

Learning Objectives

Chapter 32

In this chapter you will

- Build a model to explain an open economy's trade balance and exchange rate
- Use the model to analyse the effects of government budget deficits
- Use the model to analyse the macroeconomic effects of trade policies
- Use the model to analyse political instability and capital flight

You should be able to

- Explain the slope of supply and demand curves in the market for foreign currency exchange
- Explain the market for loanable funds and the market for foreign currency exchange
- Show how equilibrium is determined in these two markets
- Show why a budget deficit tends to cause a trade deficit
- Demonstrate that a quota on imports fails to have an effect on net exports
- Show why capital flight causes a currency to depreciate