

## Learning Objectives

### Chapter 31

#### **In this chapter you will**

- Learn how net exports measure the international flow of goods and services
- Learn how net capital outflow measures the international flow of capital
- Consider why net exports must always equal net capital outflow
- See how saving, domestic investment, and net capital outflow are related
- Learn the meaning of the nominal exchange rate and the real exchange rate
- Examine purchasing power parity as a theory of how exchange rates are determined

#### **You should be able to**

- Define net exports
- Define net capital outflow
- Explain why net exports and net capital outflow are two sides of the same coin
- Explain why a trade deficit and a negative net capital outflow can be beneficial to a country if that country has a small savings rate
- Show the relationship between the real and nominal exchange rate
- Show why the nominal exchange rate between two country's currencies should equal their relative price levels