Economics notes: small and open economies

Economics

The supply and demand for alienable funds depend on the real interest rate and not nominal. Increase in saving = shift the supply of enable funds to the right = reduces the interest rate. (graphite page 181) Increase in investment = demand for alienable funds increase = interest rise. Incentive to increase investment = increase in quantity of alienable funds demanded When the government has a budget deficit, the national saving decreases, so the supply of alienable funds decreases and the equilibrium interest rate rises.

Unemployment and its natural rate : Page 193 Labor force = Employed + Unemployed Unemployment rate = (unemployed/labor force) x 100 Labor-force participation rate (labor force/adult population) x 100 Cyclical employment : short-run economic fluctuations. Fluctuates around its natural rate Frictional : process of matching workers and Jobs Structural : Quantity of labor supplied exceeds the quantity demanded. Troop De monde pour less Jobs) Employment insurance = increases the amount of unemployment Why wage is kept above equilibrium : Minimum Wage, Unions and efficiency wage = raises quantity of labor suppliedMoneygrowth and inflation : Page 251 Increase in money supply : supply shifts to right. There are more dollars, price level increases, making each dollar less valuable. Monetary neutrality : irrelevance of monetary changes for real variables in the long run. Changes in money supply do not affect real variables.

Money velocity : (Nominal GAP)/M = (Pixy)/M Inflation tax : when government prints money, price level rises, dollars in my pocket less valuable. Inflation tax is like a tax on everyone who holds money. Fisher-effect : the one for one adjustment of the nominal interest rate to the inflation rate. Arbitrary redistributions of wealth : Hyperinflation enriches Sam at the expense of the bank Economics Notes: Small and Open Economies, Growth, Aggregate Supply and Demand By Gallinule-Devalue Open-economy ball concepts : page 281

Current account = Net exports + Net inflow of dividends and interest payments S = I + NCO Real exchange rate = (Nominal exchange rate x Domestic price)/ foreign price = (e x P)/P* Canada's real interest should be equal to world interest. Small-open economy : page 305 Same as in closed economy except Interest rate = world interest rate. Creates net capital outflow. Inventiveness domesticate cry©e la demanded for alienable funds. National saving is the supply for alienable funds.

S = I + NCO Net capital outflow determines the supply of CAD offered for sale in the market for foreign currency exchange. The demand for CAD is determined by Canada's net exports. Increase in world interest rate : Increase in saving and decrease in investment = increase in supply, decrease in demand = NCO increases. NCO increases= money supply increases = real exchange rate depreciate = CAD depreciate = Exports rise. Government deficit = reduces national saving = reduces NCO. NCO reduced = money supply reduced = exchange rate goes up.

CAD appreciates = fall in net exports Net export = source of demand of CAD. More export = more CAD demanded Import quota increases net exports = increases demand for CAD = increases real exchange rate . Appreciation in the dollar tends to reduce net exports, offsetting the direct effect of the import quota on the trade balance. Effects of capital flight (large and sudden reduction of the demand of assets located in a country) : Mexico is Judged to be a dangerous place = risk premium. Supply goes upward and NCO increases.

NCO increases = more money supply of pesos = less valuable compared with other currencies. Aggregate supply and demand Interest rate effect : lower price level = lower interest rate = encourages spending and investment = more good and services consumed Wealth effect: lower price level dollars in pocket more valuable Real exchange rate : lower price level= depreciated CAD = more exports = more goods and services consumed Therefore, a decrease in price level in creases the quantity of goods and services demanded.

How the aggregate demand shifts : Changes in Consumption : any event that changes how much people want to consume at a given price level shifts the aggregate demand curve. When the government cuts takes, people spend more, aggregate demand curve shifts to the right. When the Government raises taxes, people cut back on their spending and the aggregate demand curve shifts to the left. Changes in investment : Less investment = goods and services demanded decrease. Also, an increase in money supply increases investment spending.

Government purchases : if provincial governments choose to spend more on highway construction, the result is higher quantity of goods demanded. Changes in net exports. Why long-run aggregate supply is vertical. Because in the long run, it only depends on its supplies of labor, capital, and natural resources and on the availabletechnologyused to turn these factors of production into goods and services. What causes it to shift in the long run : Changes in labor.

Example : increase inimmigration= increase of the number of workers = more labor force supplied= long-run supplied aggregate-supply curve shifts to the right. Changes in capital : Increase in the economy's capital stock increases productivity and thereby the quantity of goods and services supplied. Changes in natural resources Changes in technological knowledge. Why the aggregate-supply curve in the short run slopes upward. : When the price level rises above the expected level, output rises above its natural rate. : -Sticky-wage theory -Sticky-price theory -Nonprescription theory