Xpenditures impact on aggregate expenditures and equilibrium there

XPENDITURES AND EQUILIBRIUMFOREIGN TRADE POLICY AND THE IMPACT ON AGGREGATE EXPENDITURES AND EQUILIBRIUMThere are two types of aggregate expenditures: Autonomous and InducedAutonomous expenditures are not influenced by real GDP. Induced expenditures are influenced by real GDP. Actual aggregate expenditure is always equal to real GDP.

Equilibrium expenditure is the level of planned aggregate expenditure that equals real GDP. Net export expenditure reflects the international linkages based directly on service and merchandise flows across borders, and indirectly reflects capital flows into and out of a particular country. U.

S. foreign trade and global economic policies have changed dramatically during the past two centuries. Since the Great Depression and World War II, the country has sought to reduce trade barriers. U.

S. trade deficits have grown larger since the 1980’s and 1990’s as the American appetite for foreign goods has outstripped demand for American goods in other countries. The United States has not always been an advocate of free trade. At times throughout history, the country has had a strong impulse toward economic protectionism by using tariffs to limit imports of foreign goods in order to protect American industry.

A big factor leading to the U. S. trade deficit was a sharp rise in the value of the dollar in the early to mid 1980’s. This made U. S. exports more expensive and foreign imports into the United States cheaper. The dollar appreciated because of the recovery from the global recession of 1981-82, and in huge U. S.

federal budget deficits which created a significant demand in the United States for foreign capital. That, in turn, drove up interest rates, and led to the rise of the dollar. Exports are determined by international prices, trade agreements, and the real GDP of foreign countries. All things being equal: the higher foreign prices, the more liberal trade agreements and the higher the real GDP of foreign countries, the higher the exports become.

Exports are autonomous of real GDP. Imports are determined by international prices, trade agreements, and the real domestic GDP. All things being equal: the lower foreign prices, the more liberal trade agreements and the higher domestic real GDP, the higher the imports become. According to a recent article in Washington (Reuters), dated November 13, 2004, written by Jonathan Nicholson, " a tax aimed at boosting savings, holds promise." This is in response to President Bush and one of his ideas to get the economy moving again. Bush is currently proposing to reform the tax code. One idea is The Unlimited Savings Allowance Tax (USA), which is a form of consumption tax.

This tax reform would be to encourage people to save or invest money and in return, they will not have to pay taxes on this income until they decide to spend the money. When people save or invest their income, revenue raises. When you save and invest, you are using aggregate expenditures. Aggregate expenditures are planned expenditures. They equal consumption plus investment plus government spending plus net exports, the same as GDP except that they are planned.

When the government makes changes in taxes, such as the USA tax, it is planned in an effort to boost the economy or slow it down. Since the United States is currently is in a deficit, the economy is not at equilibrium and it needs a boost. If the USA tax did become in to effect, the purpose would be to encourage saving and investing, which would be considered an injection that would increase autonomous aggregate expenditure.

The money saved would generate funds that businesses could borrow and use for investment purposes. The USA tax is only one of the ideas currently under discussion in President Bush's reform of the tax code. If it works out, it could be helpful in raising the equilibrium level of real GDP.