

Lecture 10: The Goods Market in an Open Economy

- **Current events**
- 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 (figs 19.3 and 19.4)
- games countries play
- depreciation