

AMAZING CHEVY
VOLT
↳ D_f ↑

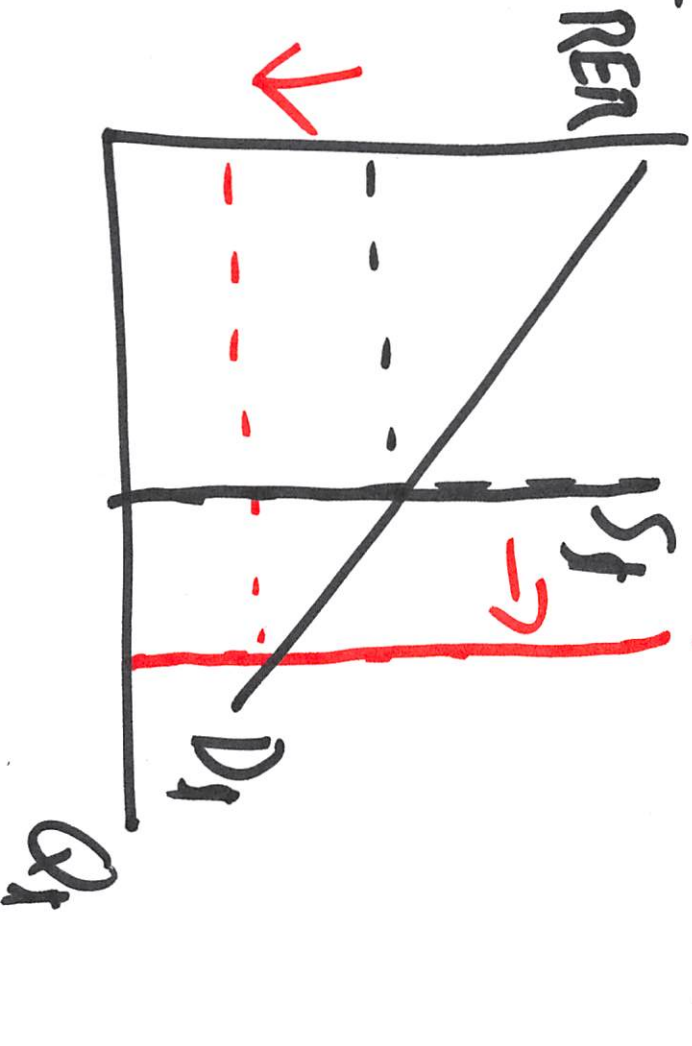


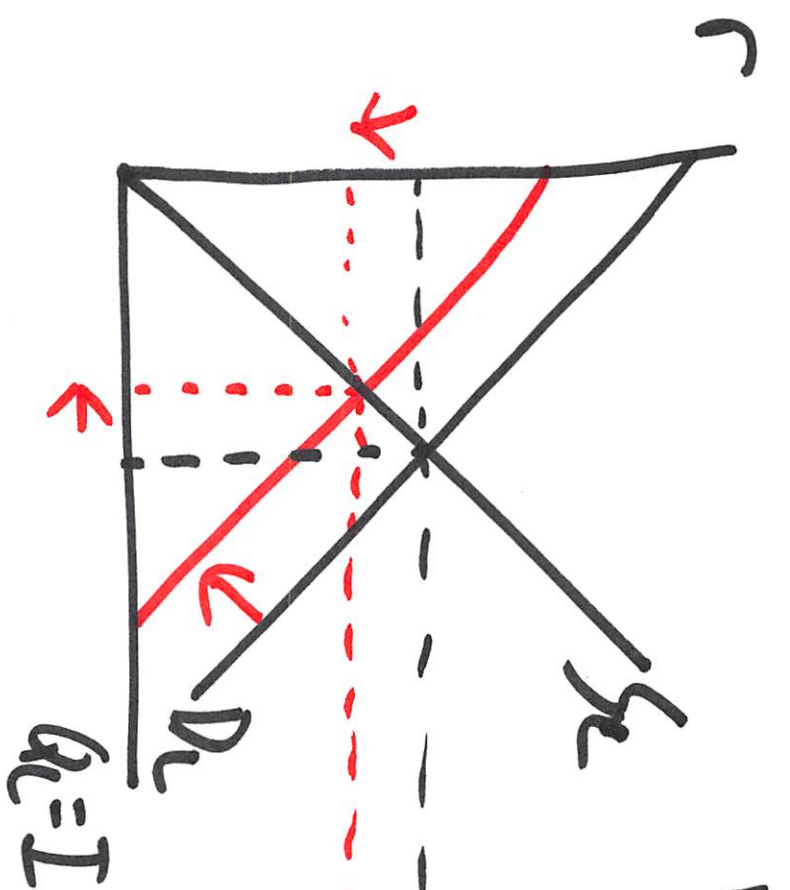
$Q_c = I$
RER ↑



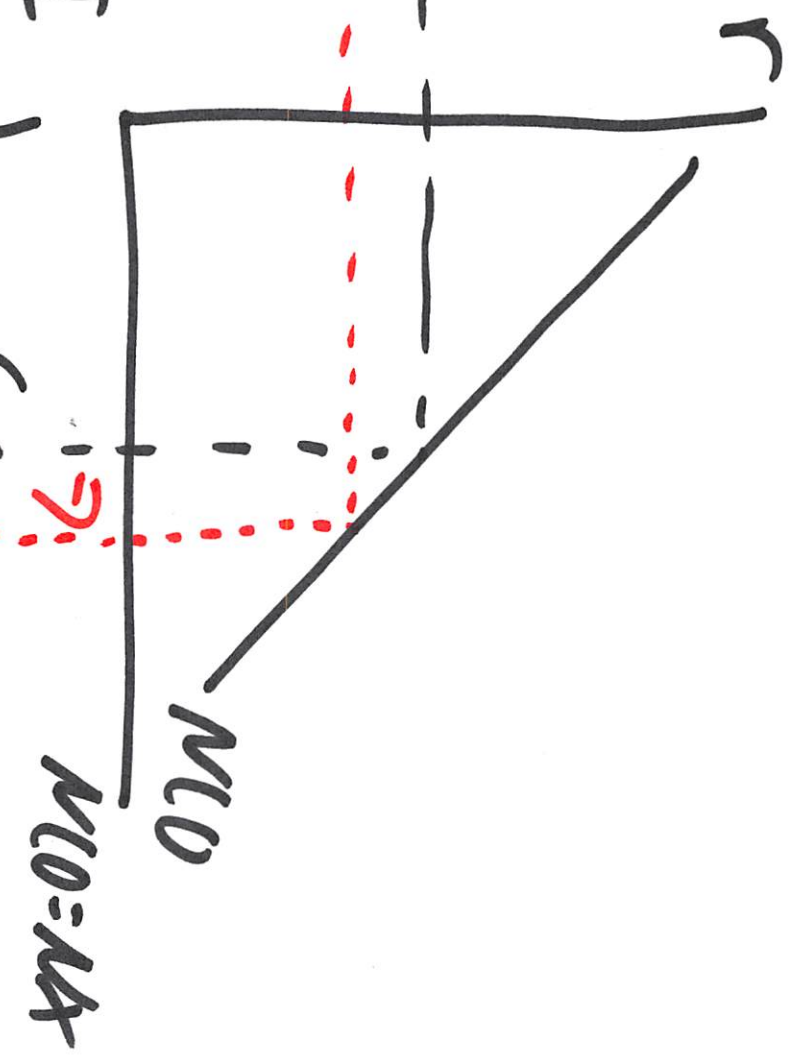


JAPAN'S ECONOMY
 + INVESTMENTS
 GROW DYNAMICALLY
 \hookrightarrow NCO \uparrow
 $D_L \uparrow$



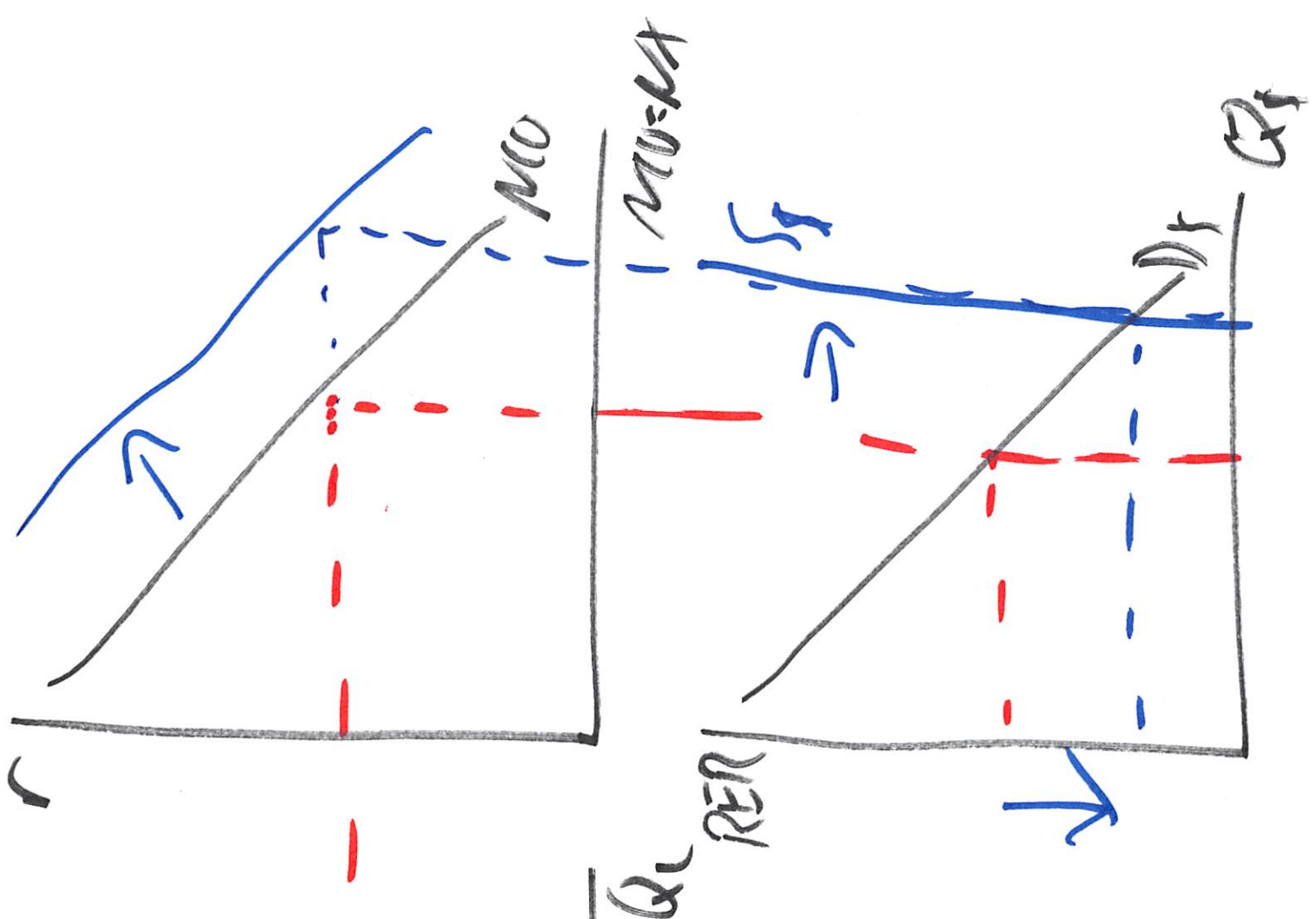


INCREASE CORPORATE
INCOME TAXES
 $G I \downarrow \Rightarrow D_c \downarrow$

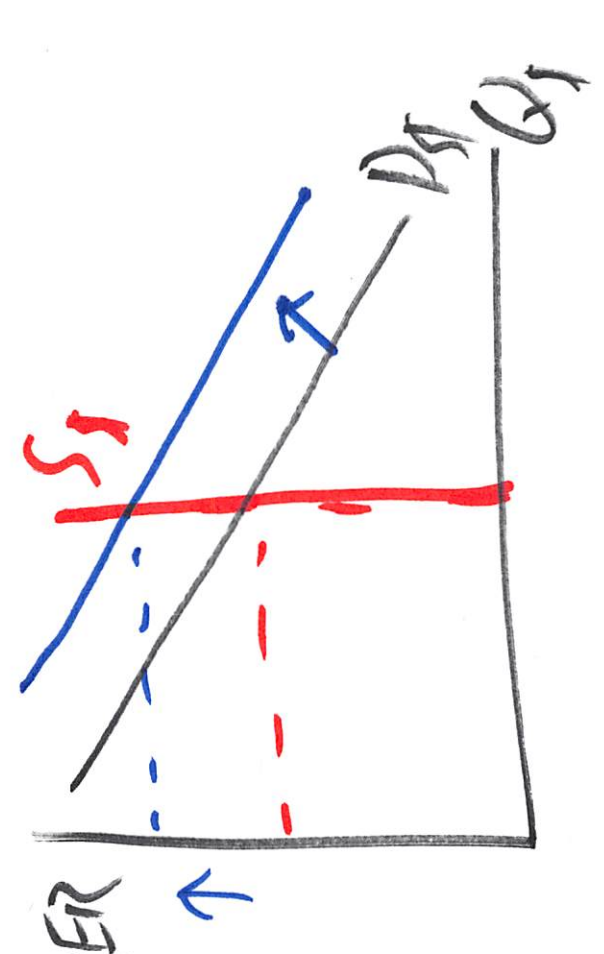
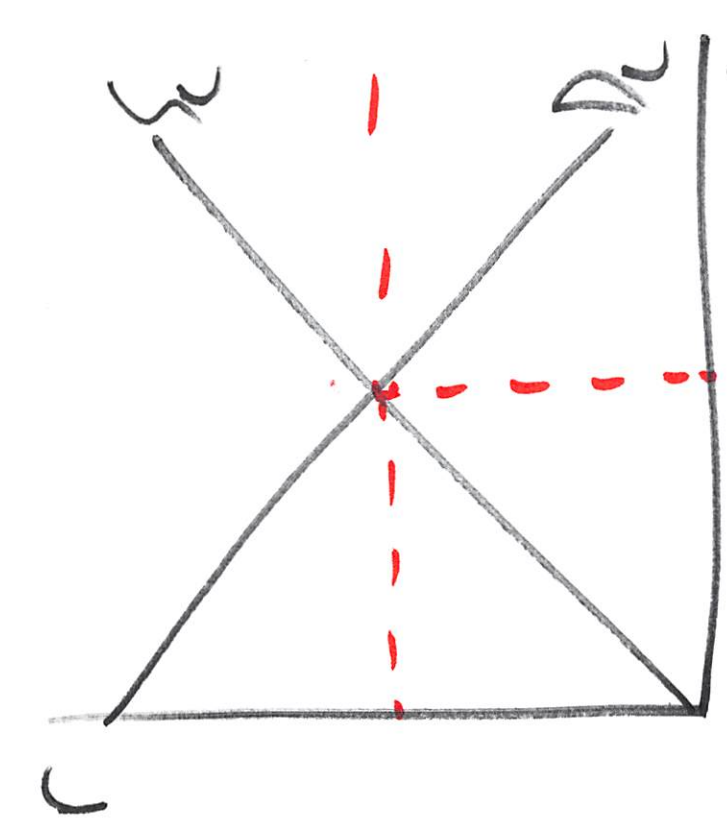
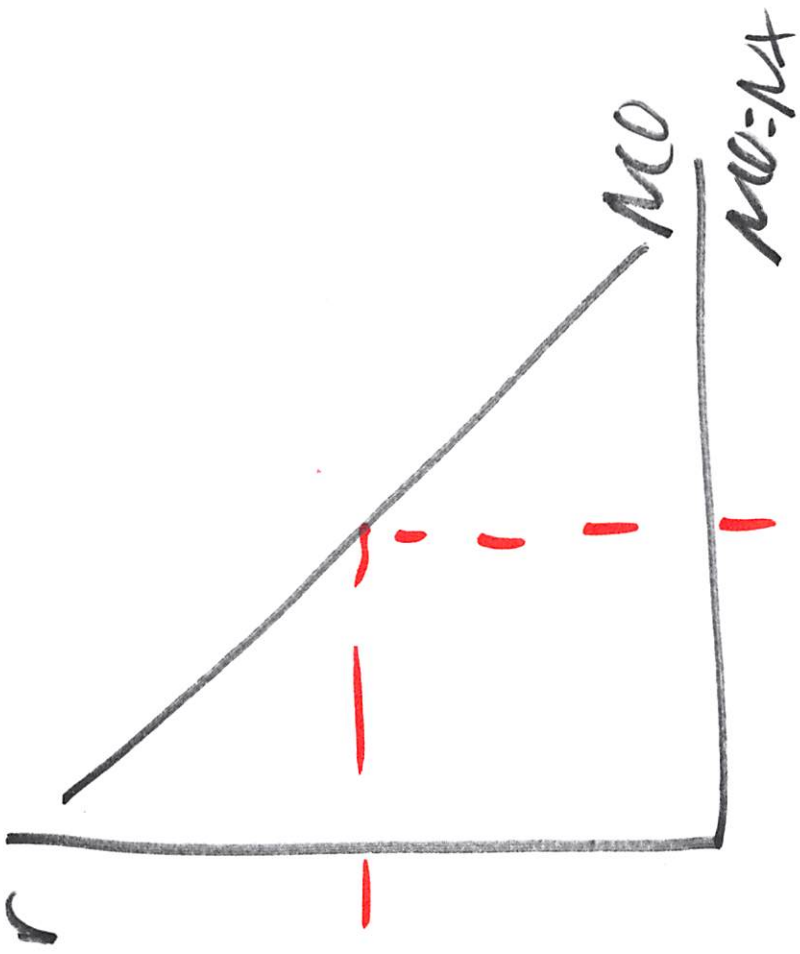


RER
 S_f
 D_f
 Q_f
 $NCO = NX$

$Q_c = I$

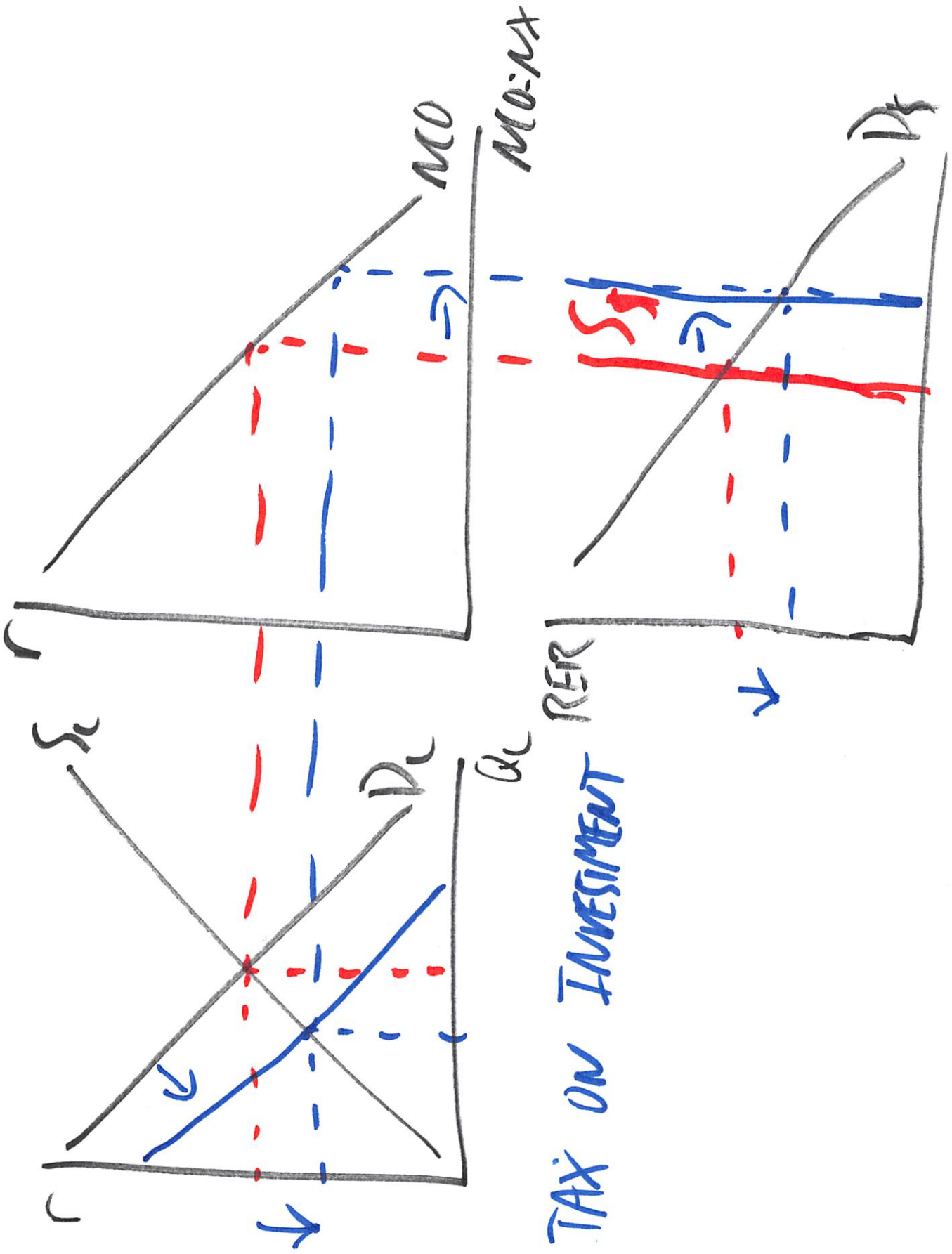


(4) TAX ON STOCK TRANSACTIONS

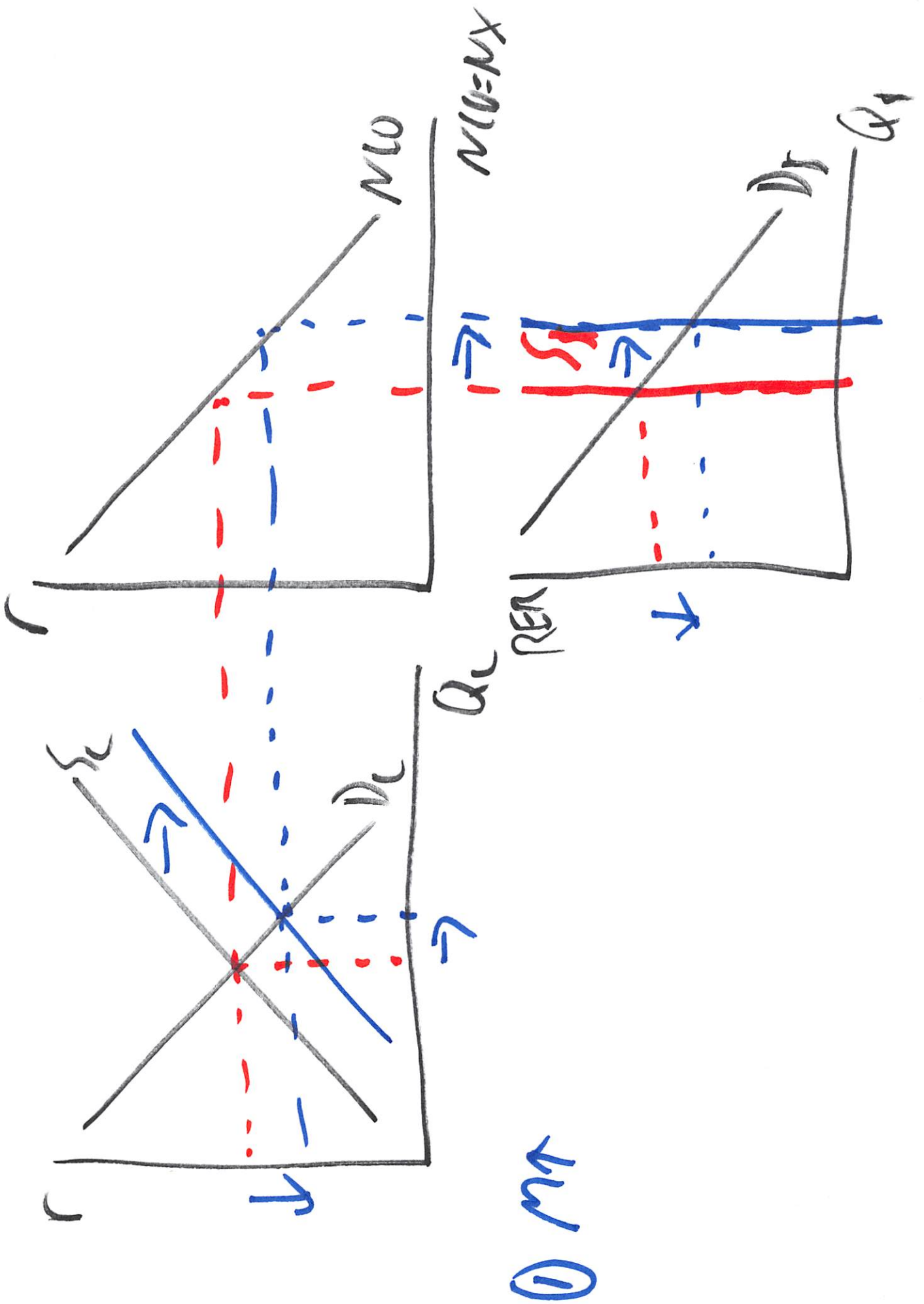


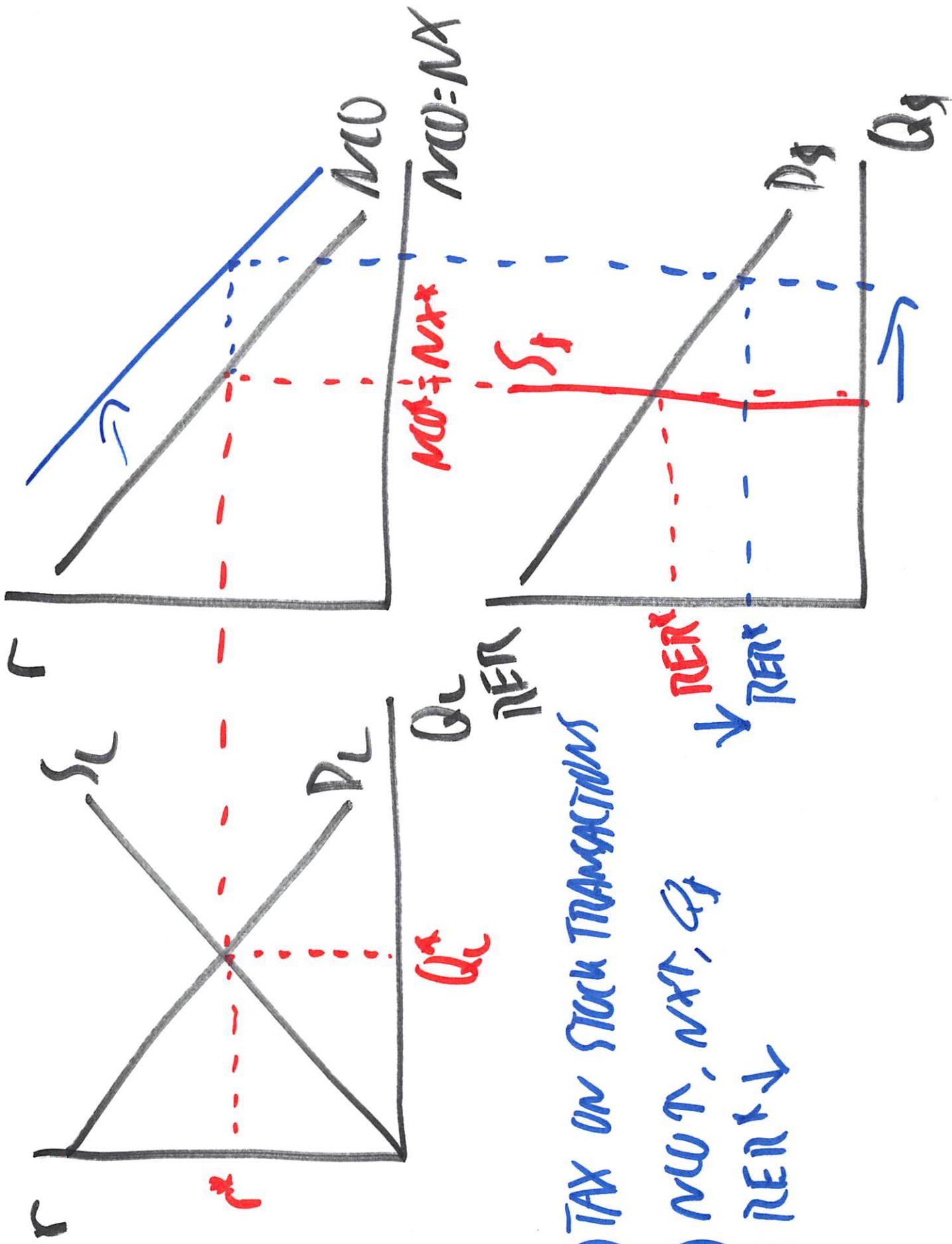
③ NEW OIL EXPORTS

↑



② TAX ON INVESTMENT

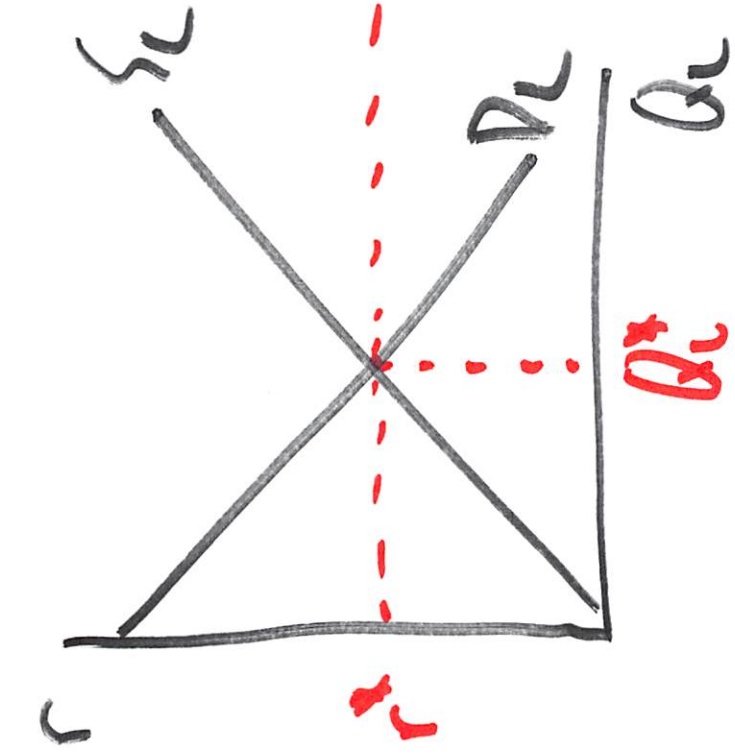




① TAX ON STOCK TRANSACTIONS

② $NW \downarrow$, $NER \downarrow$, Q_s

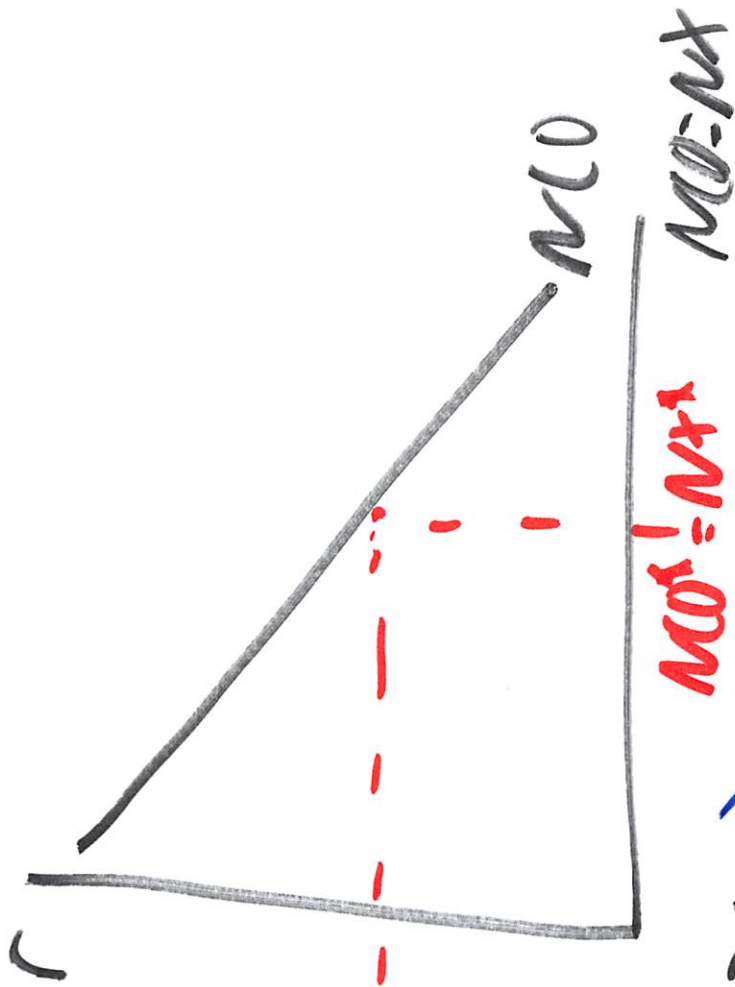
③ $NER \downarrow$



① NEW OIL EXPORTS

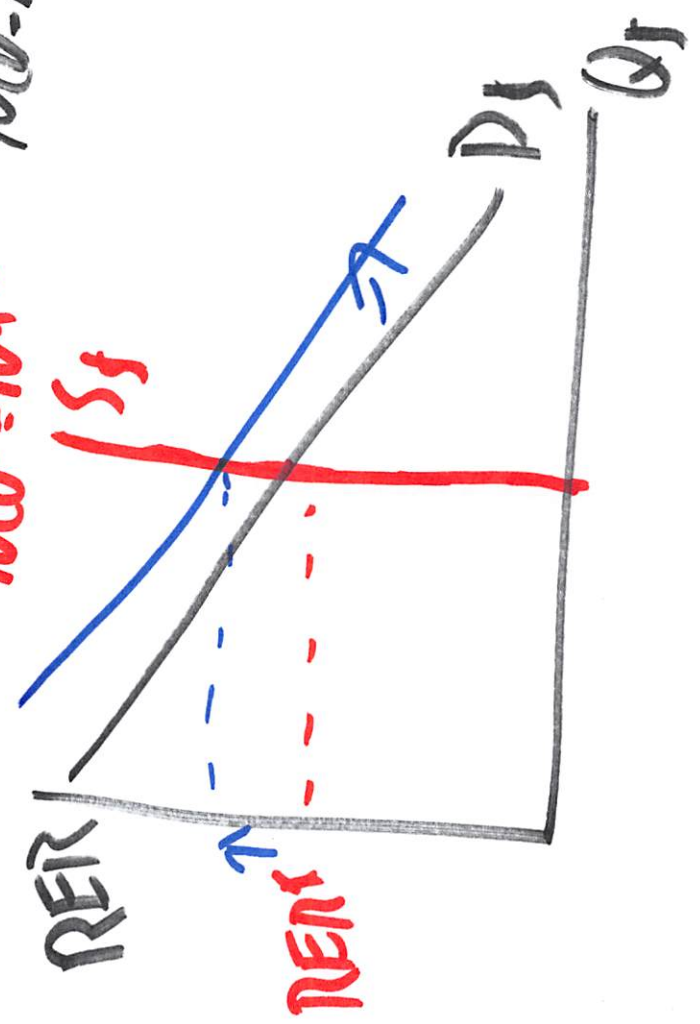
② $D_S \uparrow$

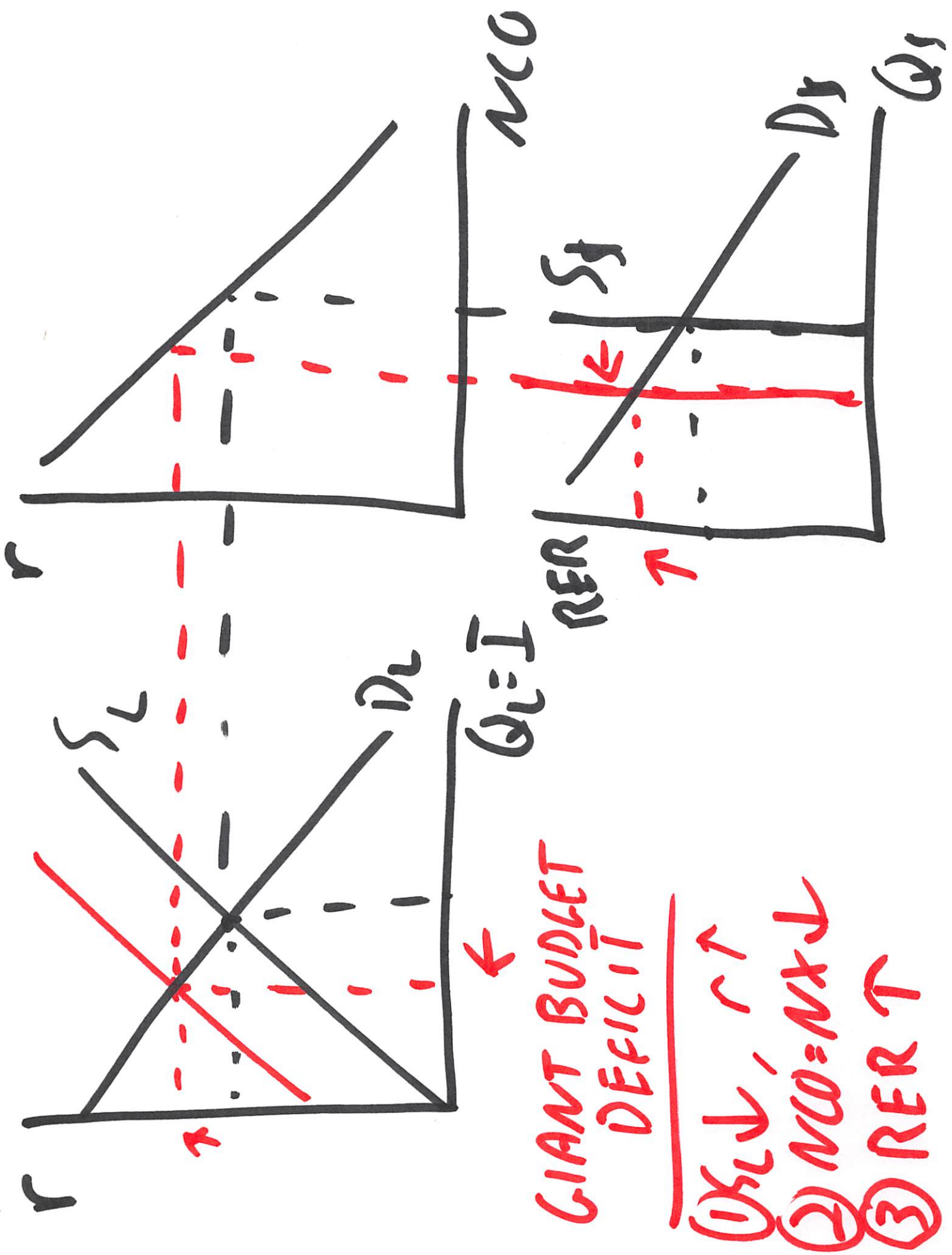
③ $REER \uparrow$

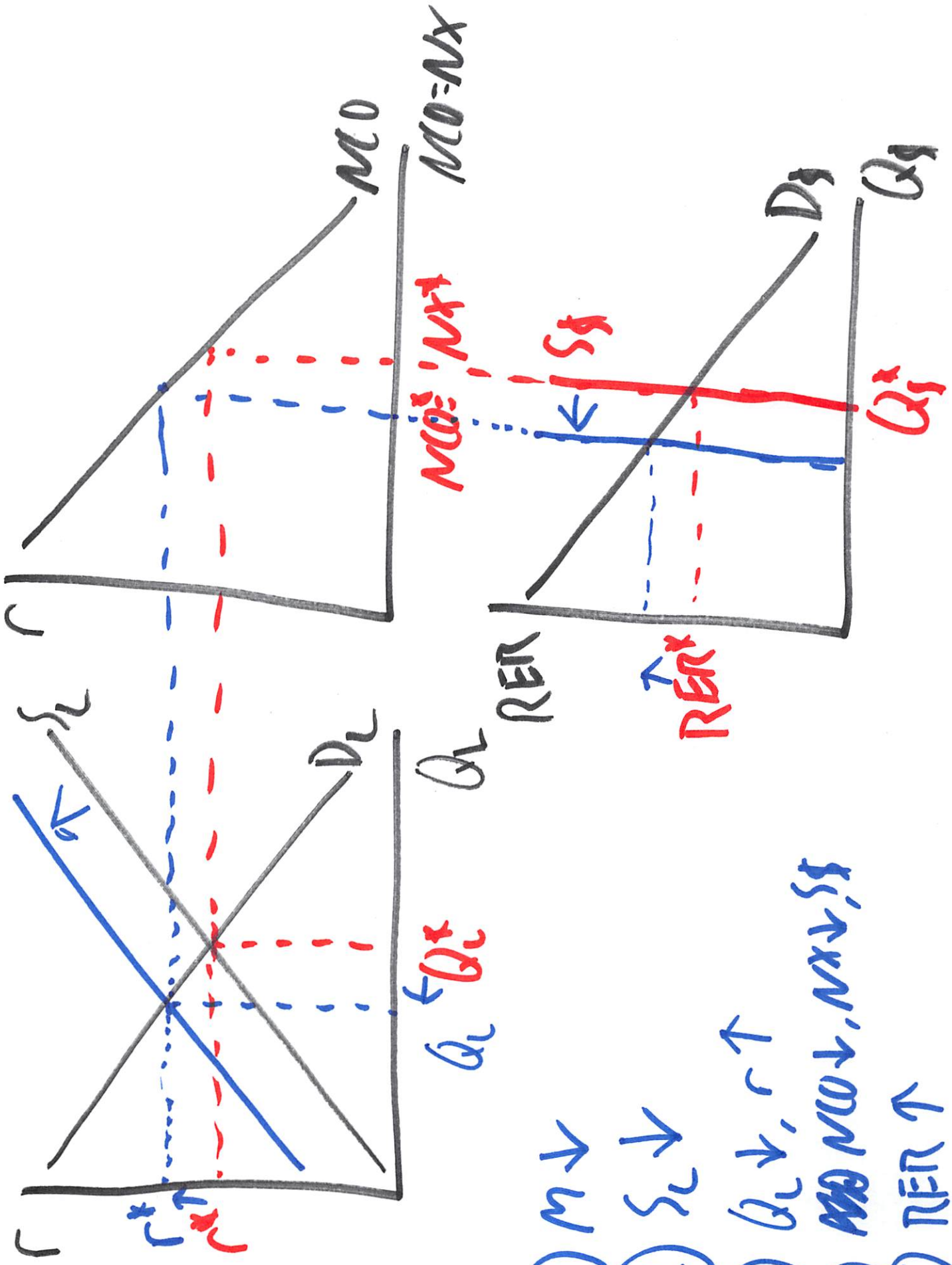


$ND = NX^*$

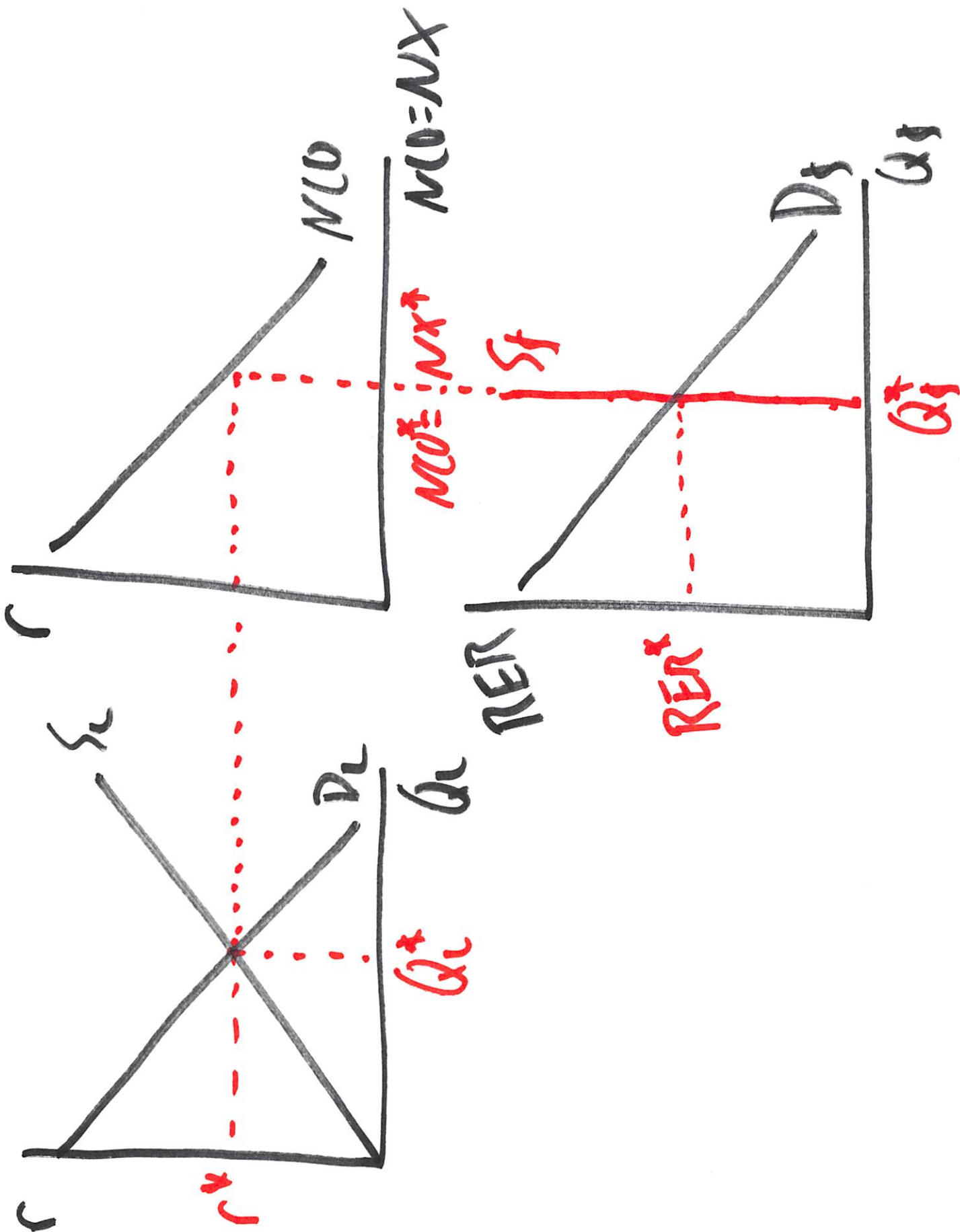
$NS = NX^*$

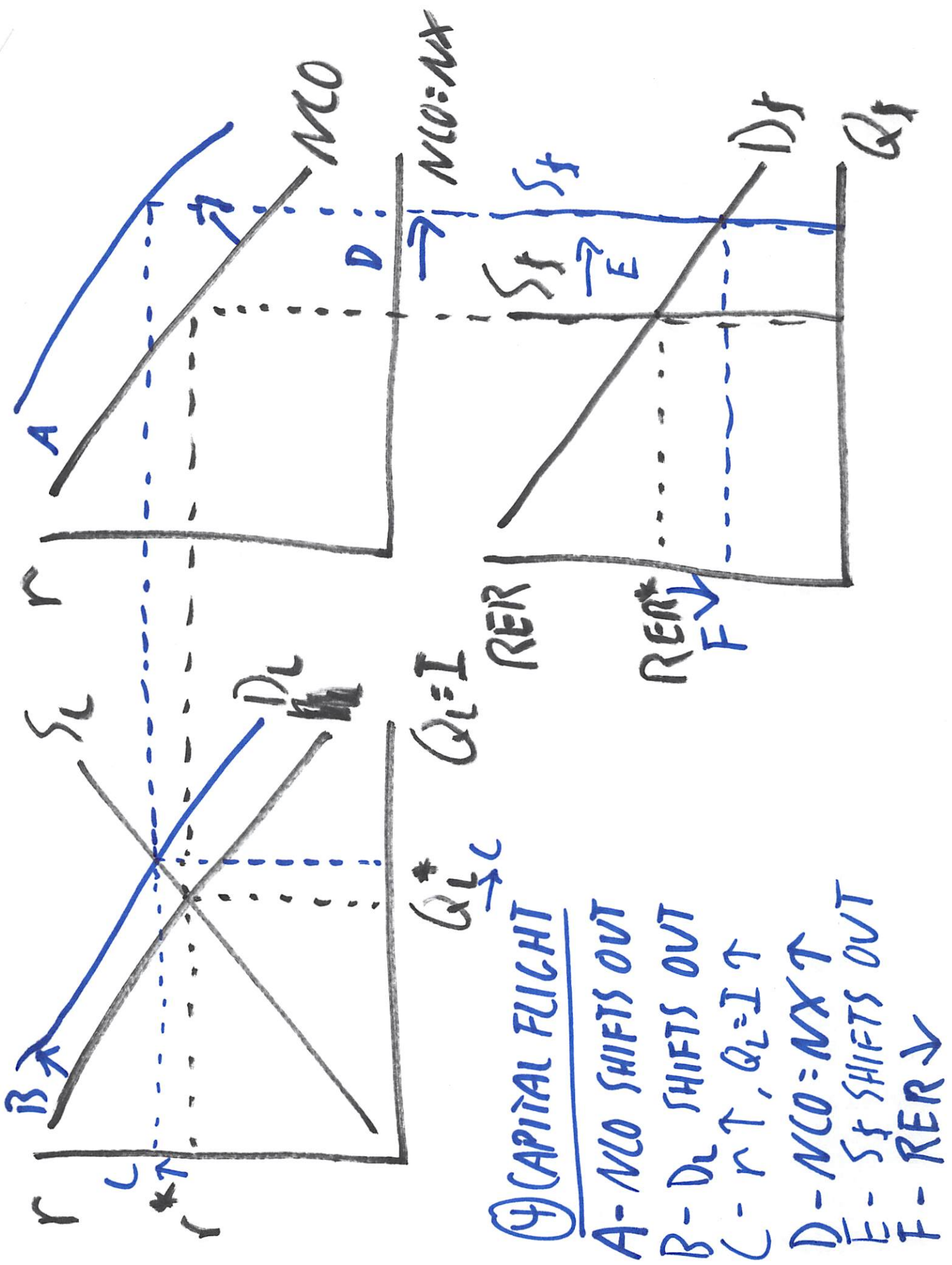






- ① $M \downarrow$
- ② $S_c \downarrow$
- ③ $Q_c \downarrow, r \uparrow$
- ④ $MC \downarrow, NX \downarrow, S$
- ⑤ $REER \uparrow$





④ CAPITAL FLIGHT

A - NX SHIFTS OUT

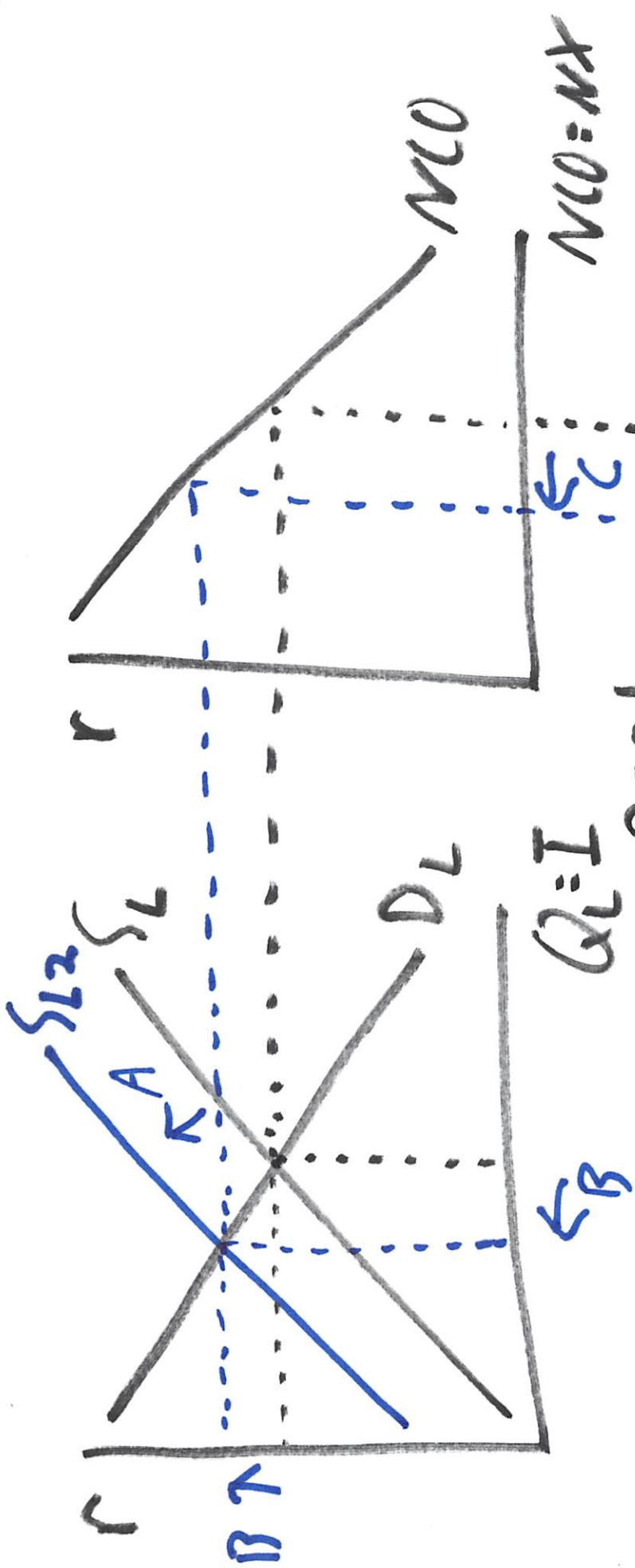
B - D_c SHIFTS OUT

C - $r \uparrow, Q_c = I \uparrow$

D - $NX = NX \uparrow$

E - S_f SHIFTS OUT

F - $RER \downarrow$



OBIL GOV'T DEFICIT

A- INWARD SHIFT IN S_L

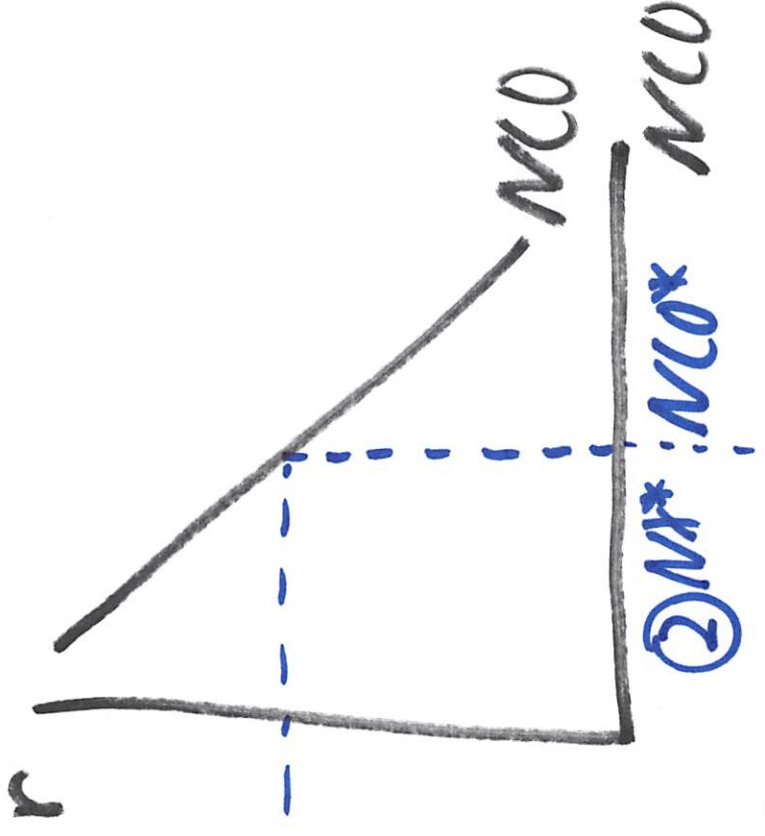
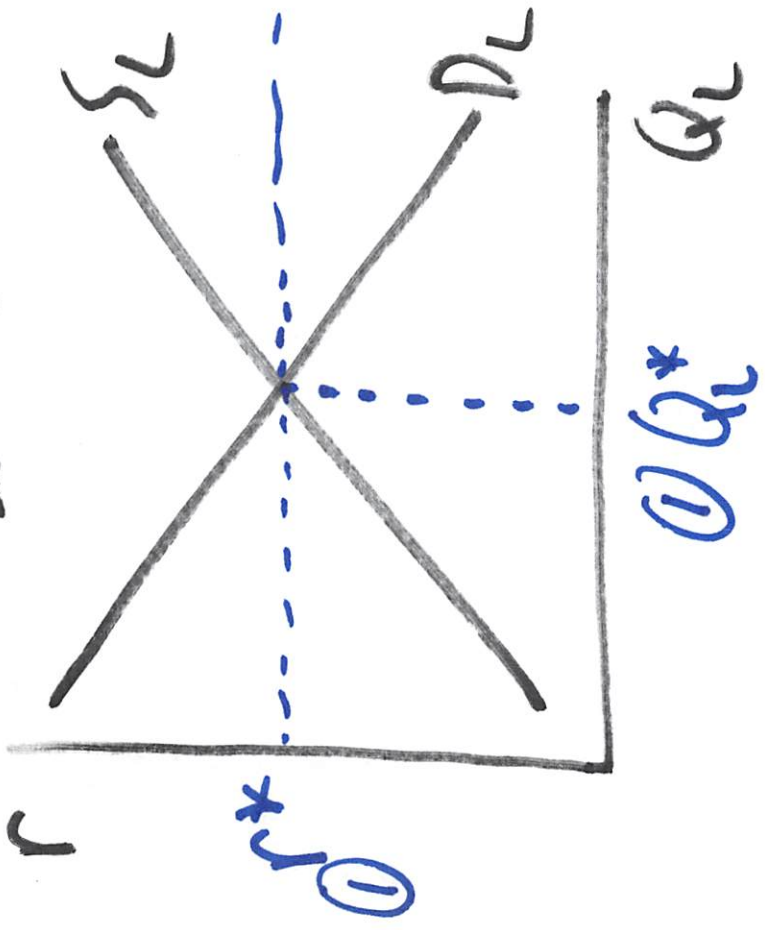
B- $r \uparrow$, $Q_{\$} = I \downarrow$

C- $NCO = NX \downarrow$

D- $S_{\$}$ SHIFTS INWARDS

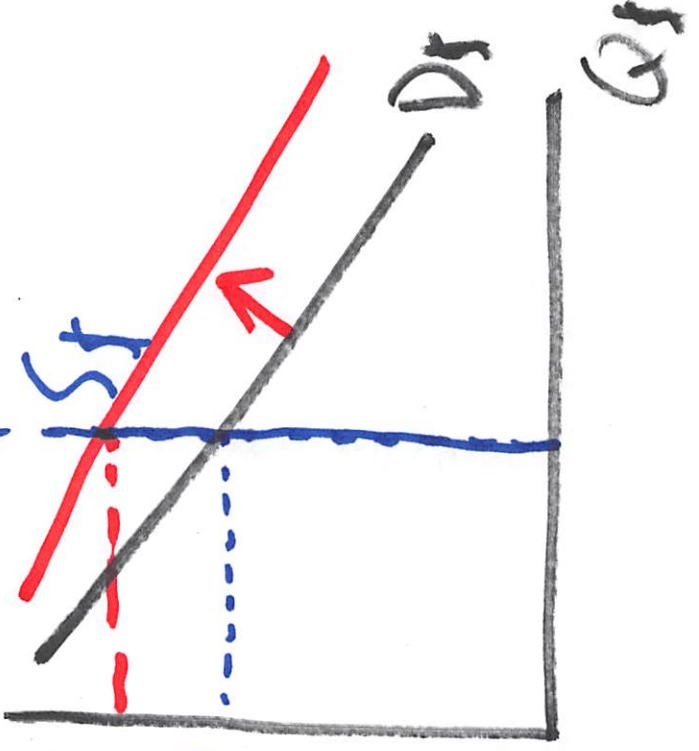
E- $RER \uparrow$

LOANS

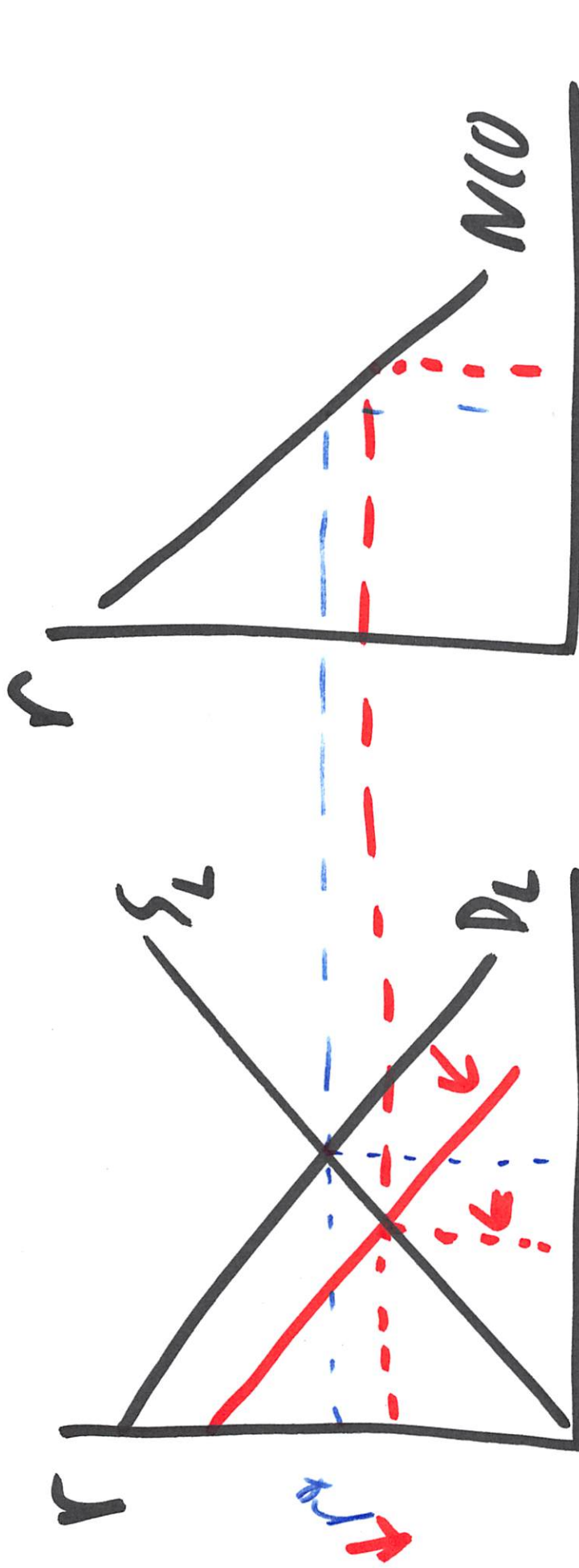


REER

TARIFFS ↑
 ① $D_S \uparrow \rightarrow REER \uparrow$



③ $REER^* \uparrow$



$Q_L = I$

NCO

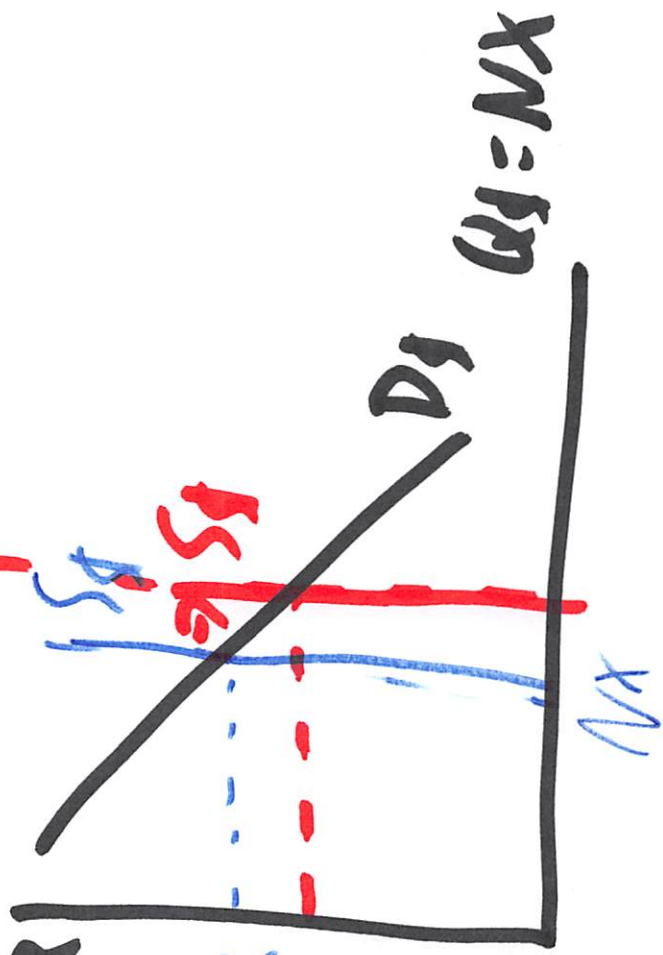
RER

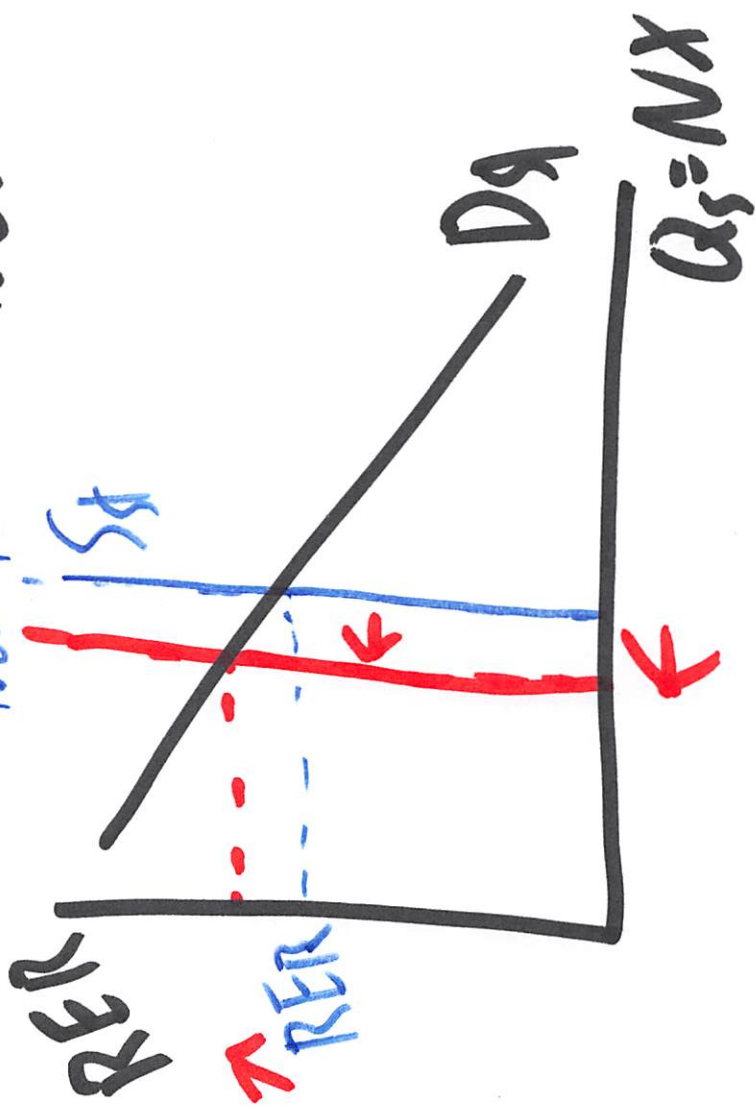
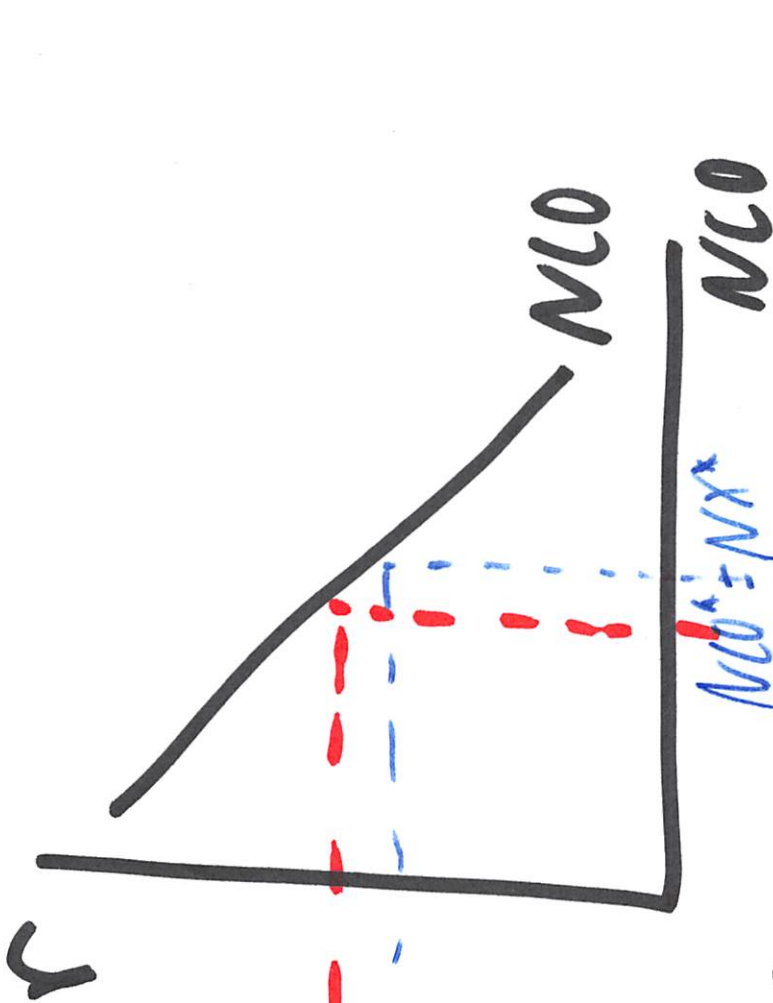
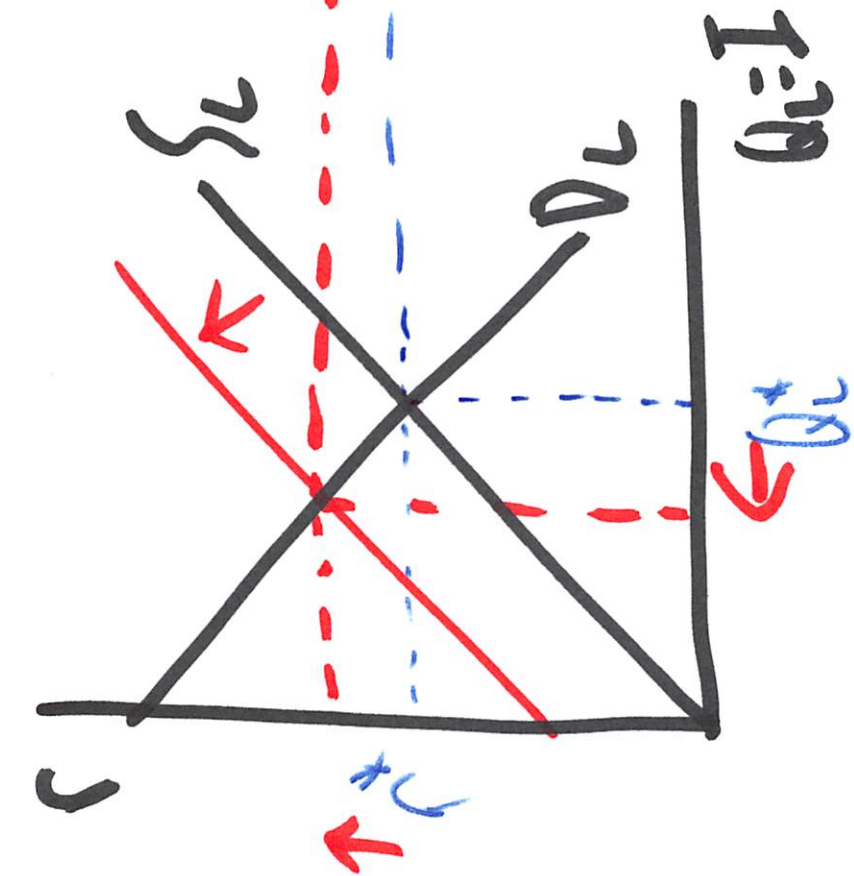
RENT TAX ↑

① $D_L ↓ \Rightarrow Q_L ↓, r ↓$

② $NCO ↑ = NX ↑$

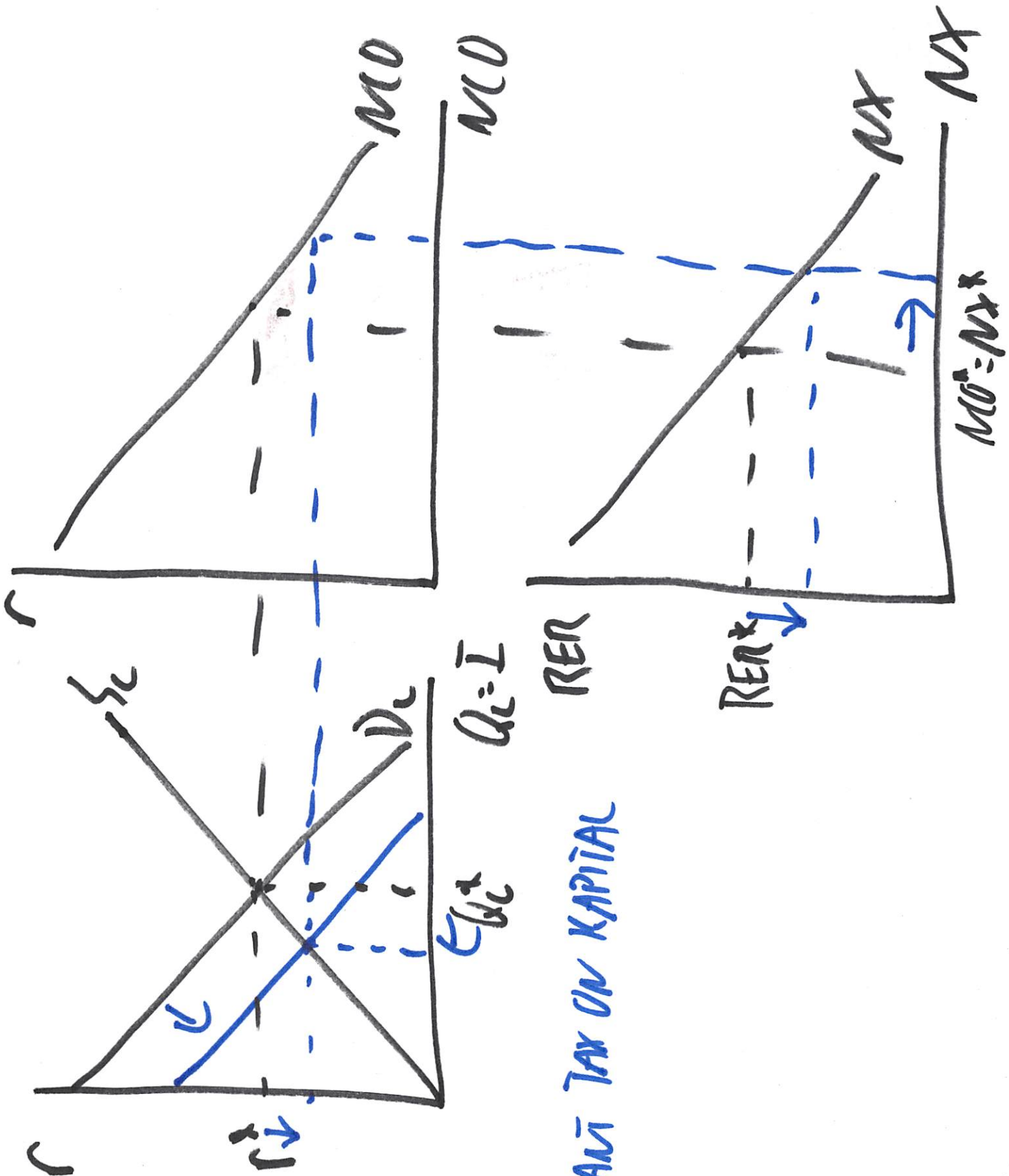
③ $RER ↓$



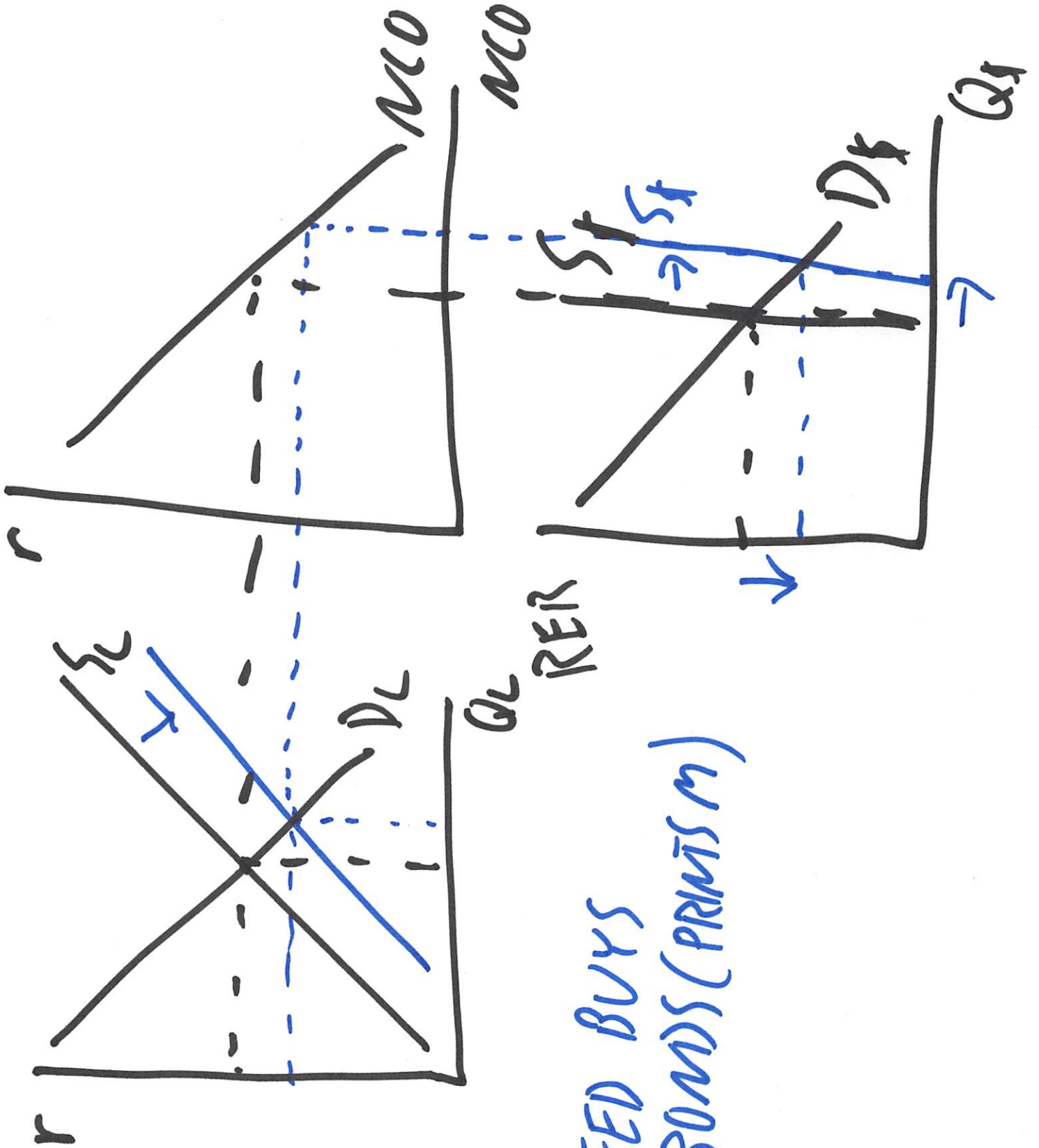


FED RAISES RATES

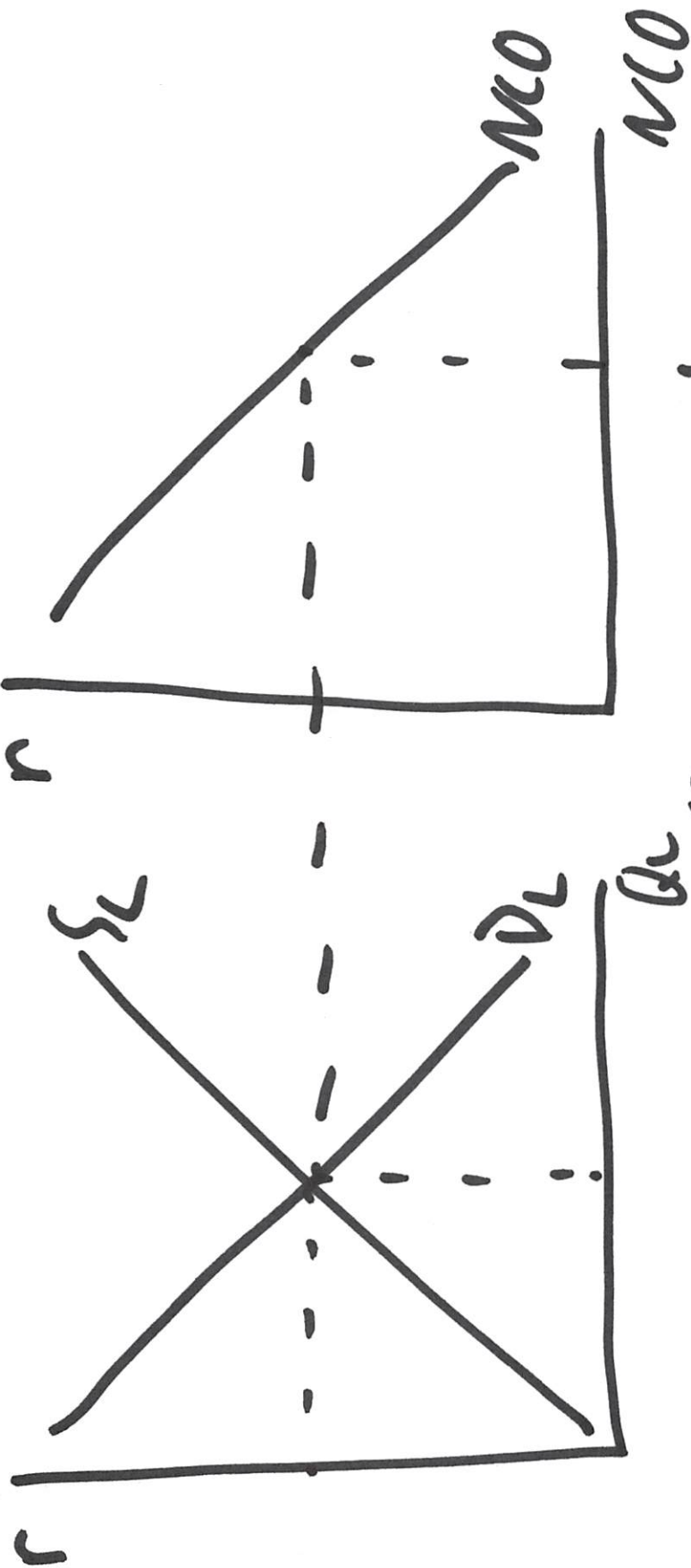
- ① $\zeta \downarrow \rightarrow r \uparrow, Q_d \downarrow$
- ② $NCU = NX \downarrow$
- ③ $RER \uparrow$



① GHAṬI TAX ON KAPITĀL

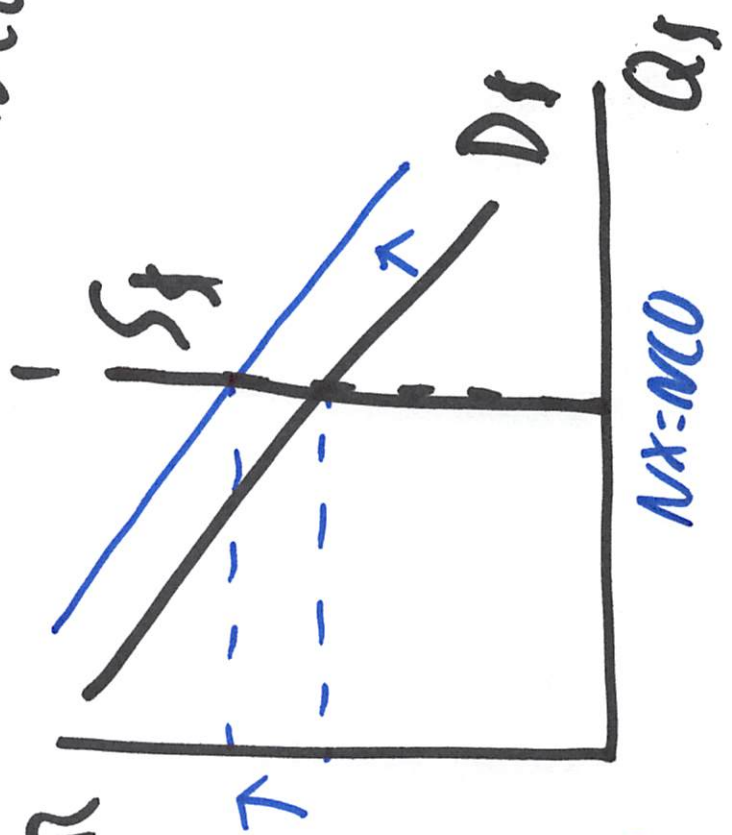


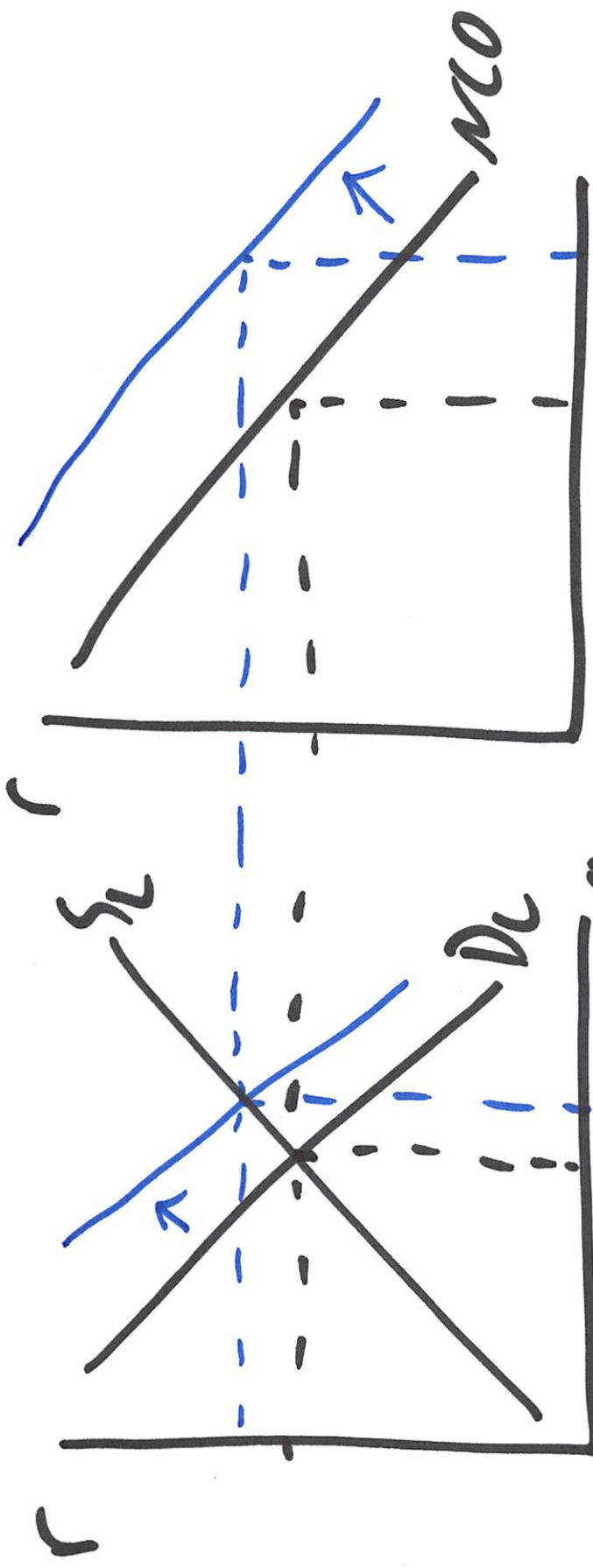
FED BUYS BONDS (PRIMIS M)



TARIFFS ON IMPORTS OF TIRES

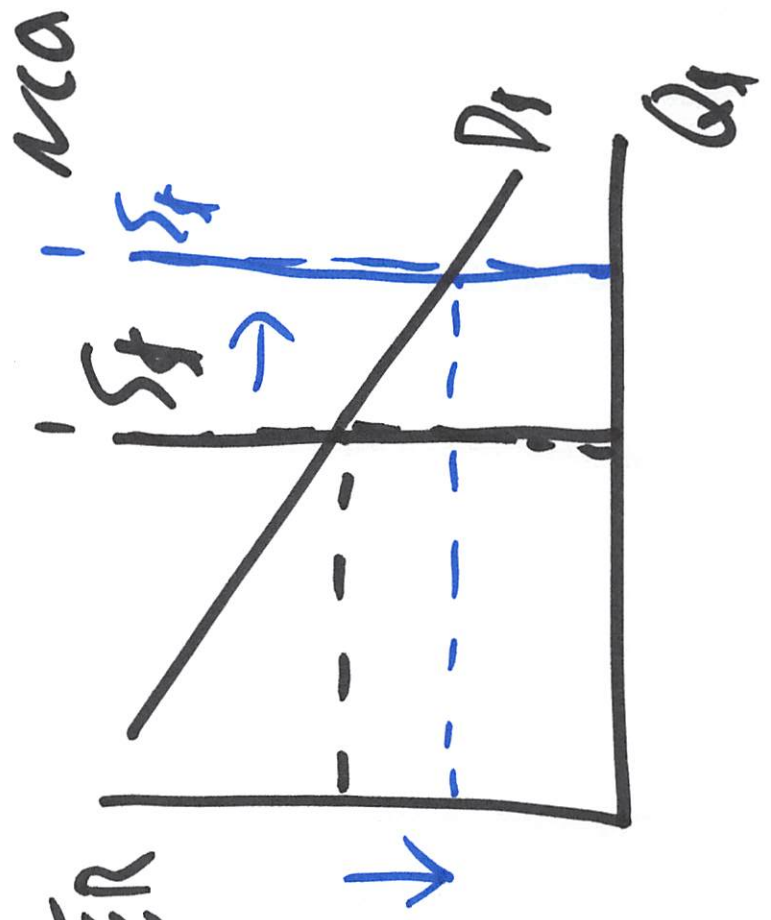
$$\begin{aligned}
 NX &= EX - IM \\
 &= P_x Q_x - P_m Q_m
 \end{aligned}$$

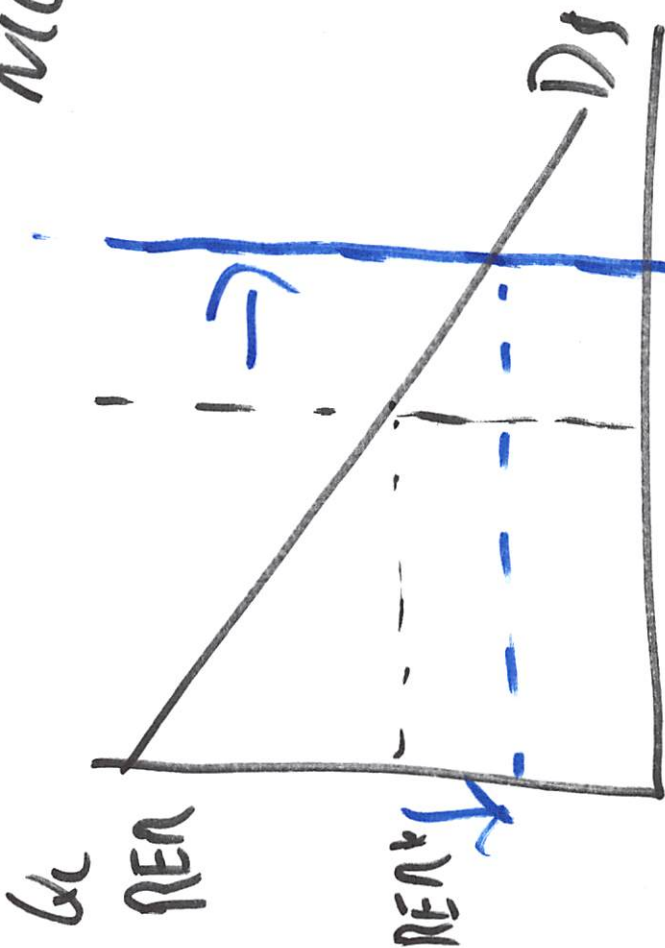
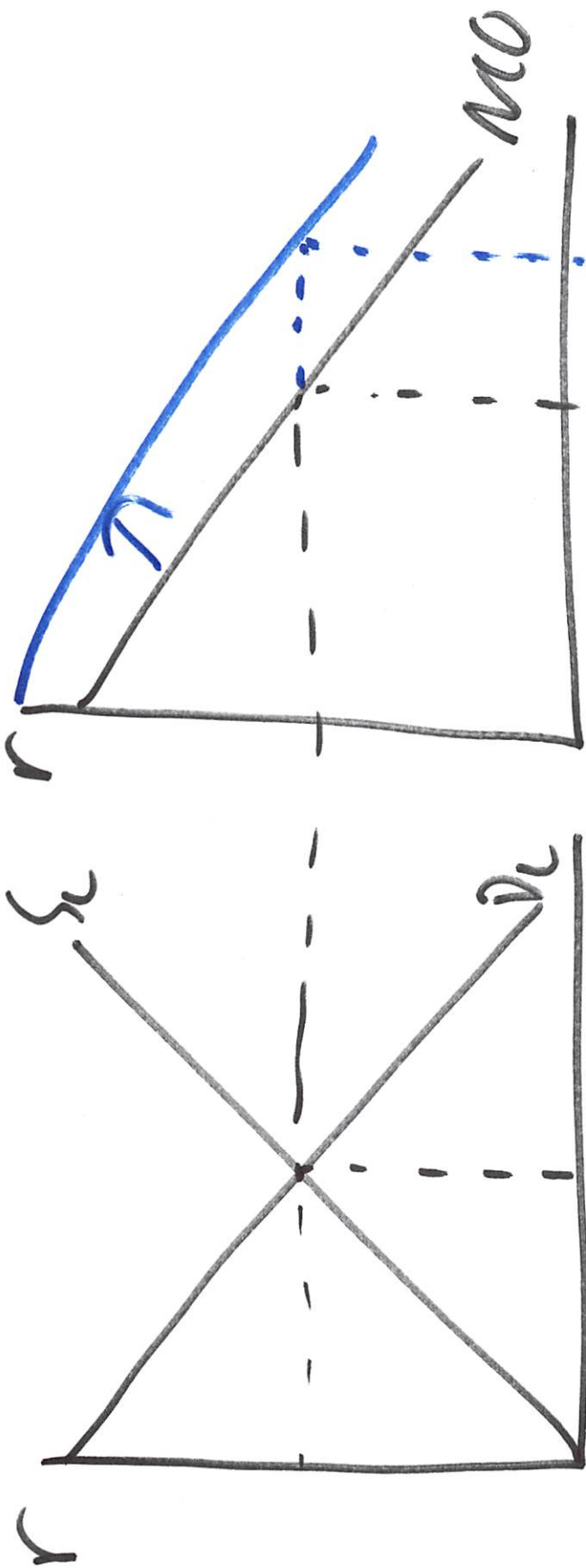




~~ARL~~
RER

(CAPITAL FLIGHT
- BORROW MONEY
- INVESTING
AIRRUAI)

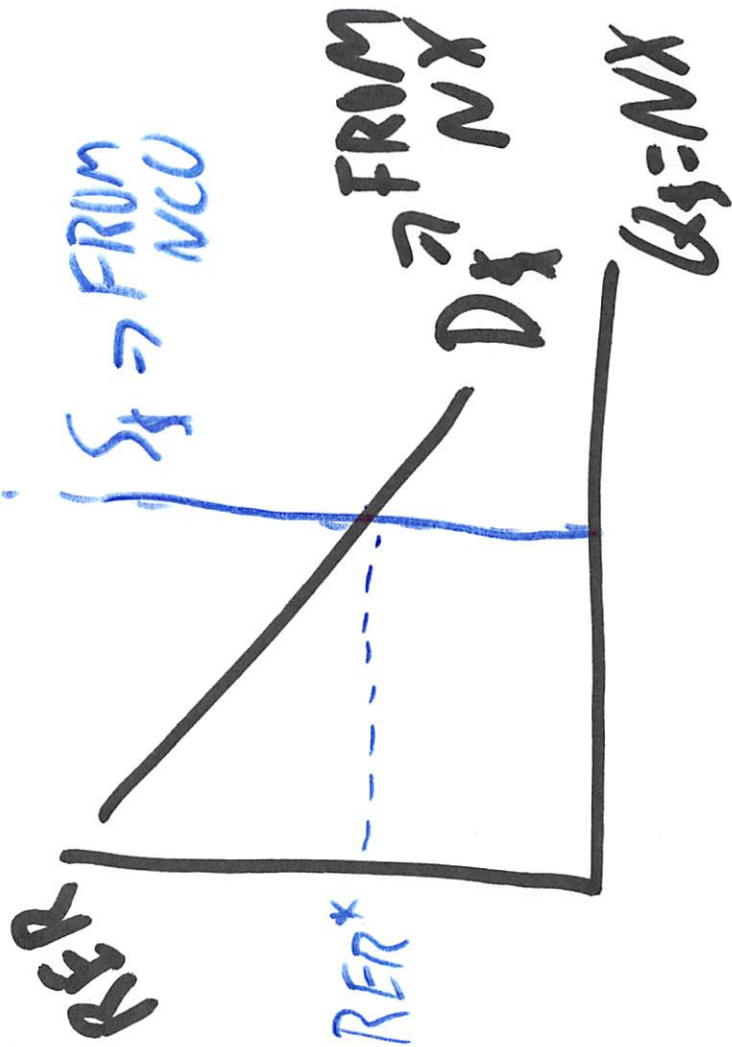
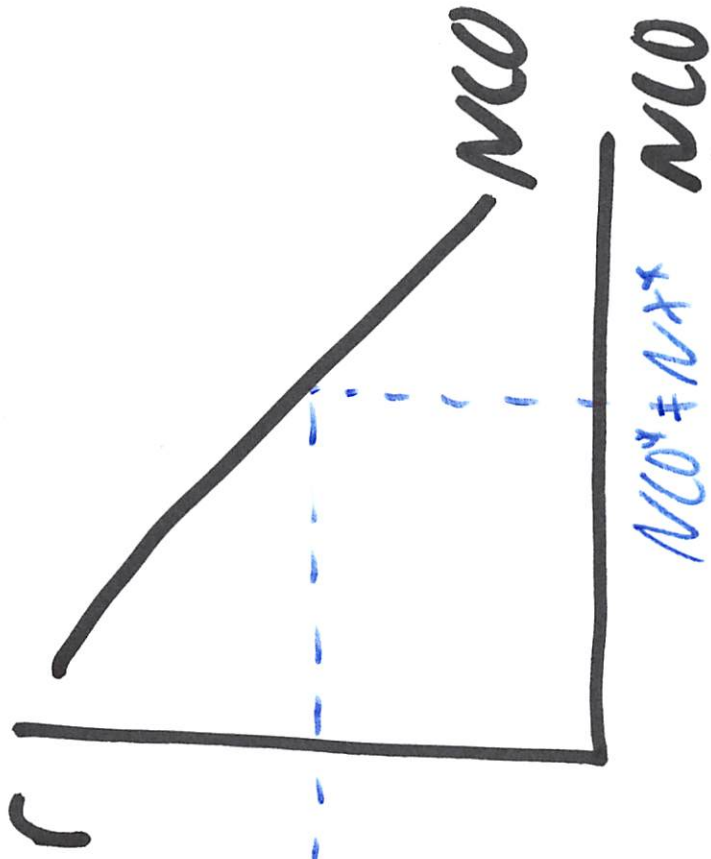
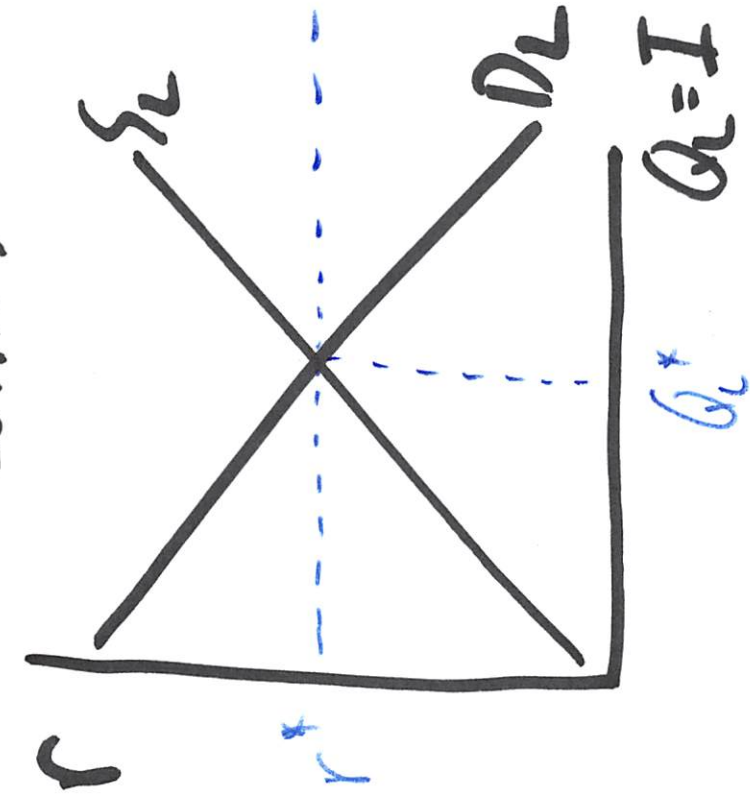




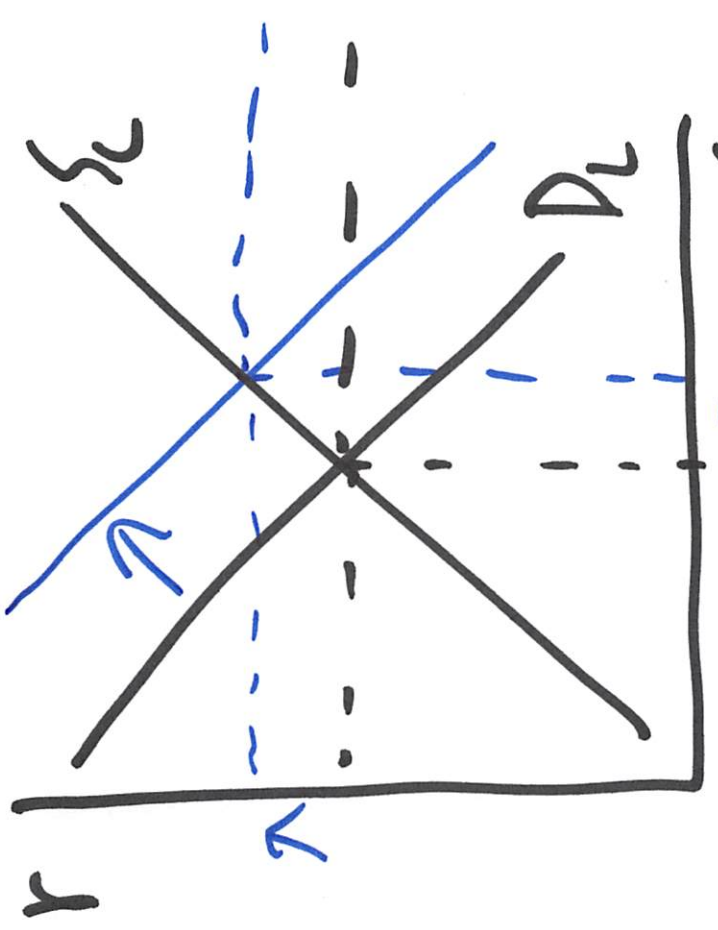
35% → 0% TAX

ON FOREIGN EARNINGS

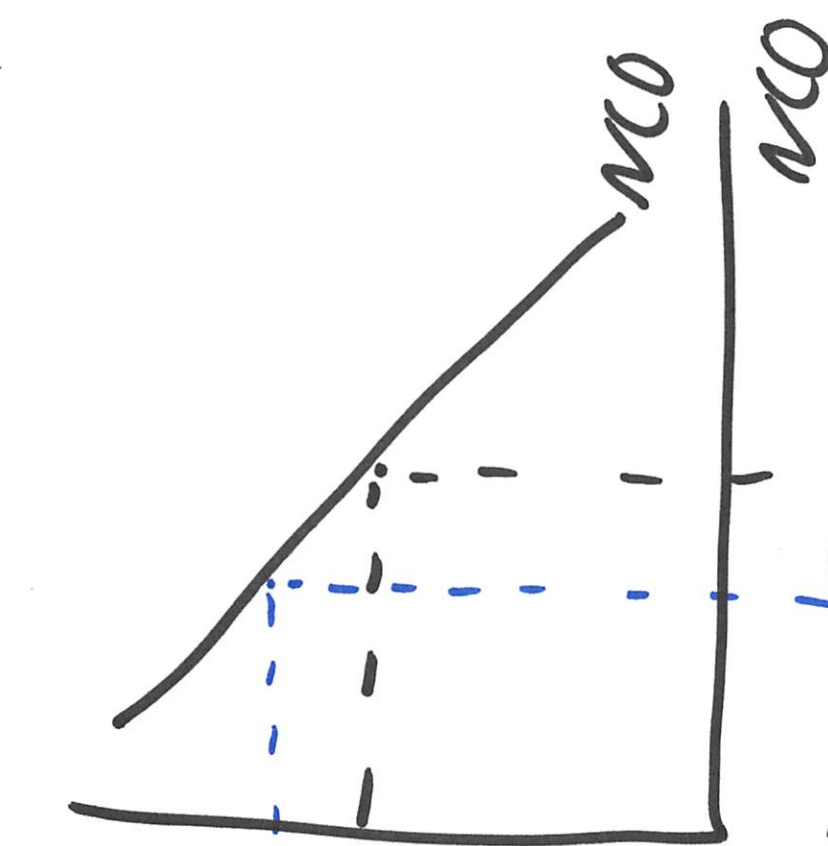
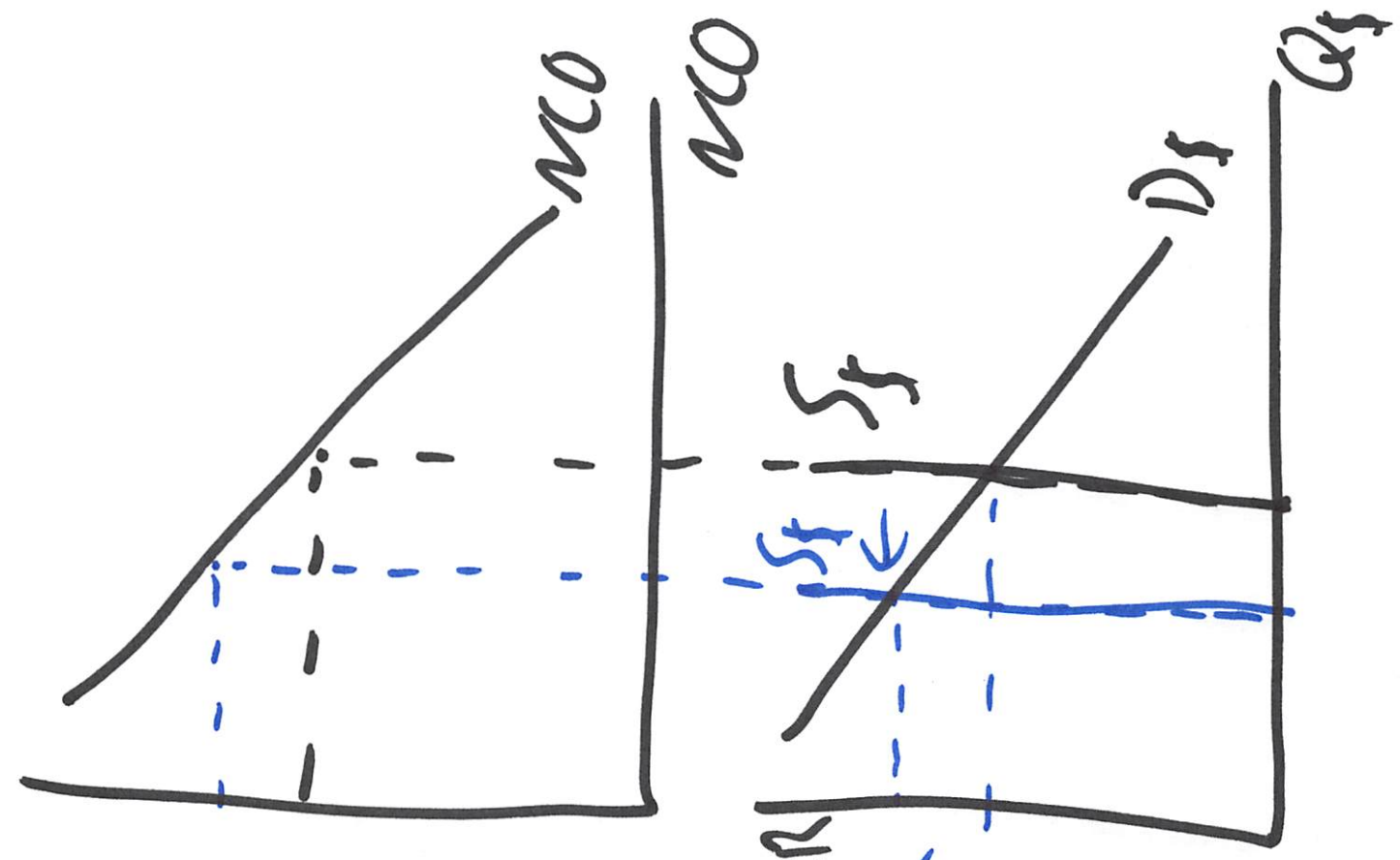
LOANS

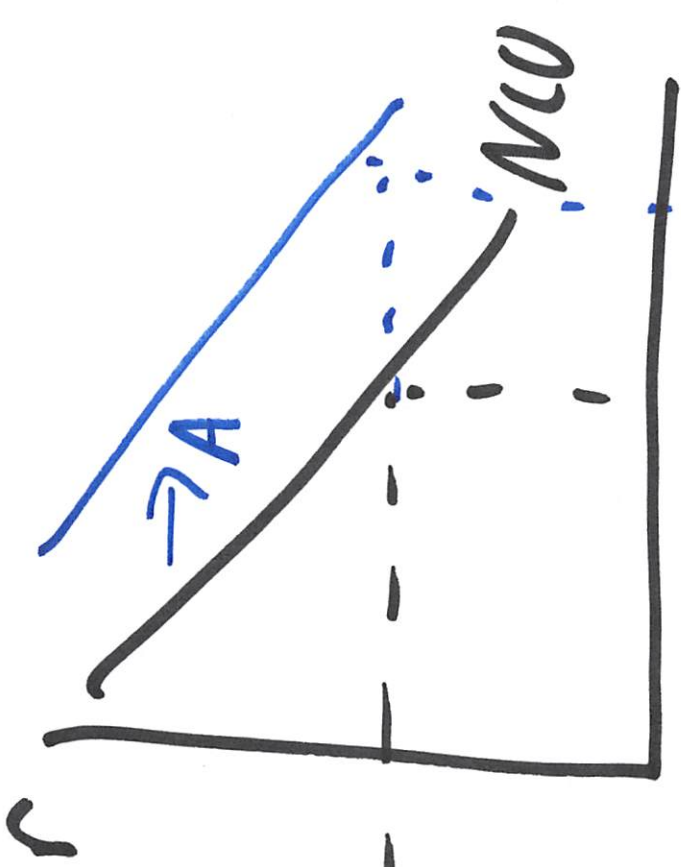
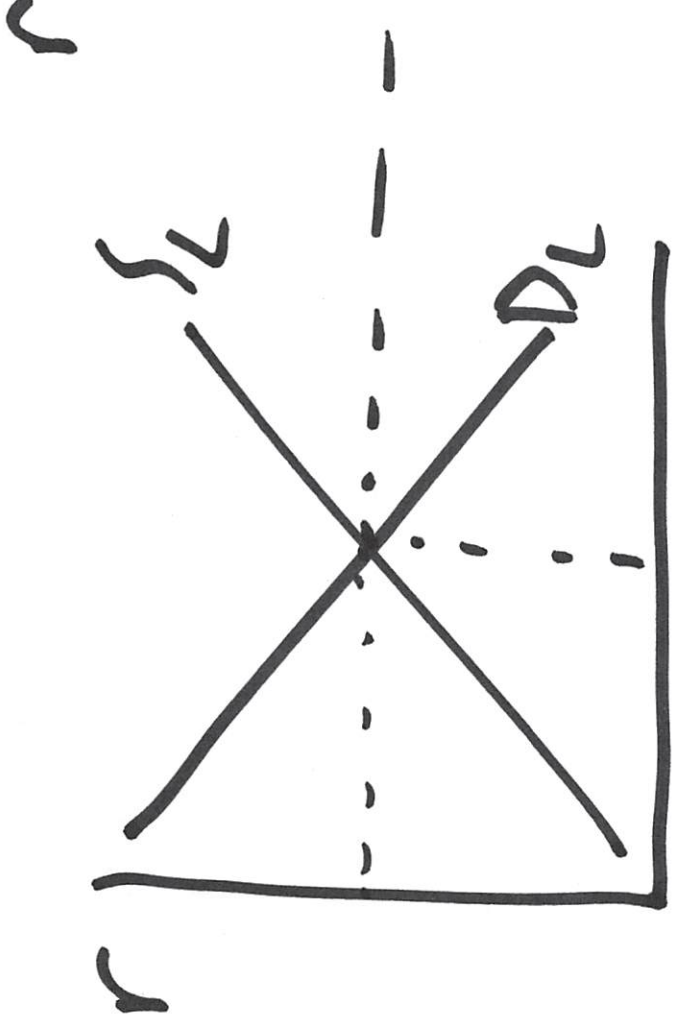


- ① SET r^*, Q_L^*
- ② SET $NCO^* = NX^*$
- ③ SET $S_N^* + RER^*$



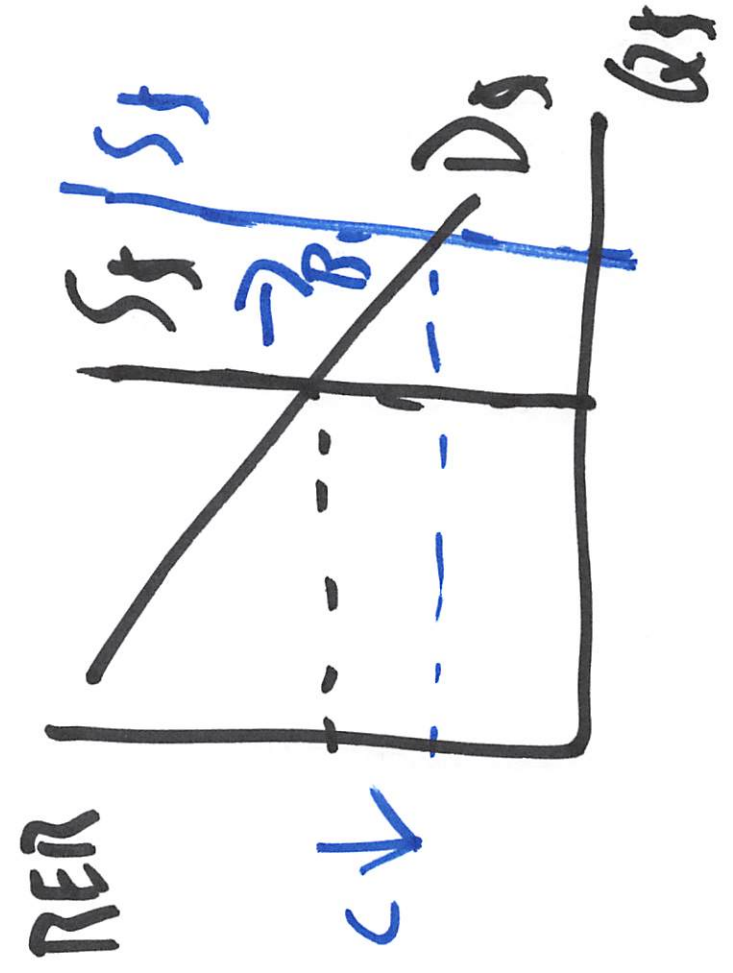
FIRMS BUY
NEW TABLETS
FOR PRODUCTIVITY

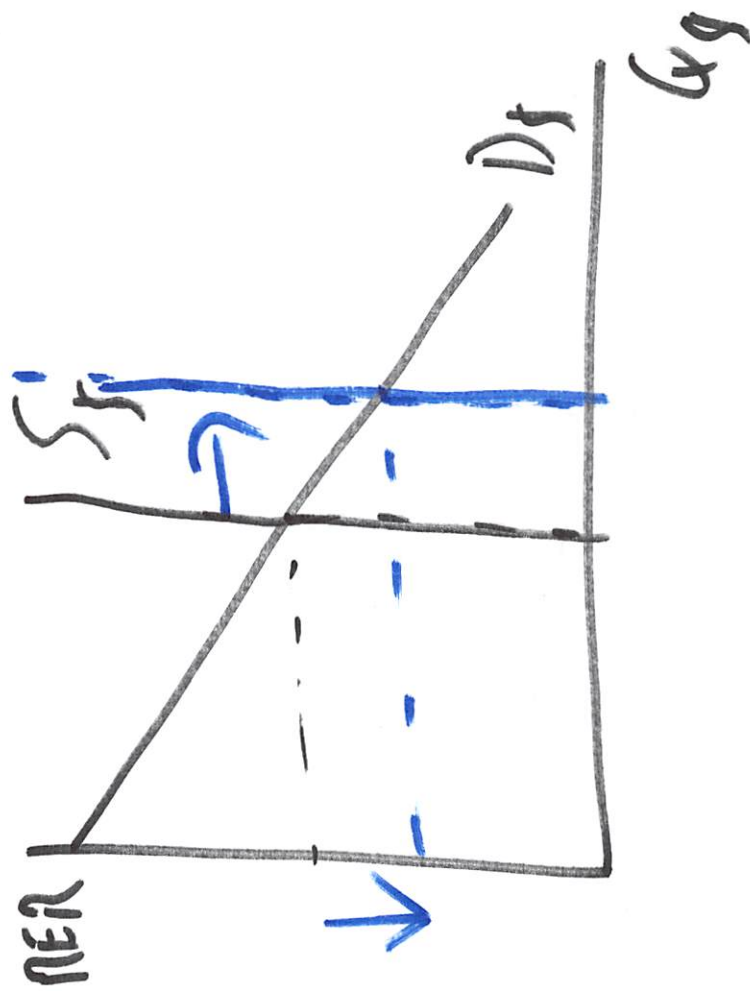
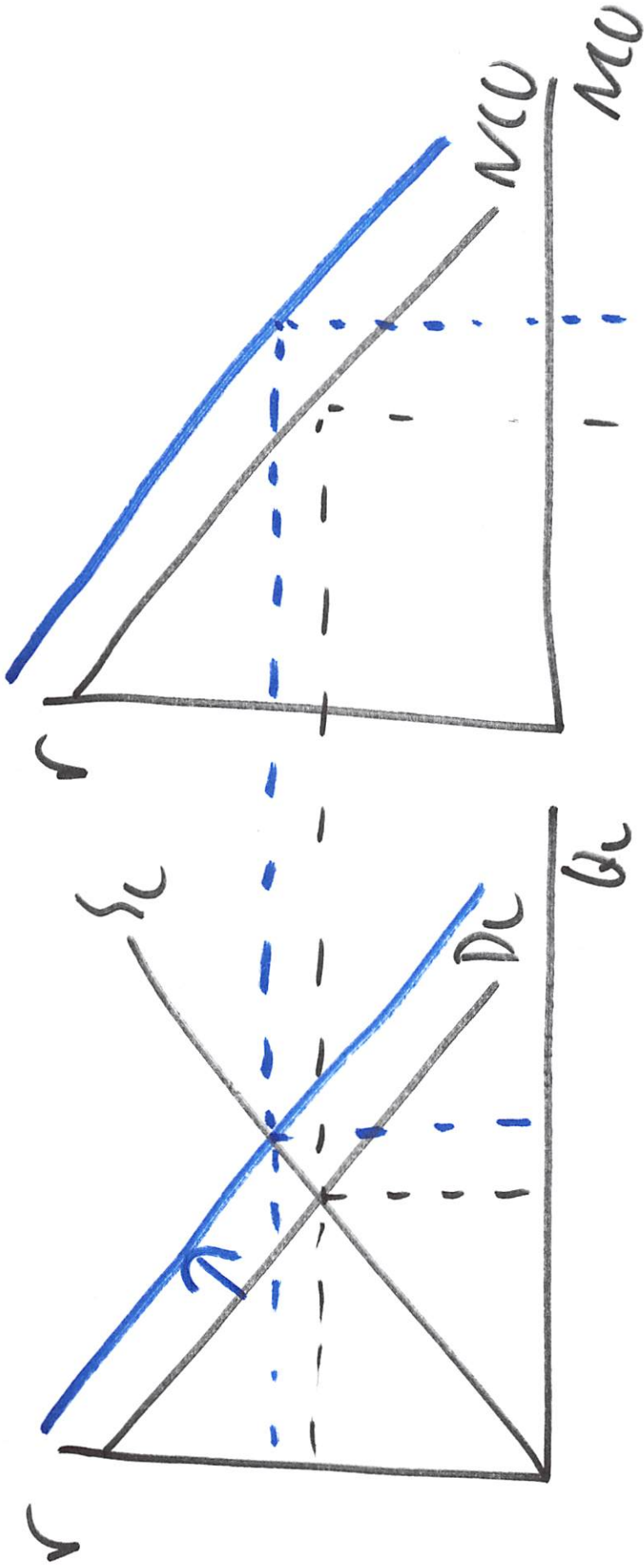




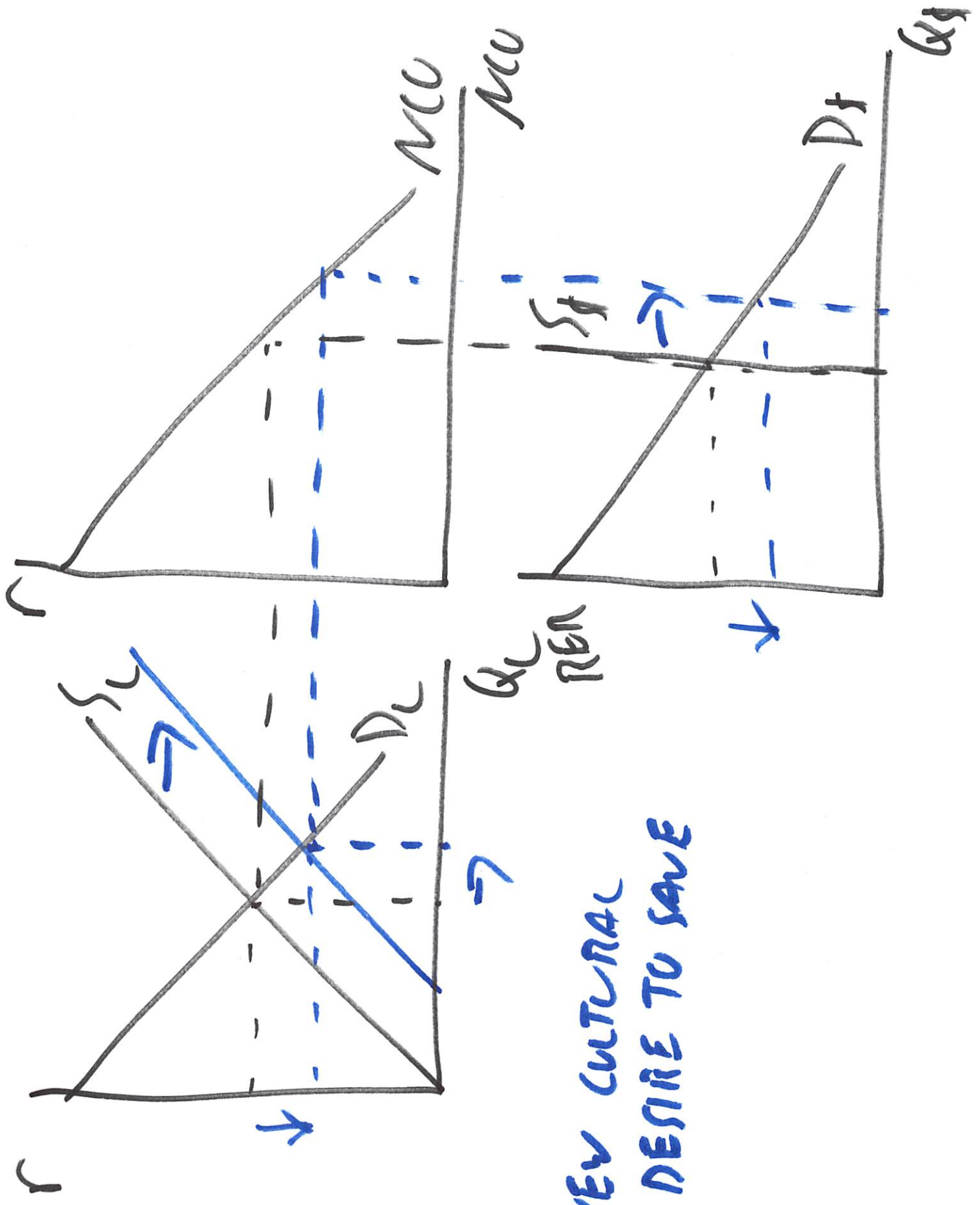
$NCO = NX$

- ④ FOREIGN TAXES ↓
- A - NCO SHIFTS OUT
 - B - SF SHIFTS OUT
 - NCO ↑, NX ↑
 - C - RER ↓

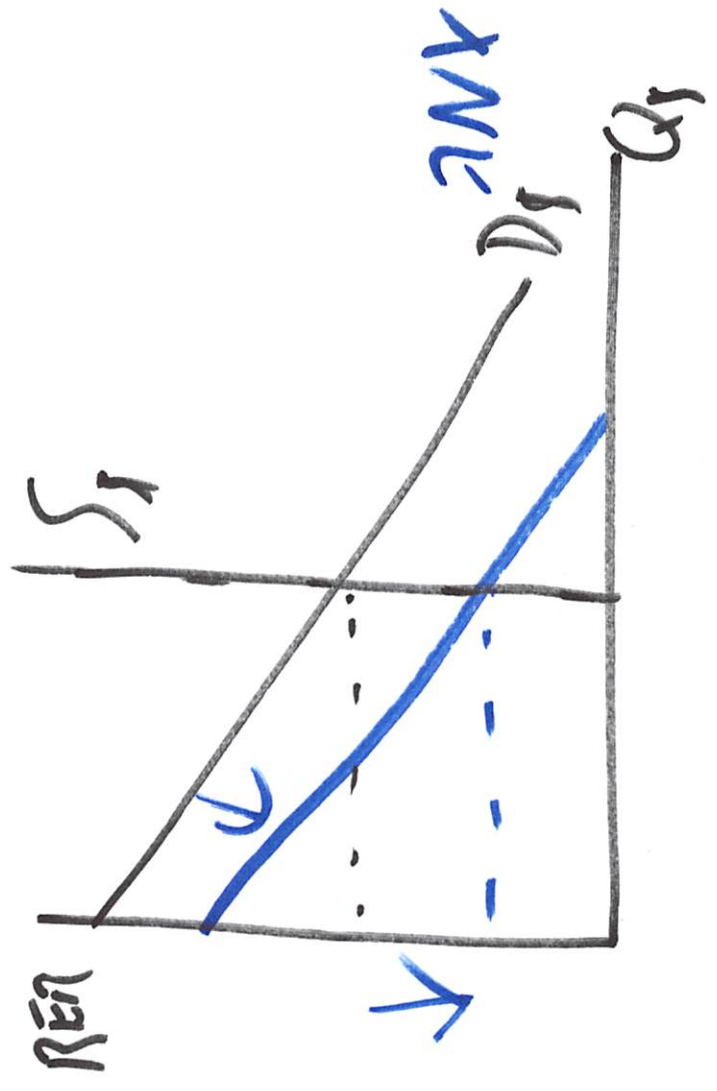
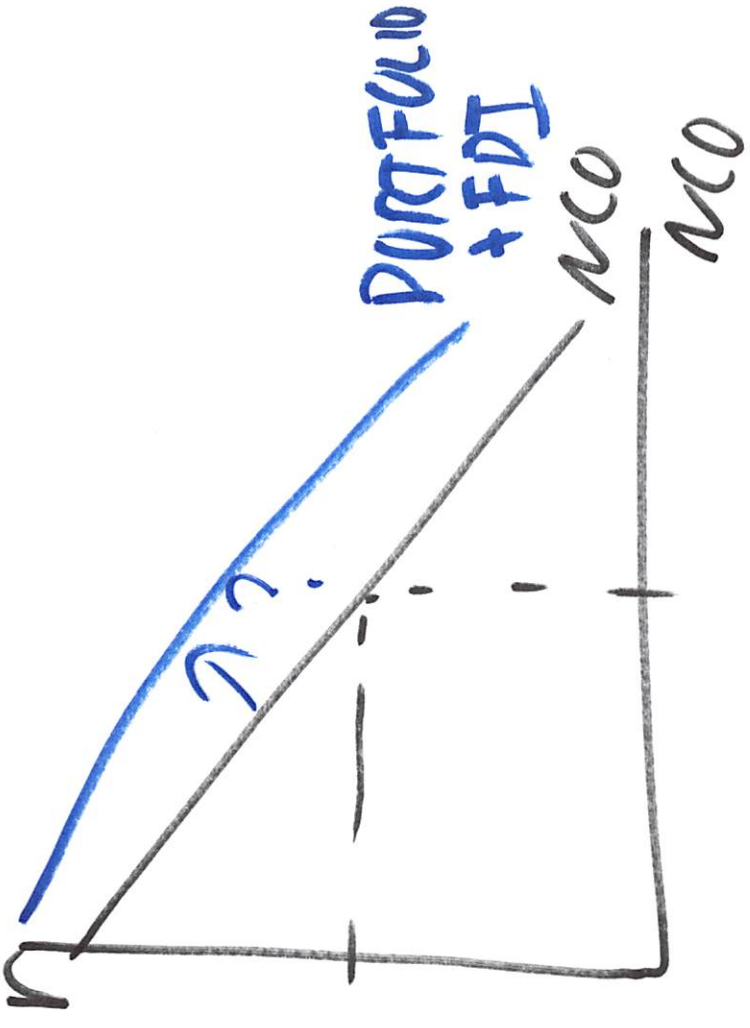
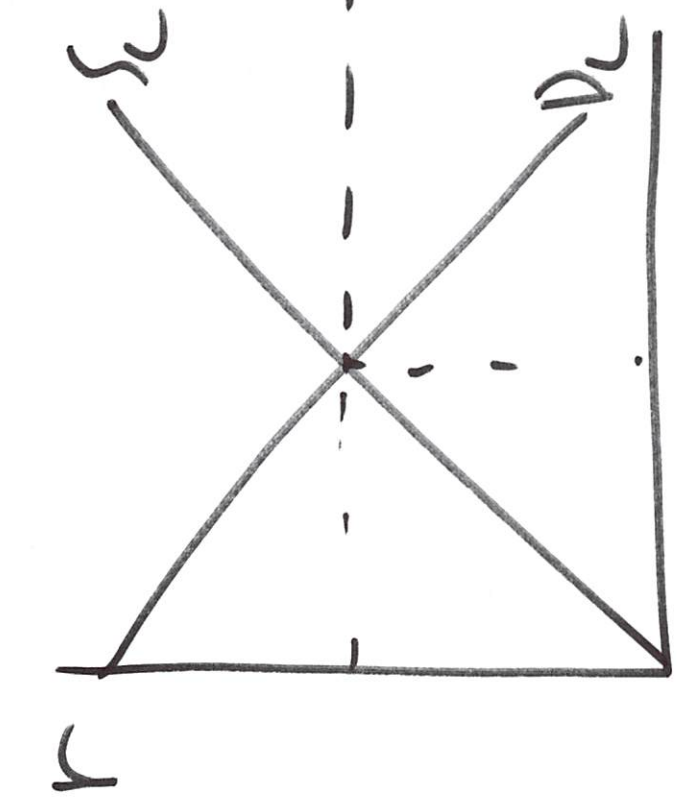




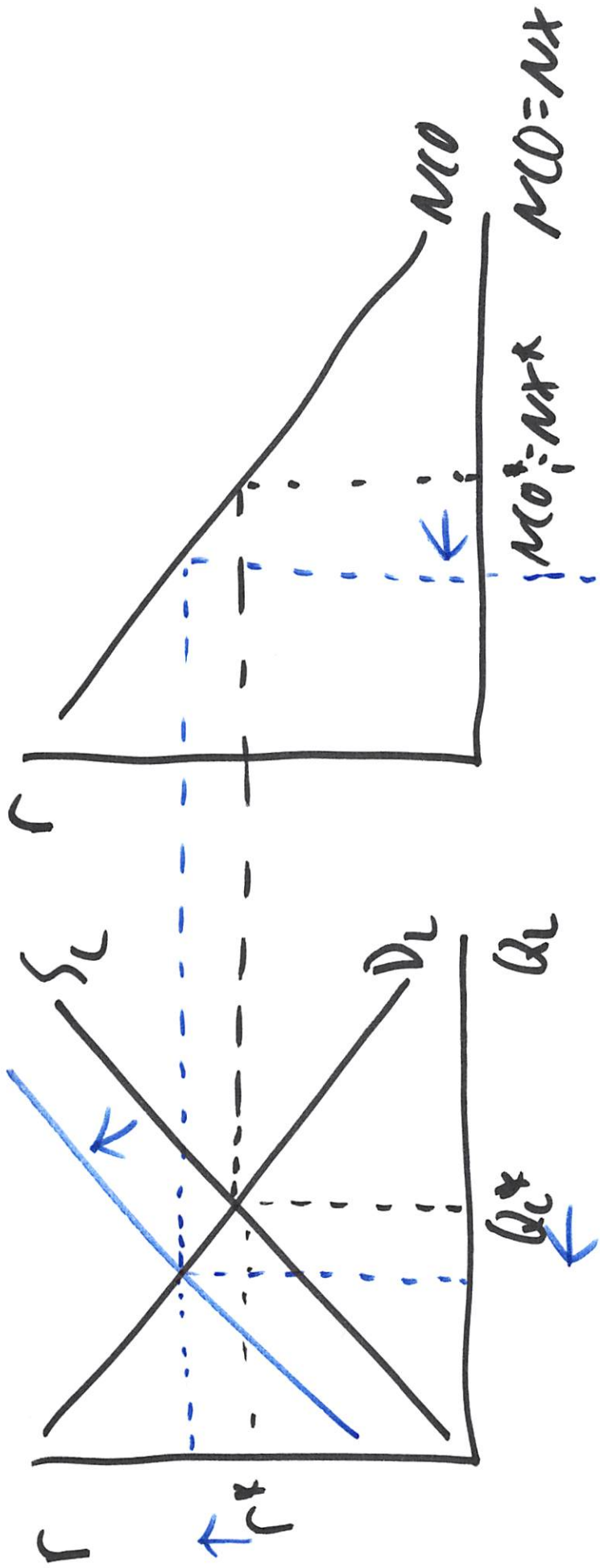
CAPITAL FLIGHT
 BORROWING TO STONE
 CASH OVERSEAS



NEW CULTURAL
DESIRE TO SAVE



NEW LIANT EXPORT TAX

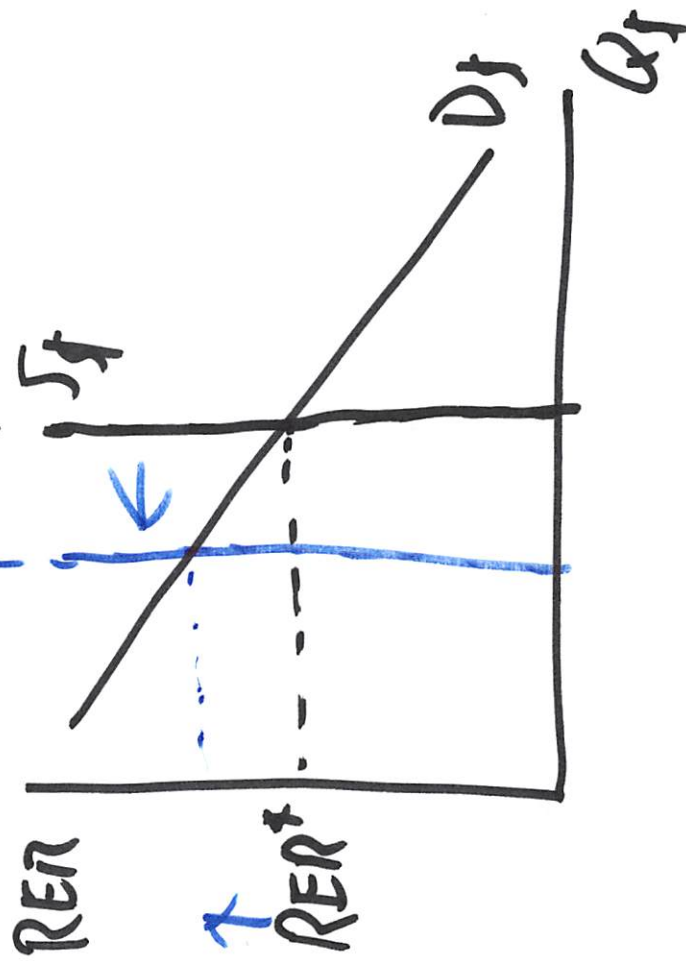


SUPPOSE... NEW
STIMULUS PACKAGE

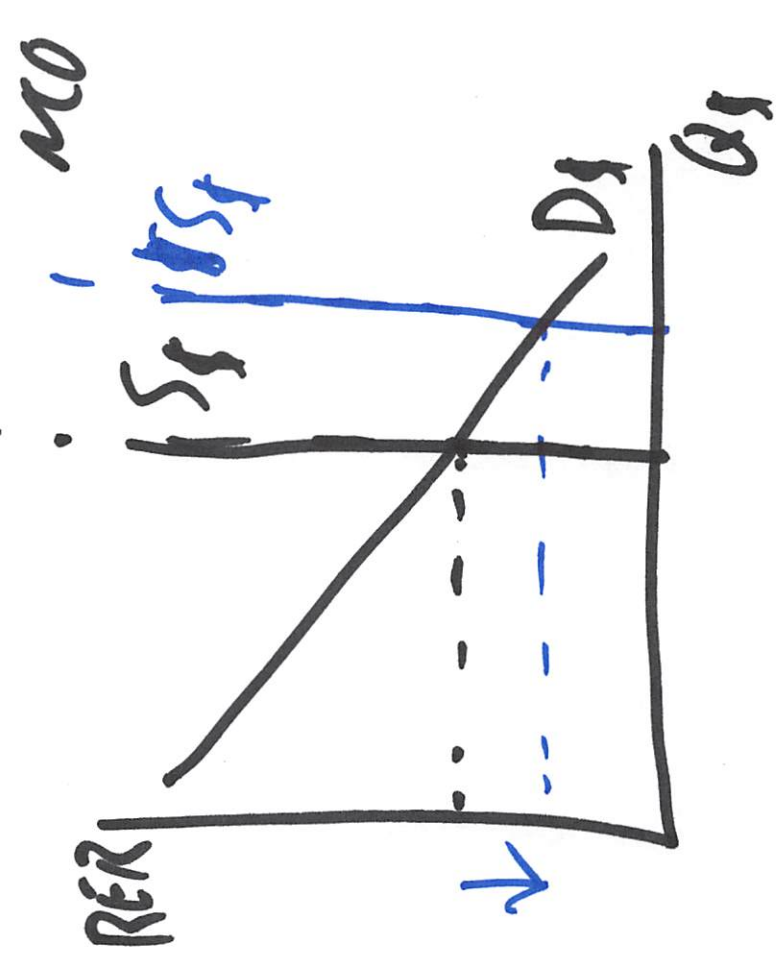
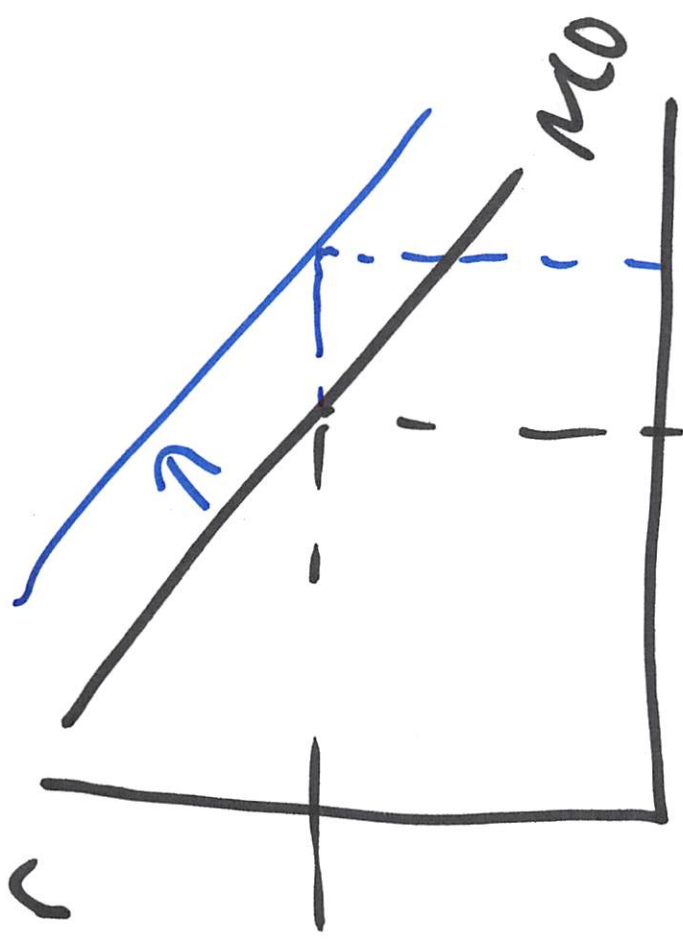
$G \uparrow \Rightarrow S_L \downarrow$

$r \uparrow, Q_L \downarrow$

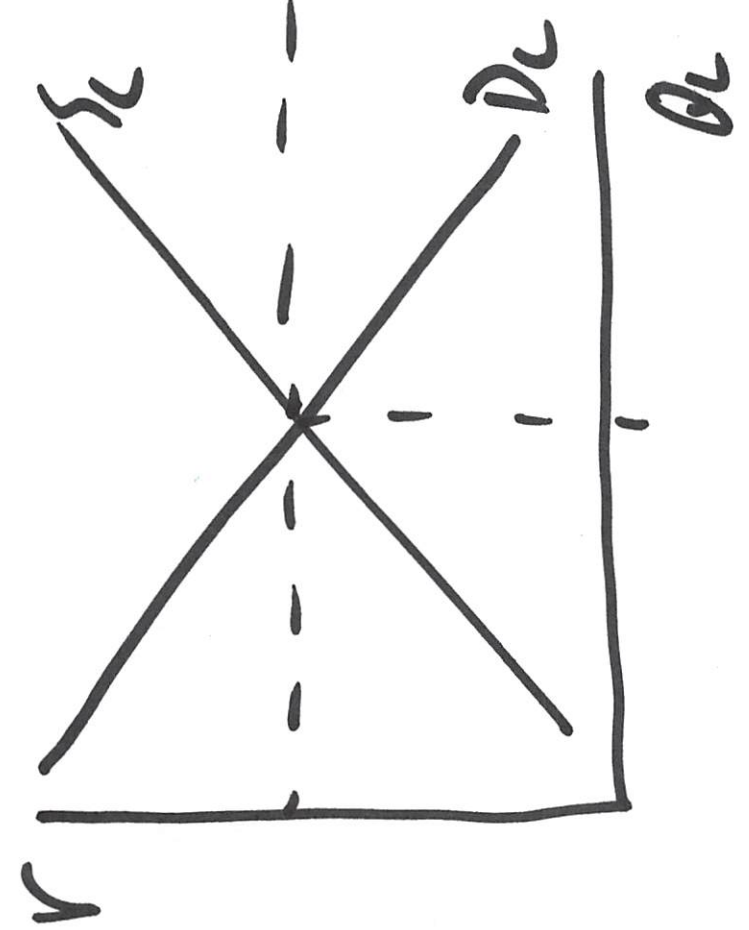
$NCO = NX \downarrow, RER \uparrow$

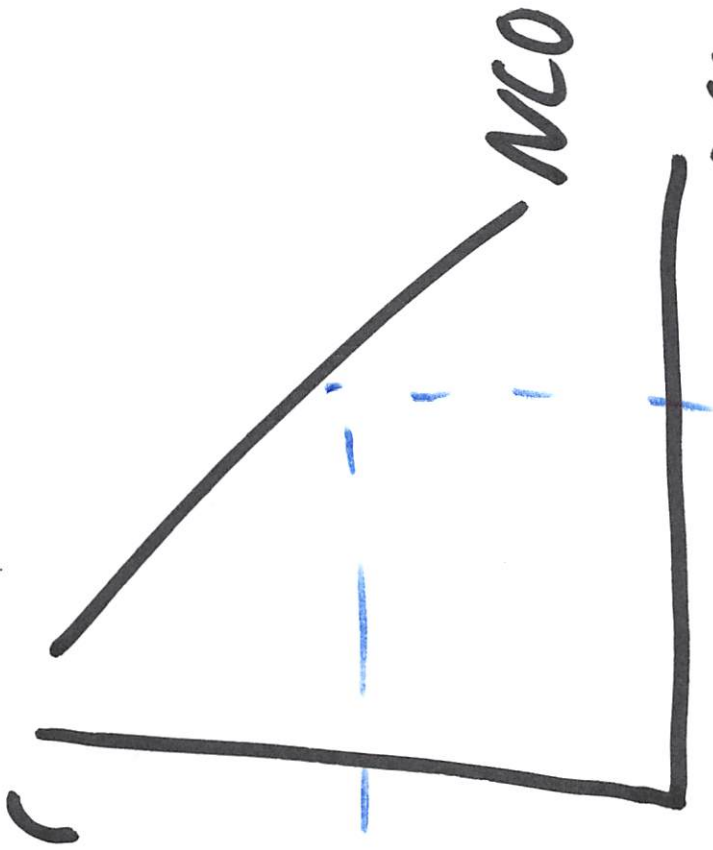


$NCO = NX^*$ $NCO = NX$



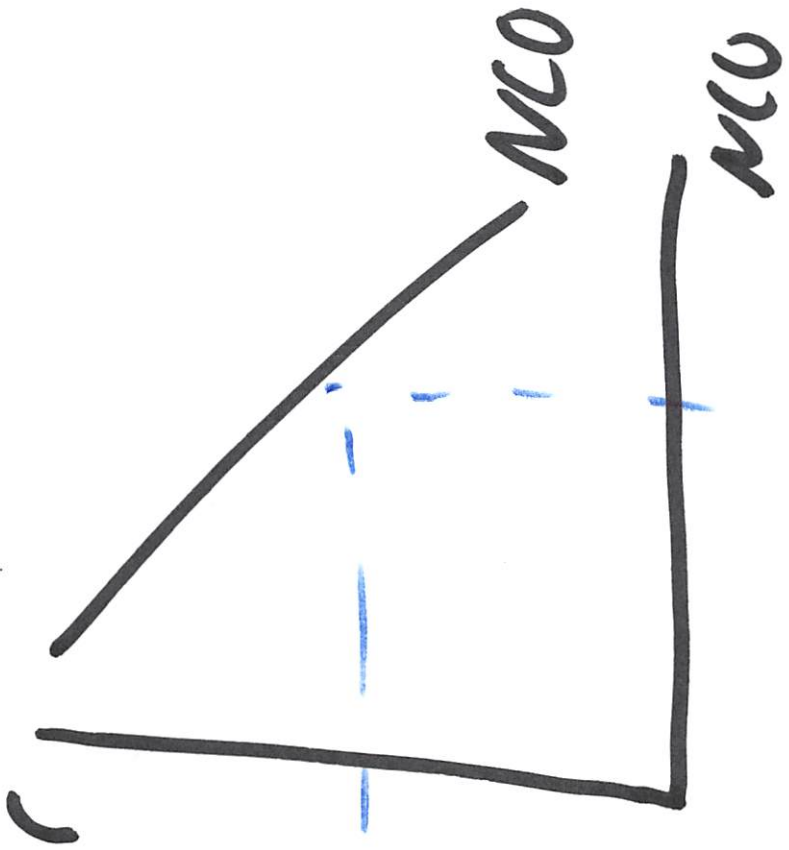
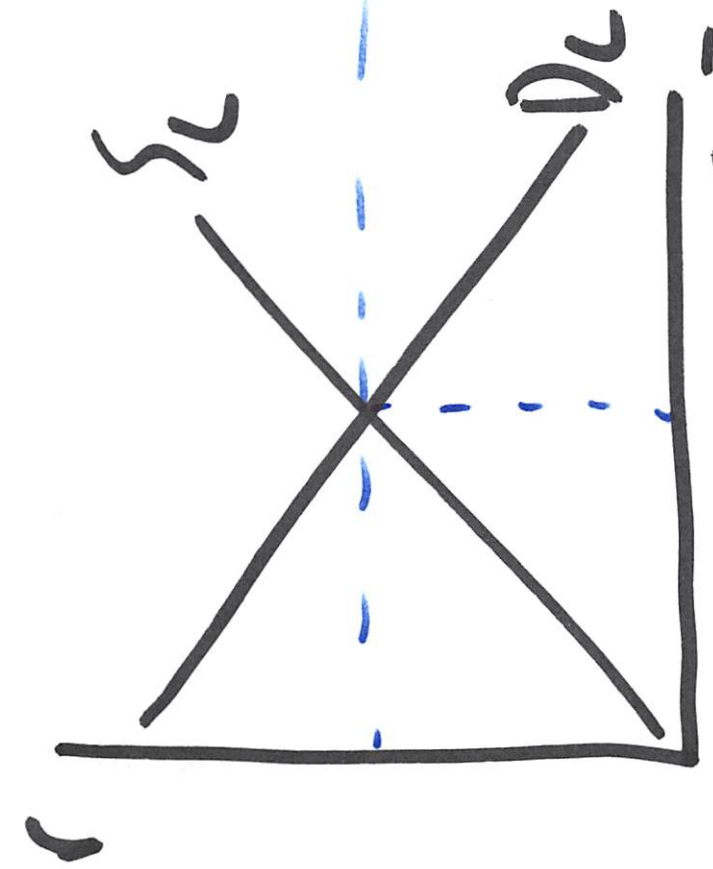
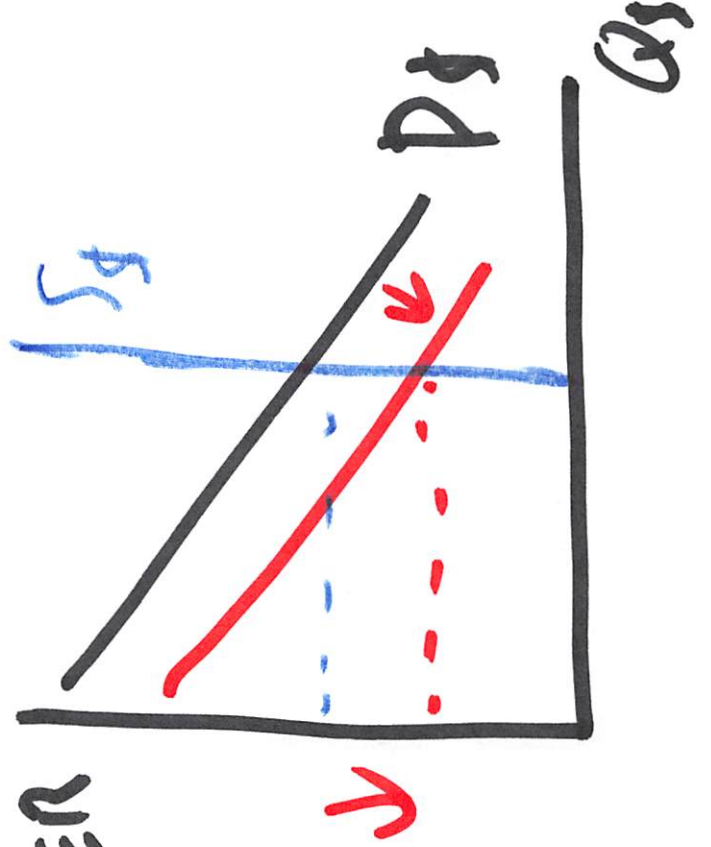
NO TAX ON
FOREIGN
EARNINGS

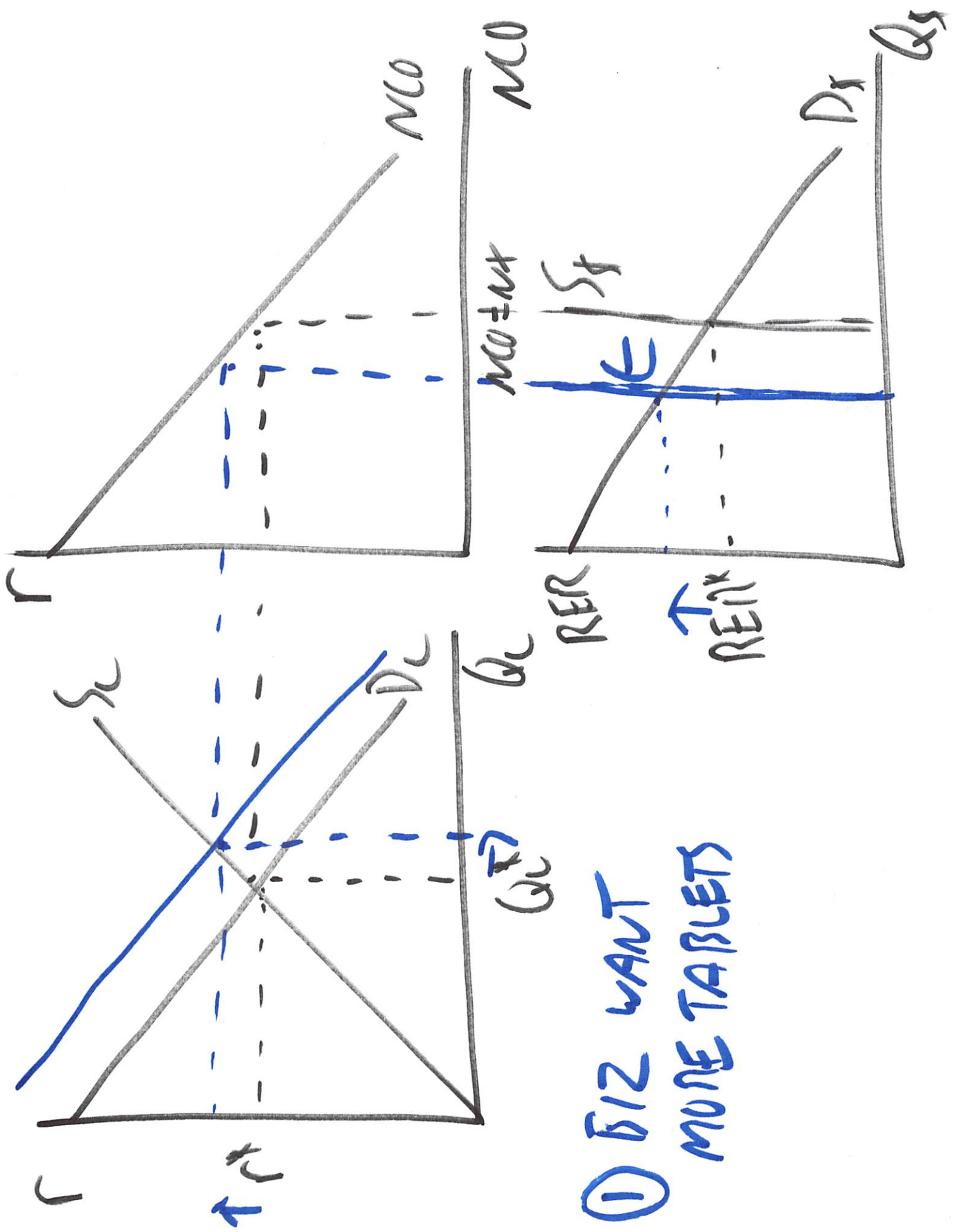




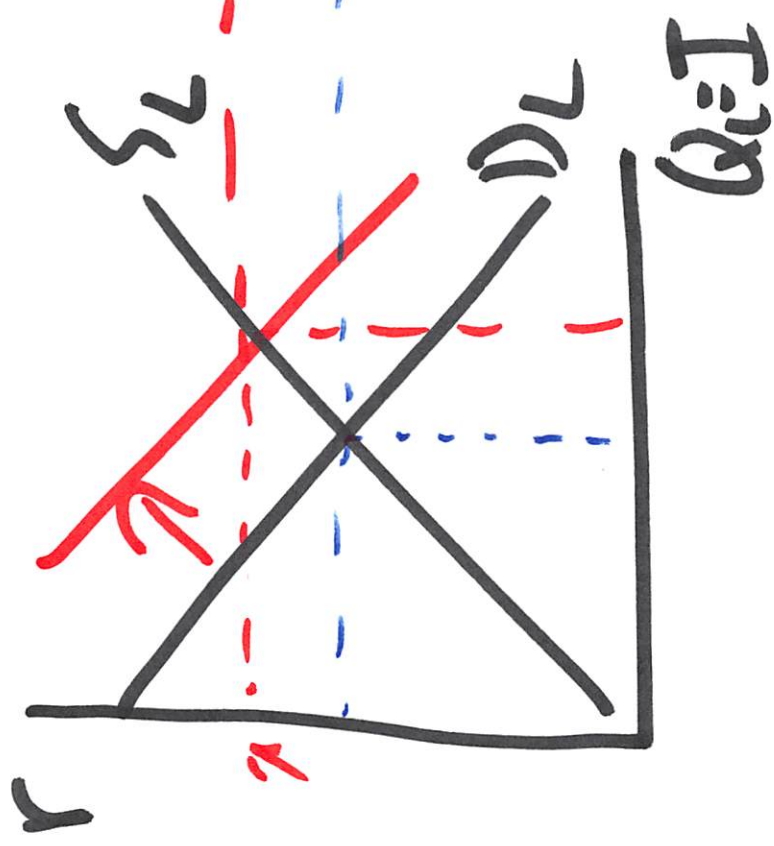
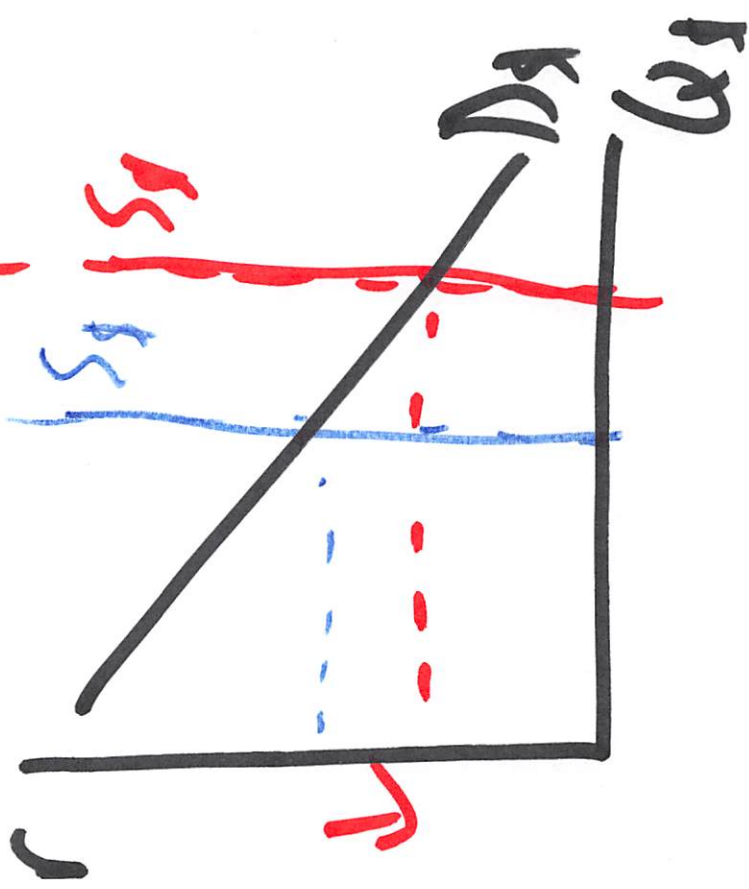
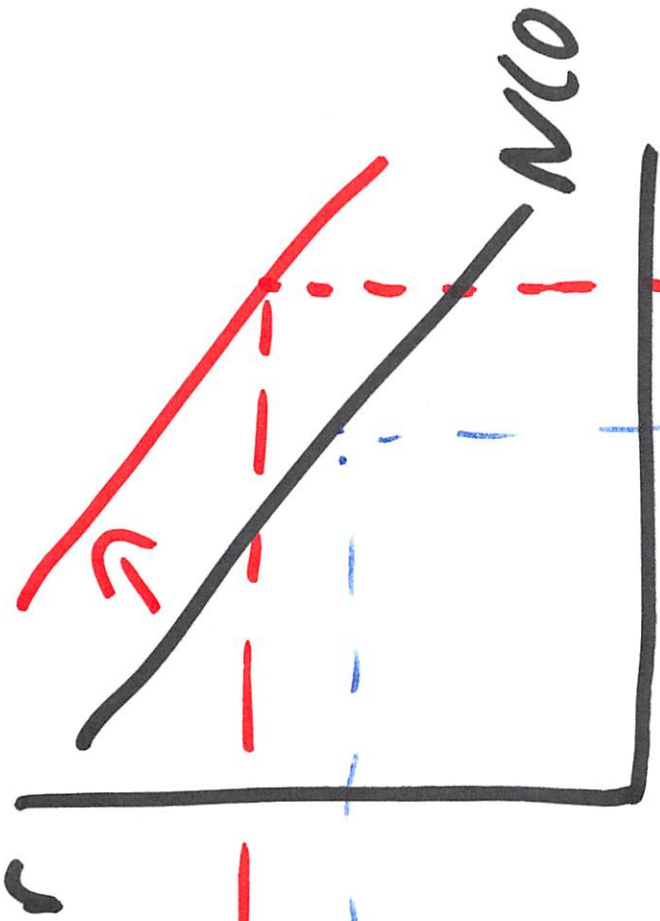
$Q_c = I$
 RER

EXPORT TAX
 $Q_D \downarrow$



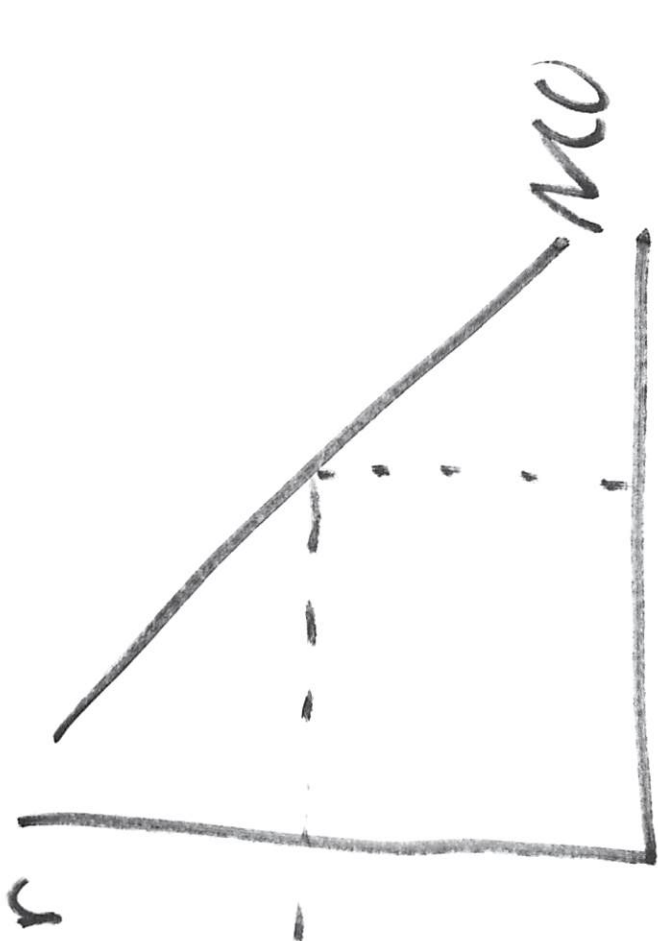
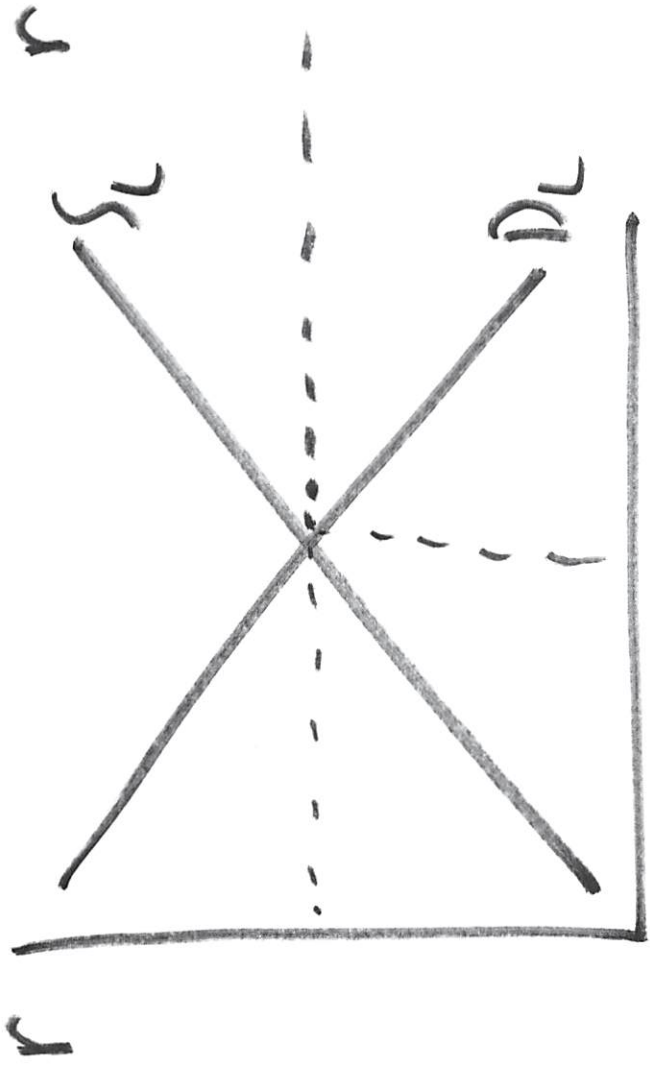


① BIZ WANT
MORE TABLETS



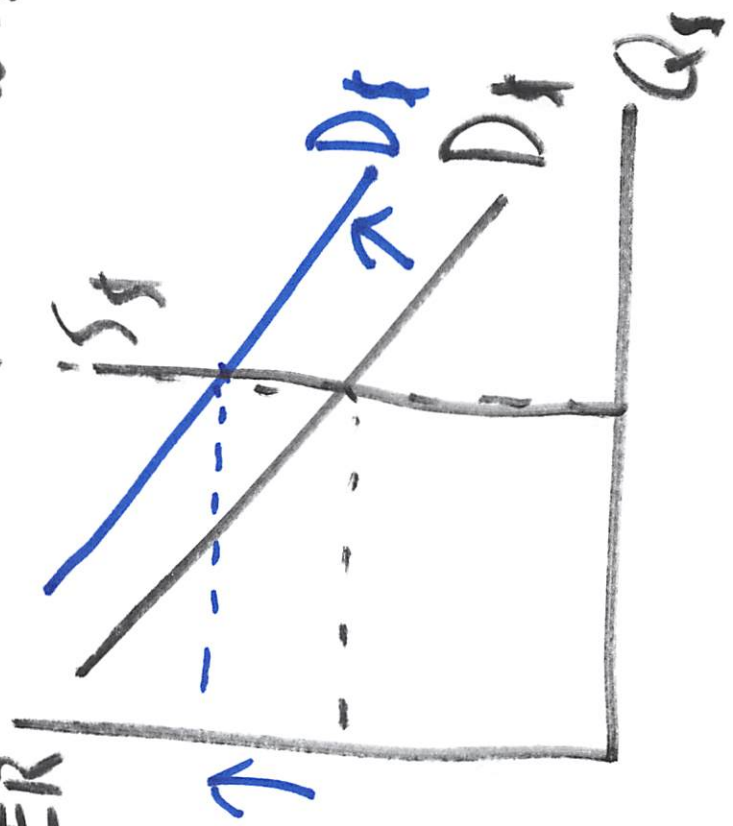
CAPITAL FLIGHT

- ① $D_L \uparrow, NCO \uparrow$
- ② $r \uparrow, NCO - NX \uparrow$
- ③ $RER \downarrow$



Q_L

$MC = MA$

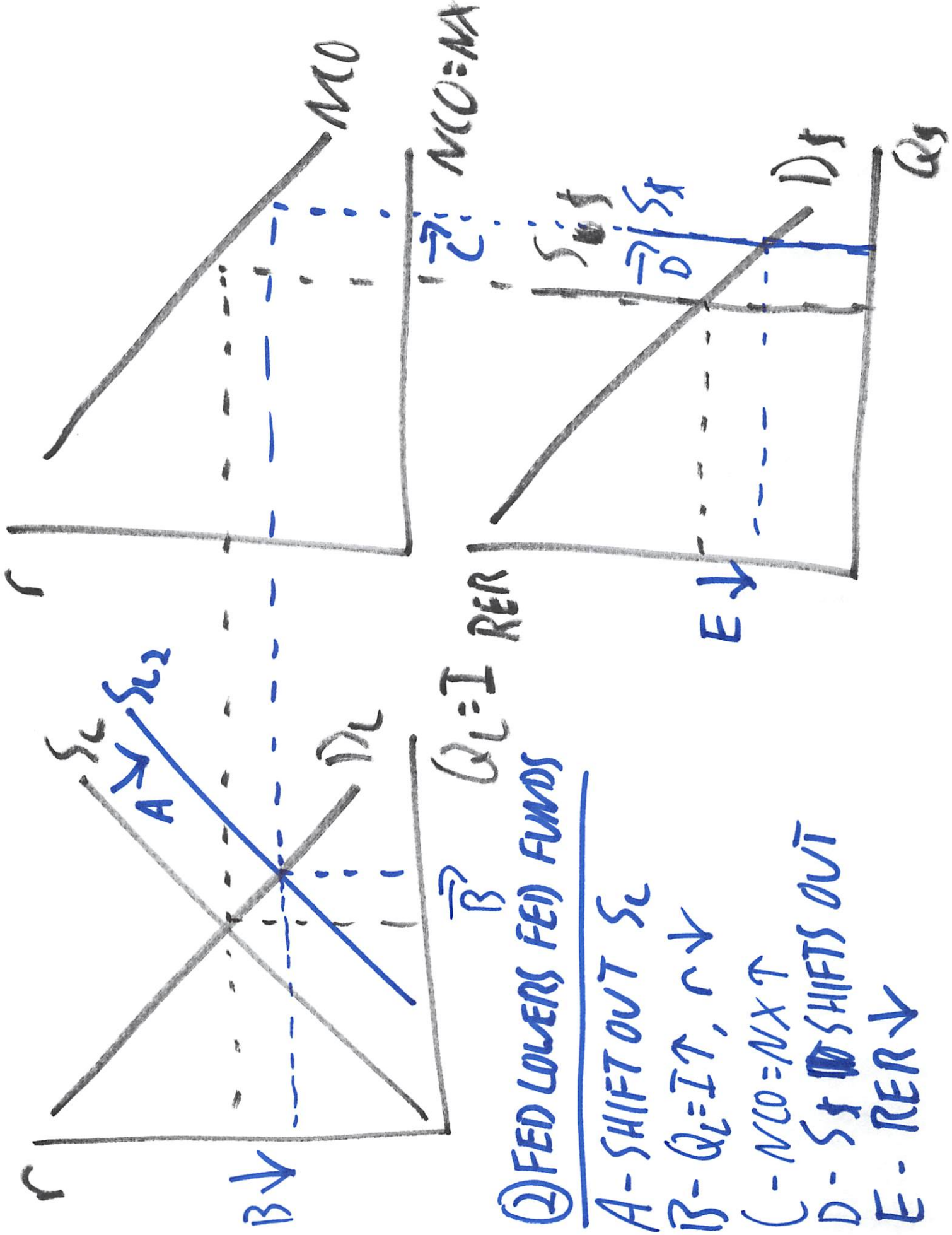


RER

③ QUOTA ON TARIFF (ON OIL)

A - D & SHIFT OUT

B - RER ↑



② FED LOWERS FED FUNDS

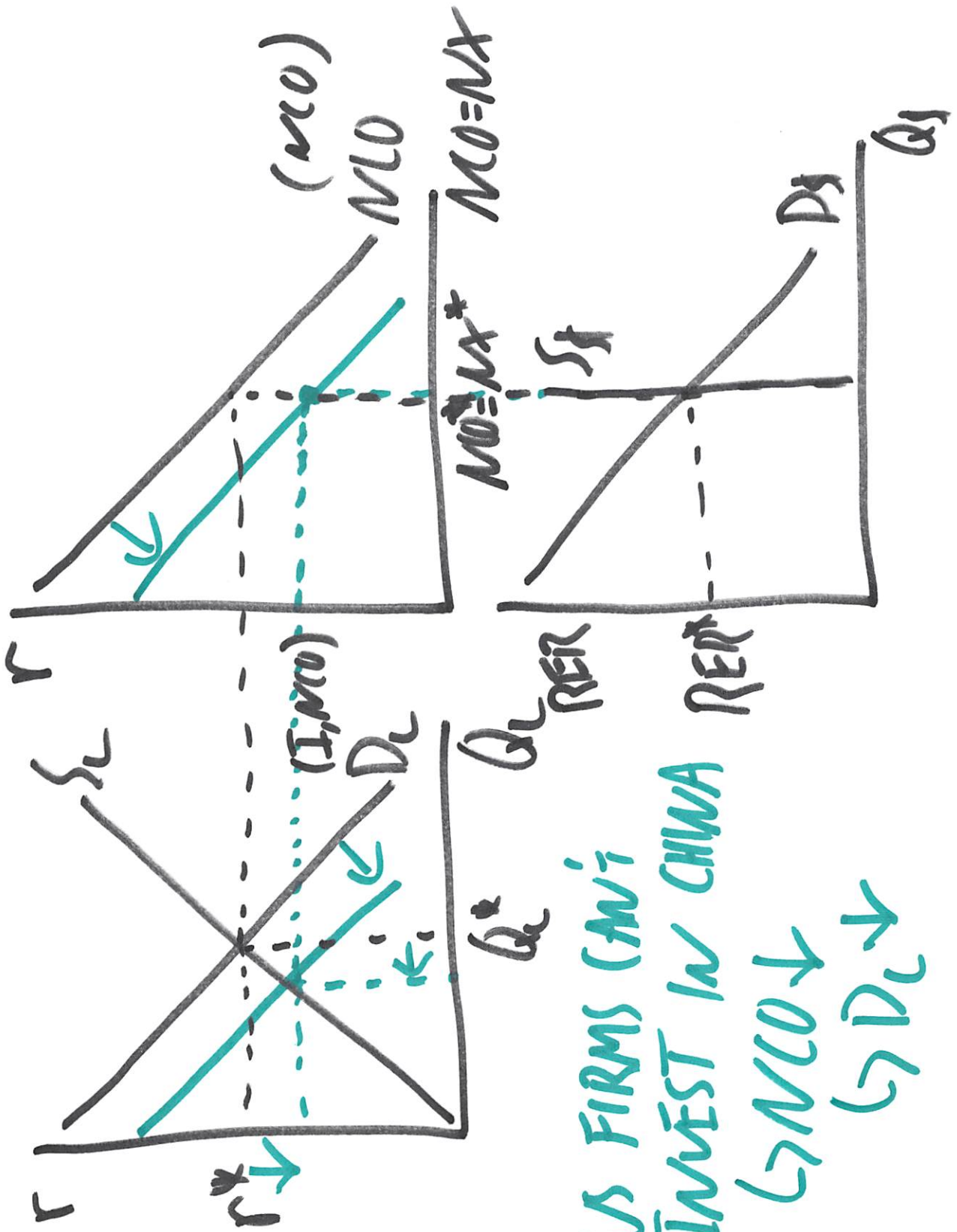
A - SHIFT OUT S_c

B - $Q_L = I \uparrow, r \downarrow$

C - $NCO = NX \uparrow$

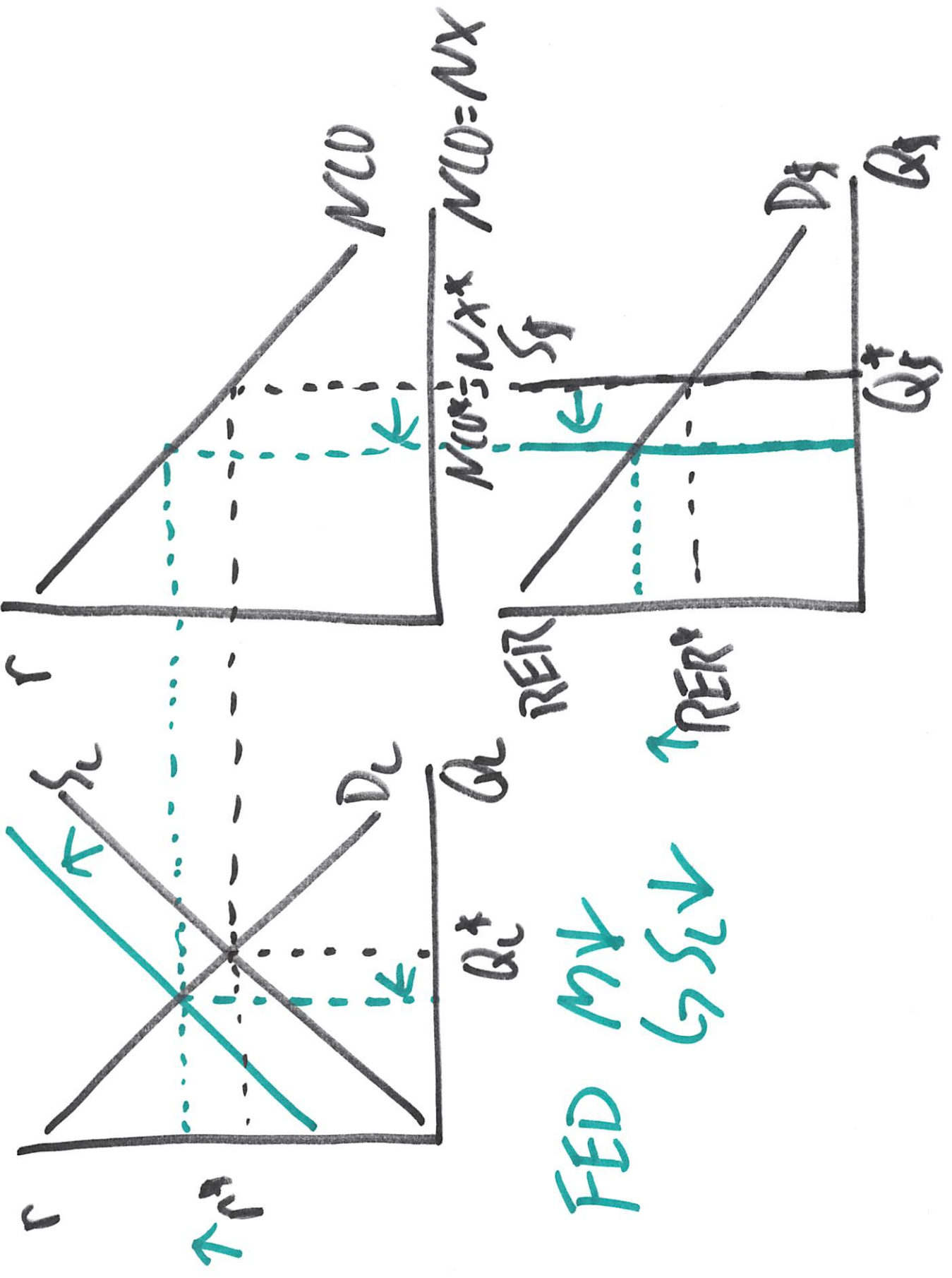
D - S_f ~~SHIFTS~~ SHIFTS OUT

E - $RER \downarrow$

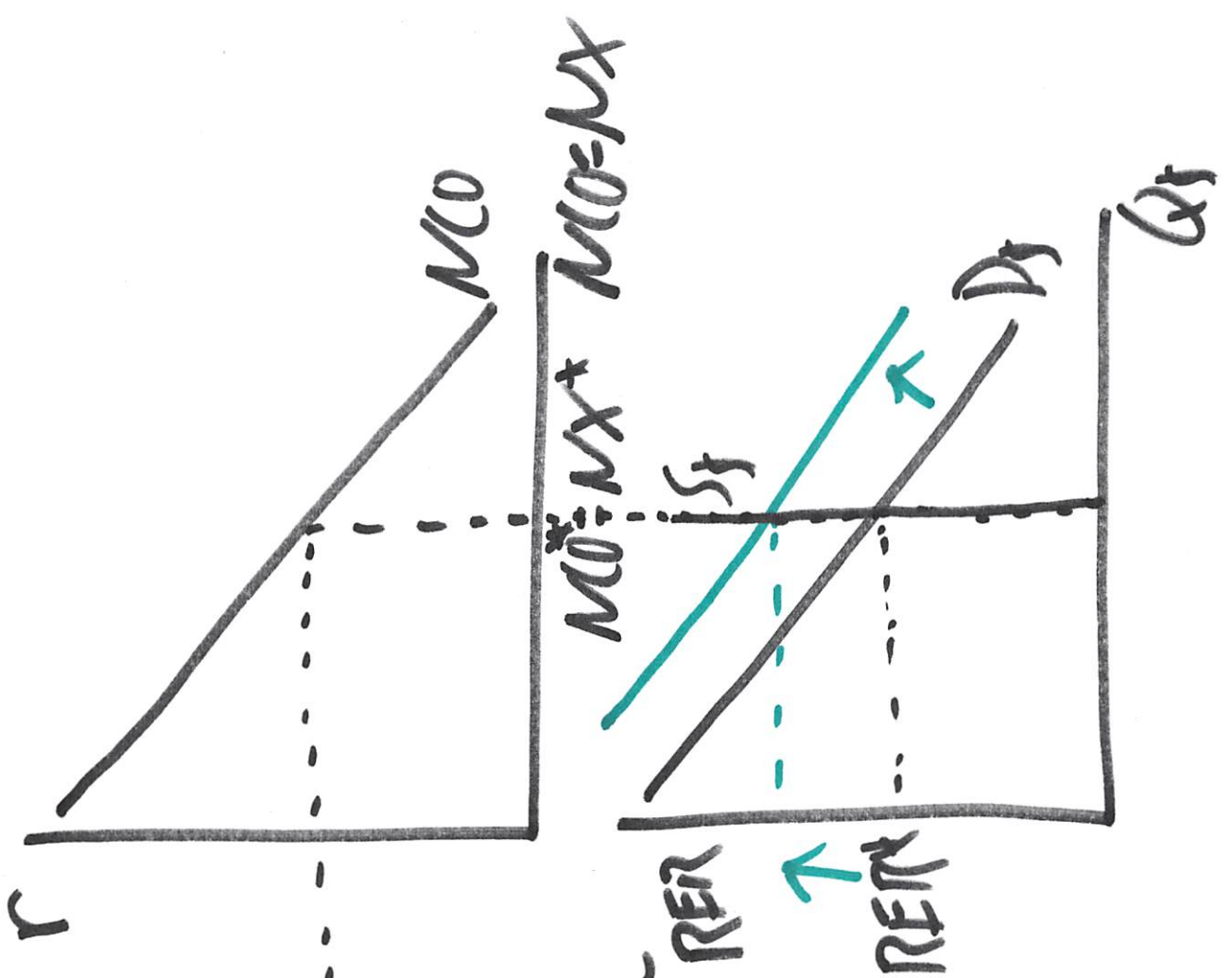


US FIRMS CAN'T
INVEST IN CHINA

$\hookrightarrow NCO \downarrow$
 $\hookrightarrow D_C \downarrow$



FED $M \downarrow$
 $G S \downarrow$
 $\uparrow RER$



CHINESE IMPORT
 MORE VS ALG.
 GOODS \Rightarrow EXUS \uparrow
 \hookrightarrow Ds \uparrow