# Managerial economics in the usa

[Business](), [Management]()

Managerial Economics Since the early 1980s, the United s has been posting a merchandise trade deficit. The Economic Report of the President in 2002 revealed that the country's merchandise imports exceed exports by $375, 739. The country also runs a capital account deficit in 2004 with the amount of $2, 484. 2 billion. The merchandise trade and current account deficits being experienced by the US causes a stir in the economy.

A key to understanding the economic situation of the United States in relation to its global partners is the concept known as the current account. The current account contains the import and export items of goods and services as well as transfer payments including net investment income. Deficit in current account is often regarded as problematic. The existence of current account deficit often signifies negative perception in the attractiveness of a country's commodities and investment instruments. However, it is also important to look at the causes of the current account deficit being experienced by US.

The current account deficit being experienced by the United States can be attributed to the " expansion of the fiscal deficit, decline in private saving rate, productivity growth, slump in foreign domestic demand, and improvements in global financial intermediation" (Ferguson). The current account is also largely attributed to the appreciation of the US dollar relative to other currencies. The attractiveness of dollar in the global market dampened the demand for US commodities which highly discourages the exports of US commodities. In contrast, imports appear cheap to US residents. The International Monetary Fund expressed that the current account deficit in the US is not a current problem. In fact, it stated that the " trade deficit has some positive features." The major driving force in the US economic expansion is productivity growth which also " increases the likelihood that foreign investors' expectations of high rewards from their investments will be realized." This is translated in the rapid growth in appetite for US assets. The appreciation of dollars also raises the value of dollar denominated assets overseas. Finally, a large share of international transactions are denominated and carried out in dollars, which keeps demand for dollars high and demand for highly liquid U. S. government securities strong.

The capital account of the US reflects the attractiveness of dollar denominated assets. The $327 billion change in the net investment position of the country in 2004 was attributed to the large purchases of US Treasury securities and US corporate bonds. The appreciation of US dollar relative to other currencies abroad further raised the amount of these investments compared to domestic holdings. This investment position of US cannot be sustainable in the long run. It is highly recommended that the country embark on structural reform in order to prevent recessions in the future. It should be noted that significantly large and unsustainable current account deficit can bring about business cycles. Households not being able to realize their expected gains on assets often lead to economic downturns and mount in interest rates. Trade deficits mean contraction in some industries. Thus, the US government should be adopting measures in making this current account deficit sustainable. These include including raising U. S. household saving rates and preparing U. S. workers for change as well as liberalizing markets and lowering trade barriers, particularly in the service and professional sectors.

References

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