

# Lecture 10: The Goods Market in an Open Economy

- **La crisis en el Mercosur: tras las negociaciones [Acuerdo con Brasil para compensar la devaluación del Real \(La Nacion 10/10/01\)](#)**
- Review Lecture 9
- Goods Markets

# Opening the Economy

- Goods markets
  - Imports and exports
  - Tariffs and quotas
- Financial markets
  - Domestic and foreign financial assets
  - Capital controls
  - Emerging market crises
- Factor markets
  - Migration of firms and workers

# The Real Exchange Rate

- The price of a foreign good in terms of domestic good

$$e = \frac{E P^*}{P}$$

Real appreciation and depreciation

# The Balance of Payment

## CURRENT ACCOUNT

Exports	+
Imports	-
	Trade Balance
Net investment income and transfers	+
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	Current Account Balance

## CAPITAL ACCOUNT

Increase in foreign holding of domestic assets	+
Increase in domestic holding of foreign assets	-
Errors and omissions / statistical discrepancy	
	Capital Account Balance

# The Goods Market

$$Z = C + I + G + X - e Q$$

$$C(Y-T) + I(Y,I) + G$$

$$Q = Q(Y,e)$$

+ -

$$X = X(Y^*,e)$$

+ +

# Figures

- Figs 19.1 and 19-2
- Increase in domestic and foreign demand
- games countries play
- depreciation

# The J-Curve

- $eQ(Y,e)$  : increase or decrease with  $e$ ?
- In the very short run: it may increase!
- And if strong enough:  $X(Y^*,e) - eQ(Y,e)$  may do the same.
- Dynamics of  $NX$  in response to a depreciation; fig 19-6