Balance of payments and international economic linkages

Economics

Balance of Payments and International Economic Linkages Balance of payments - accounting statement of the international transactions of one nation over a specific period of time (transactions between US residents and residents of all other countries during that year). Divided in different components: current Account - purchases and sales of goods and serviceableness Account - capital authoritativeness's Account - changes in official reserves Debit entry - purchase of domestic goods, services, or assets, or a decline in liabilities to foreigners. Credit Entry - sale of debit entry.

Double entry book keeping ensures that debits = credits (sum of all transactions - zero). In the absence of official reserve transactions, financial account surplus must offset the current account deficit, vice versa. US = running a large current account deficit (imports > exports) Reduce: domestic savings rise, private investment declines, gobo deficit reduced Focus: unfair trading practices + or on the high value of the dollar Domestic spending balance = private savings investment balance - gobo budget deficit National Income = Consumption + Civilizations Spending = Consumption + Environmentalist Income - National

Spending = Savings - Investment I-curve theory, a country's trade deficit worsens Just after its currency depreciates because price effects will dominate the effect on volume of imports in the short run. Protectionism-that is, the imposition of tariffs, quotas, or other forms of restraint against foreign imports. A quota specifies the quantity of particular products that can be imported to a country, typically an amount that is much less than the amount currently being imported. Chi. 6 | Foreign Exchange Market Balance of Payments and International Economic Linkages By pompom's facilitate international trade and investment.

Two Tiers - interbrain market (major banks trade with each other) & retail market (banks deal with their commercial customers). Spot market - currencies are traded for settlement within two business days after the transaction has been concluded. Forward market - contracts are made to buy or sell currencies for future delivery. The importer is offsetting a short position in pounds by going long in the forward market? that is, by buying pounds for future delivery. Forward Premium or Discount on Foreign Currency = (Forward rate - Spot rate / Spot rate) x 360 / Forward contract number of days

The major participants in the forward market are categorized as arbitrageurs, traders, hedgers, and speculators. This forward differential is known as the swap rate. Most currencies are quoted against the dollar, the exchange rate between two nodular currencies, known as a cross rate, must be calculated on the basis of their direct quotes against the dollar. Percent Spread = Ask Price - Bid Price / Ask Price x 100 A different type of credit risk is settlement risk, also known as Harshest risk. This risk arises because of the way foreign currency transactions are settled (banks may be in different time zones, there may be a delay).