

## Learning Objectives

### Chapter 31

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

Learn the difference between economic analysis in a closed economy and in an open economy

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

State the limitations of purchasing power parity theory