ECN320

INTERNATIONAL MACROECONOMICS

Module 1. Macroeconomic Mechanisms Supporting International Trade Flows
Lecture session 1
1. Macroeconomic analysis in an open economy 1.1. Difference between closed and open market macroeconomics 1.1.1. Domestic macroeconomy, closed economy 1.1.2. Open macroeconomy 1.1.3. Globalization 1.2. State of the international economy 1.2.1. Post-war multilateral institutions and global monetary system 1.2.2. Trends in trade in goods and services 1.2.3. Trends in international capital flows 1.3. National income accounting: misuse of basic macroeconomic trade concepts for policy purposes 1.3.1. Meaning of balance of trade (BOT) 1.3.2. Policy objectives for the domestic economy 1.3.3. Macroeconomic accounting: $Y = C + I + G + (X – M)$ 1.3.4. Significance of a BOT deficit/surplus for domestic macroeconomy 1.4. Trends in balance of trade 1.4.1. BOT imbalances 1.4.2. Savings and investment rates 1.4.3. Government spending and budget balances 1.4.4. BOT and rebalancing 1.5. Balance of payments (BOP): current and capital accounts and official reserves (R) 1.5.1. Define BOP, components (BOT, capital account, reserves), and accounting statement 1.5.2. BOP, BOT and policy considerations: meaning of BOP crisis 1.5.3. Trends in BOP accounts: current and capital account; reserve position; BOT and R 1.6. BOT imbalances and macroeconomic sustainability: do targets make sense? 1.6.1. Define current account targets 1.6.2. Return of interest in targeting 1.6.3. Does a BOT target make sense: What does +/-BOT indicate? 1.6.4. Note on the economics of savings, investment 1.7. International reserve currency 1.7.1. Role of money 1.7.2. Purpose of reserve currency 1.7.3. Necessary conditions for a reserve currency 1.7.4. Benefits and costs of the dollar as a reserve 1.7.5. SDR and rivalling the dollar
Study questions: What does a country’s balance-of-trade represent? Is a positive (negative) balance-of-trade a sign of economic strength (weakness)? What is the relationship between the balance of trade and the national budget? How do domestic macroeconomic imbalances affect the balance-of-trade? How do savings and investment relate or matter for international trade? What does a country’s balance-of-payments represent? What is the relationship between the current account and the capital account? How does a country finance a negative BOT? What are reserves? What is the role of central bank reserves? Should the balance-of-payments/balance-of-trade (BOP/BOT) be used to formulate macroeconomic policy objectives? What is a BOP crisis? How would such a crisis come about? What is the purpose of holding international reserves? What are necessary conditions for a currency to be considered an international reserve currency? What factors might lead to a challenge of the USD as the international reserve currency?