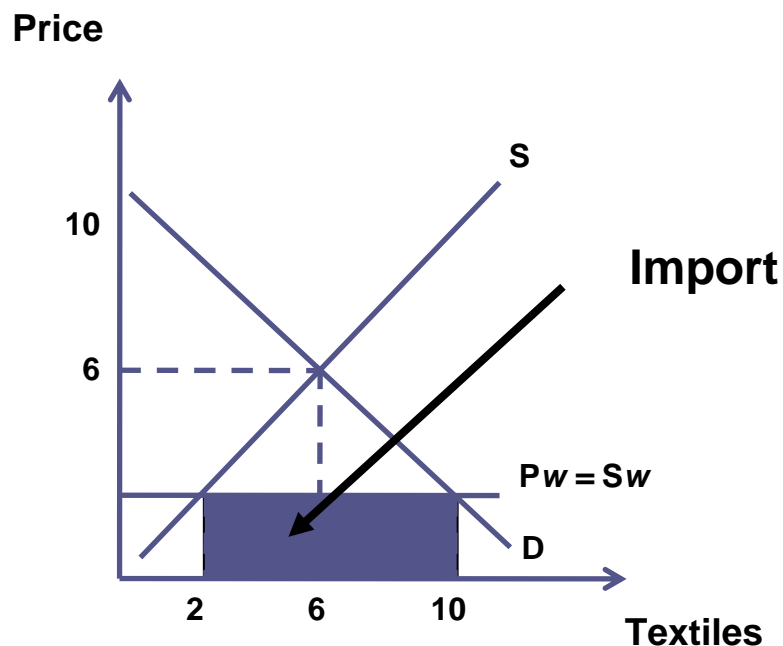
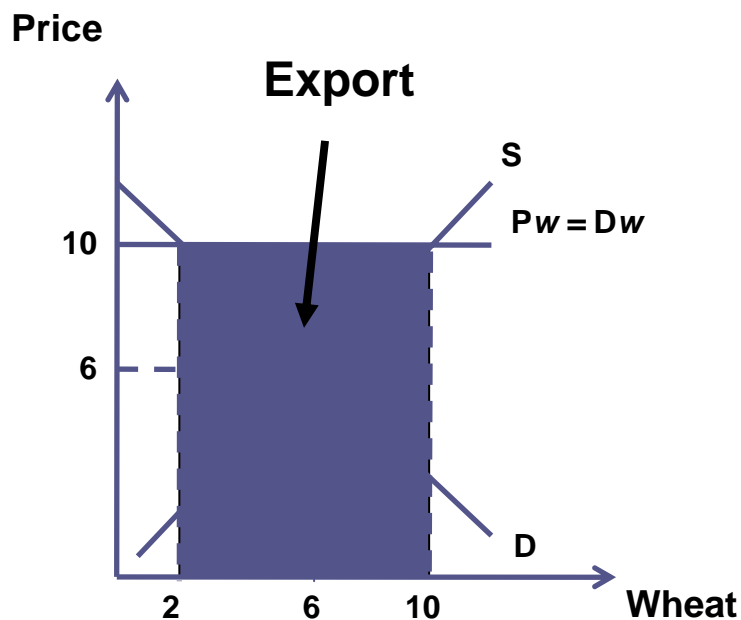


# THE WORLD ECONOMY

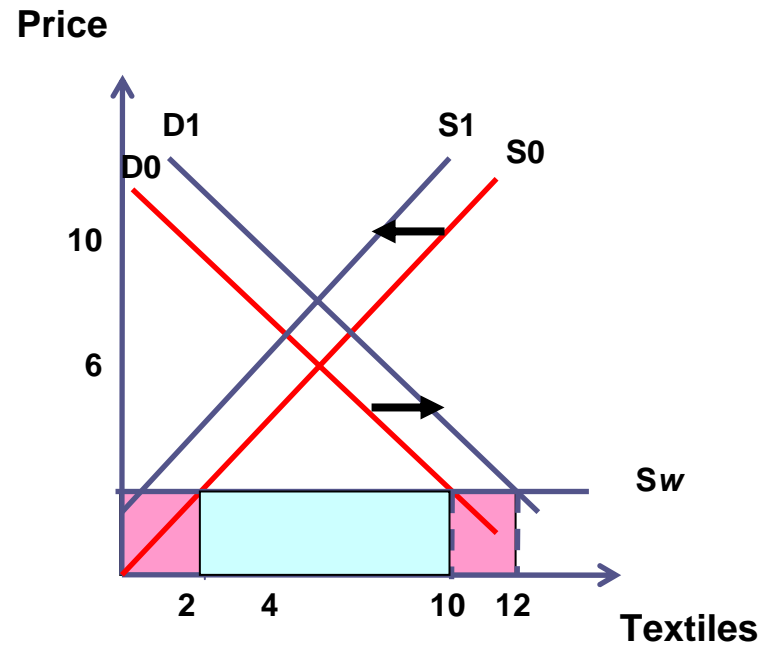
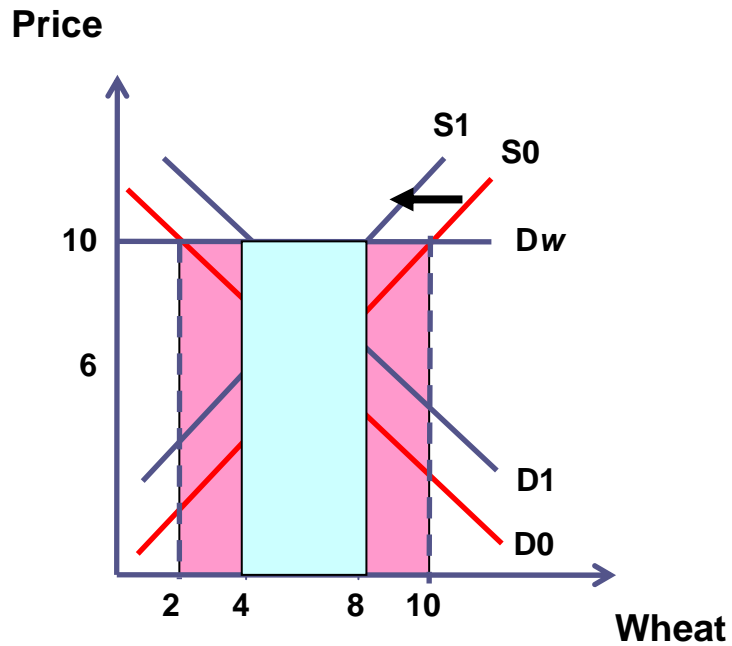
Ted Walter

- Open Economy Microeconomics: An Overview

Market supply & demand & exports & imports

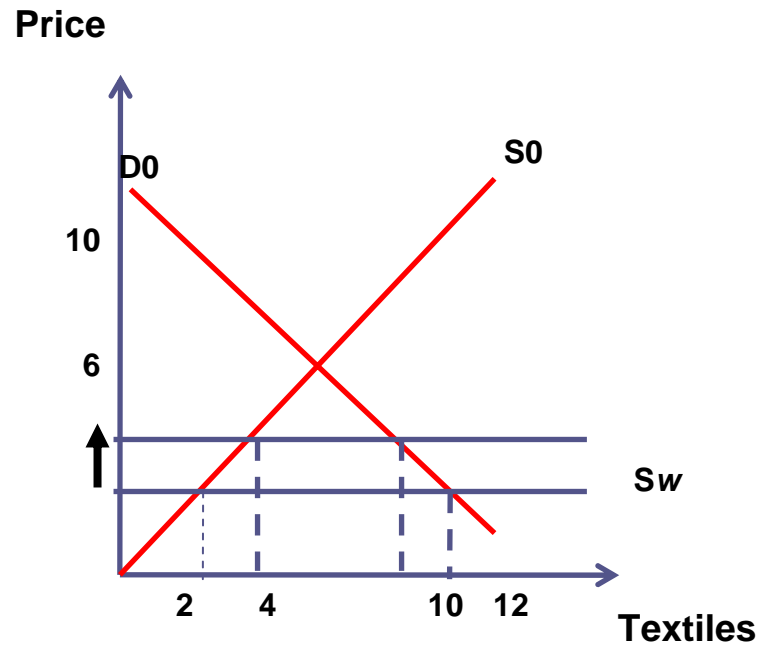
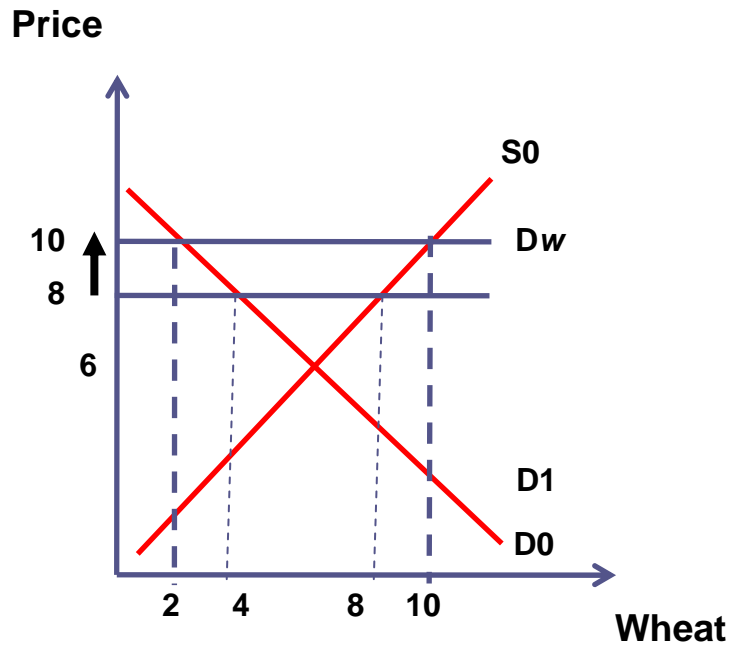


- Closed economy
- Open economy
- Elasticity - price and income



## The impact of domestic inflation on exports & imports

$P \uparrow$        $X \downarrow$        $M \uparrow$



## Currency dep. - exports & imports

$X \uparrow$

$M \downarrow$

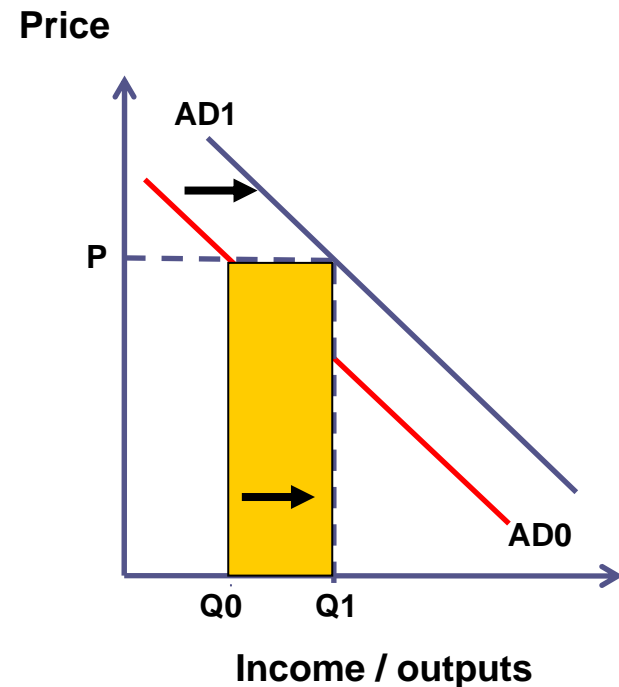
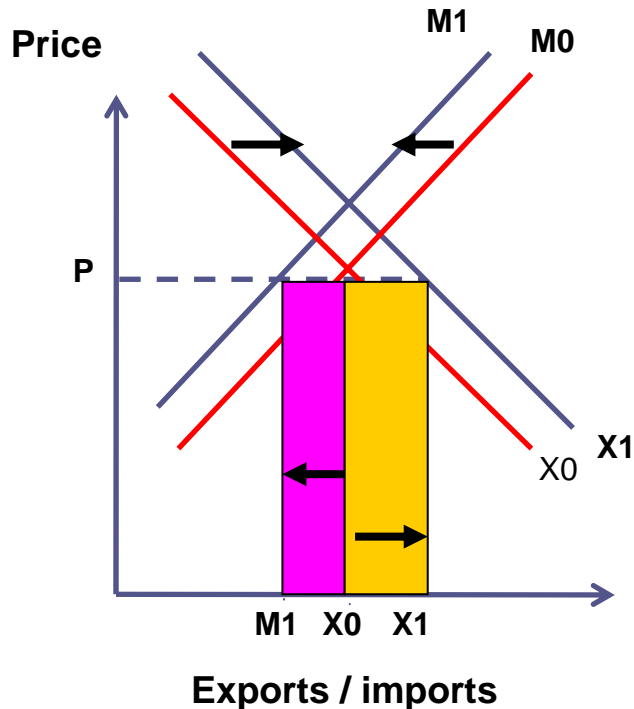
# The National Economy in the World Economy : An Overview

- Aggregate Demand (AD)  
=  $f(\text{price, income})$
- Aggregate supply (AS)  
=  $f(\text{wage, capital, productivity})$
- GDP – Nominal and Real

# Currency depreciation & aggregate demand

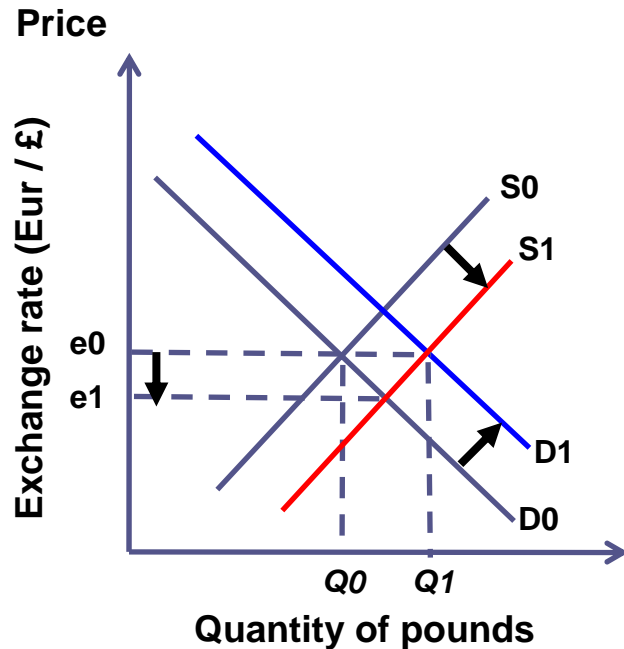
GDP demand side [ $AD=C+I+G+X-M$ ]

RM dep./X rise/M fall/net export rise/AD rise/  
Output and employment rise

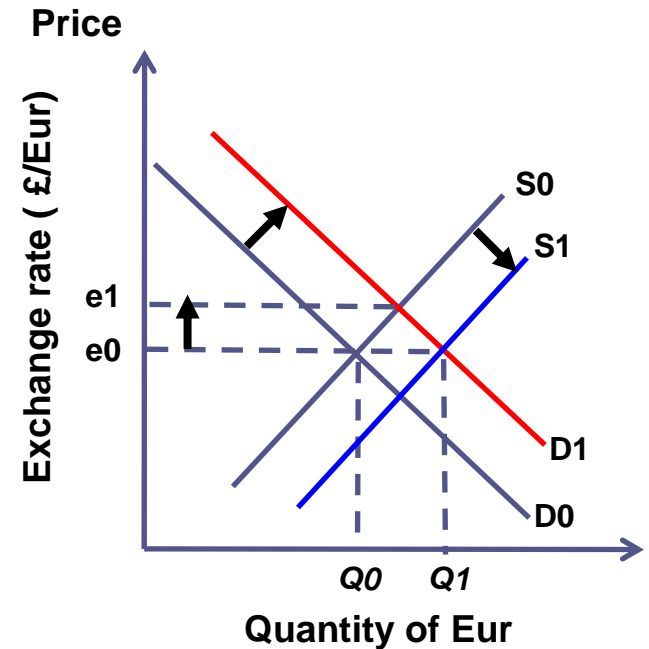


- The Foreign Exchange Market

Intervention in the foreign exchange market – using int. reserve



UK



GERMANY

UK DD more Eur/SS £ increase/ value of £ fall/  
 to maintain the org. exc. Rate - UK sells Eur (its int.  
 reserve)/buy £

# The Balance of Payments

2 accounts:

## Current Acc:

1. merchandise goods and services
2. net factor payment (net) = payment received (credit)/payment to (debit) - investment oversea
3. unilateral transfer - public transfer (UNIDO, IDCT) and private transfer( send money home) -work overseas  
[DD Rup./ rise/SS RM rise/RM value fall)- net contribution production/domestic market

## Capital/Financial Acc:

Portfolio Investment and FDI - [ $>10\%$ /,  $10\%$ ]

LR (FDI) and SR (CI/CO - hot money)

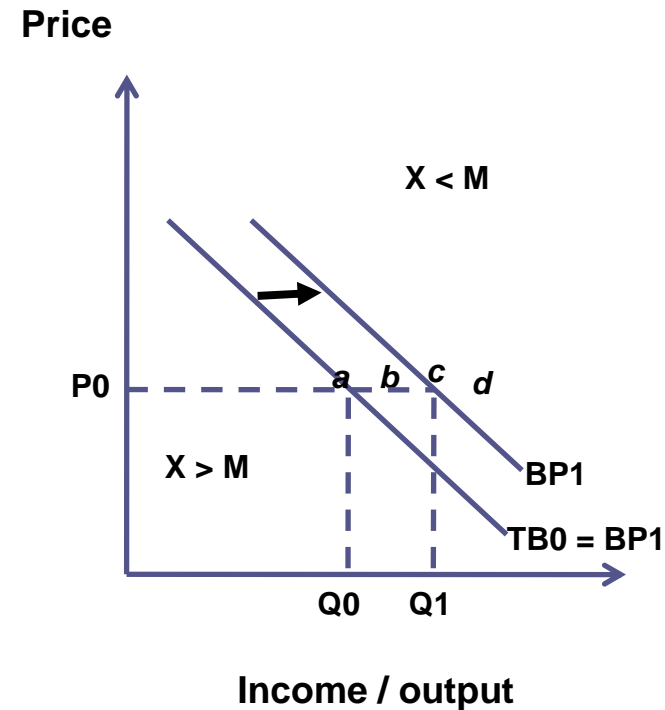
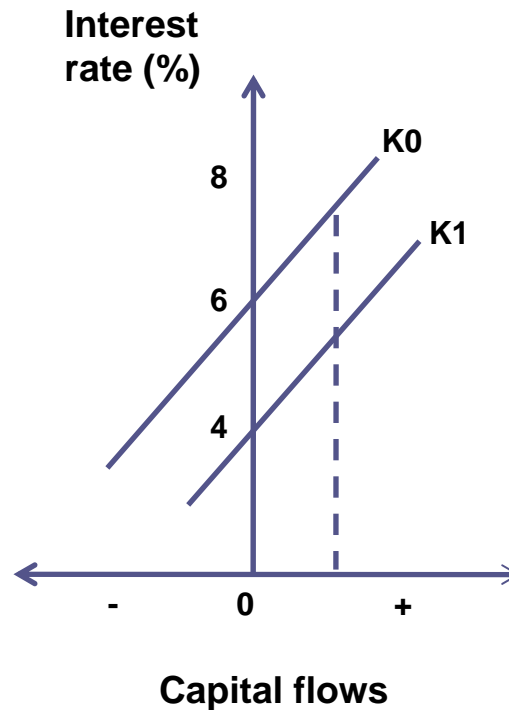
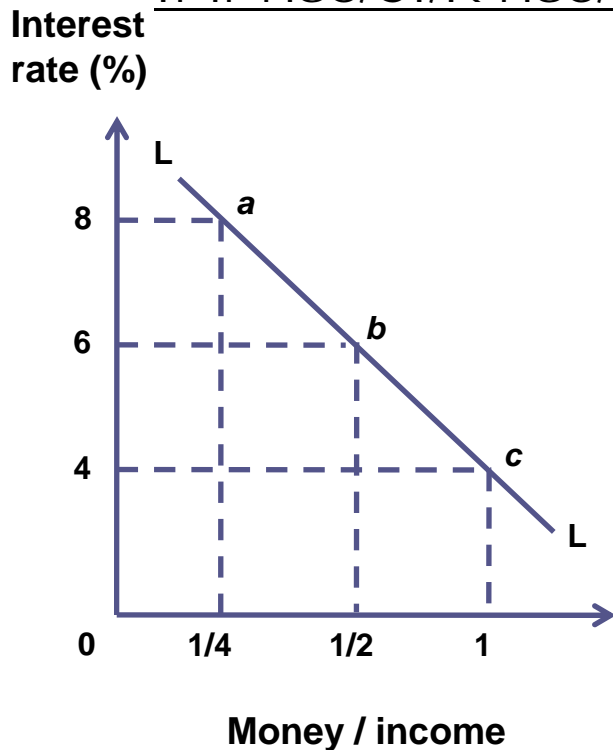
- The Balance of Payments
- $CI/CO = f$  (ir. & rumors exchange rate fluctuations)
- Basic BOP = Current acc + LR capital acc
- Modified basic BOP = curr acc + FDI
- Interest Rate decline (Aus/Thai)
- I fall/DD bond @ treasury bills rise/

# Capital Flows & the Balance Of Payments

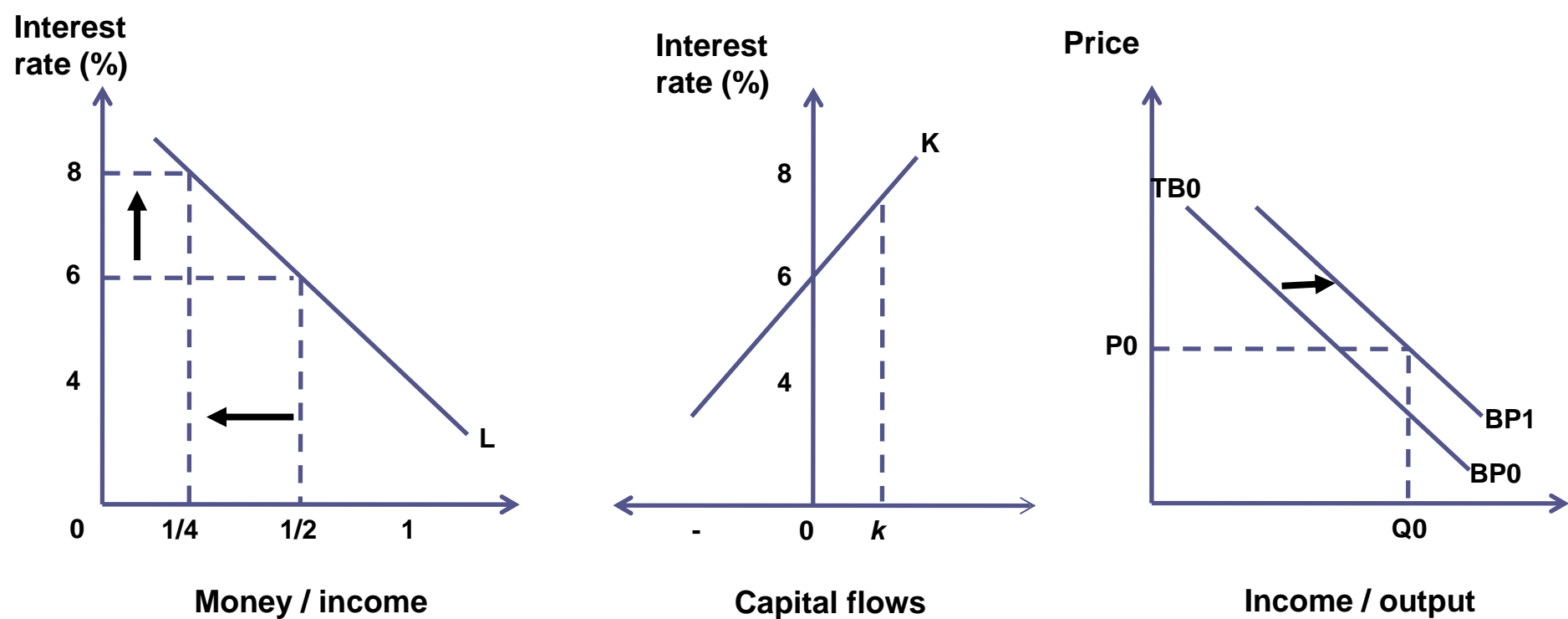
Interest rates, capital flows, & the balance of payments:  
Case I

M-I ratio rise/ir fall/

If ir rise/CI/K rise/BOP improve - capital acc



## Interest rates, capital flows, & the balance of payments: Case II



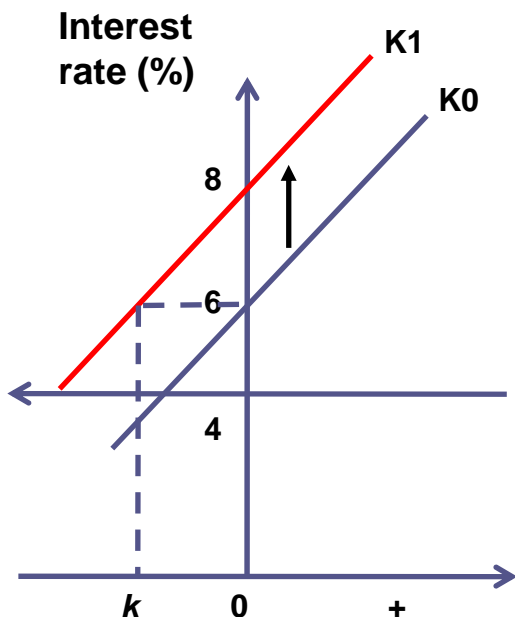
Fiscal expansion/ money/Income fall/ir rise/BOP improve/higher income/M fall/TB fall ( $M > X$ )

# Exchange Rate Systems, International Reserves, & Economic Policy

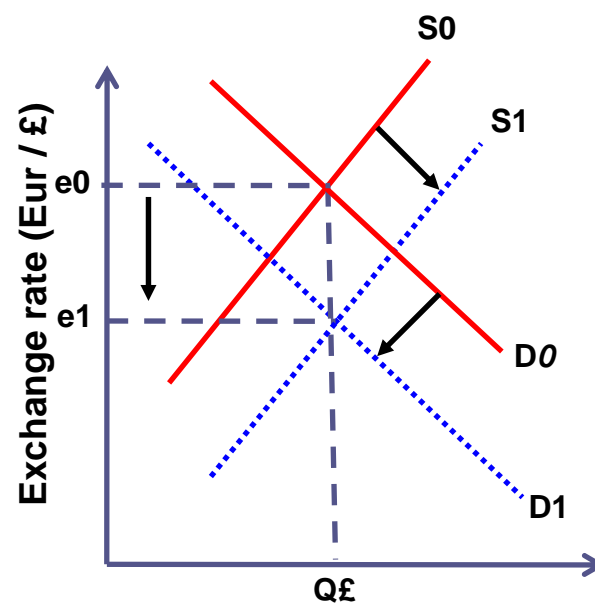
- **Exchange Rate Systems**

- Capital flows, exchange rates, & aggregate demand

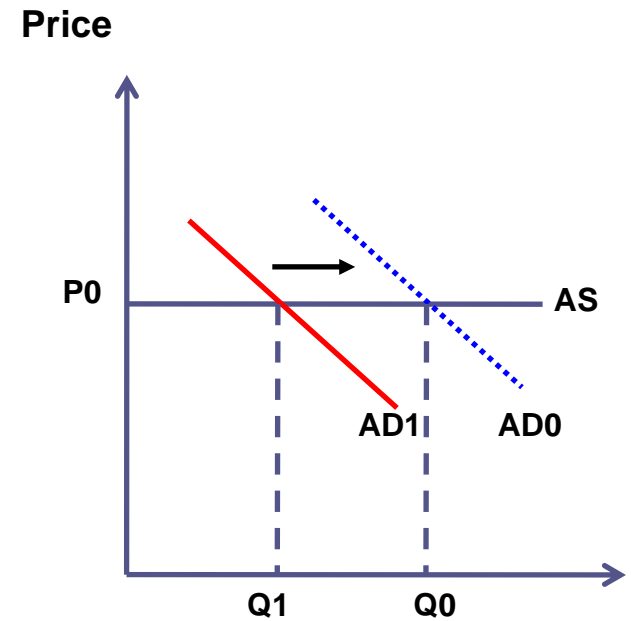
Ir rise in German/CI/Pound devalue/X rise/M fall/ AD rise



Capital flows - Germany



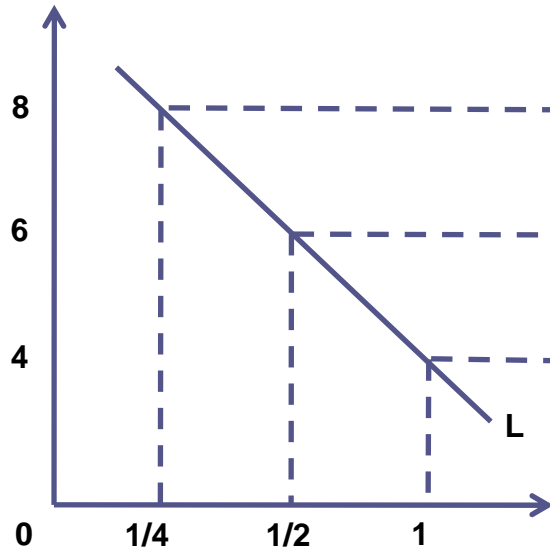
Quantity of pounds - British



Income / output - British

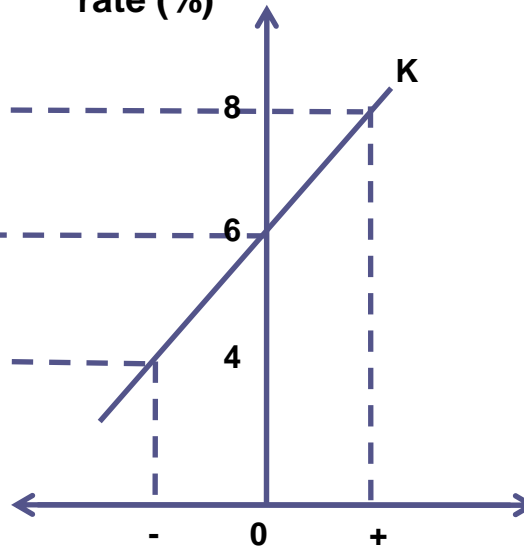
# Flexible exchange rates & capital mobility

Interest rate (%)



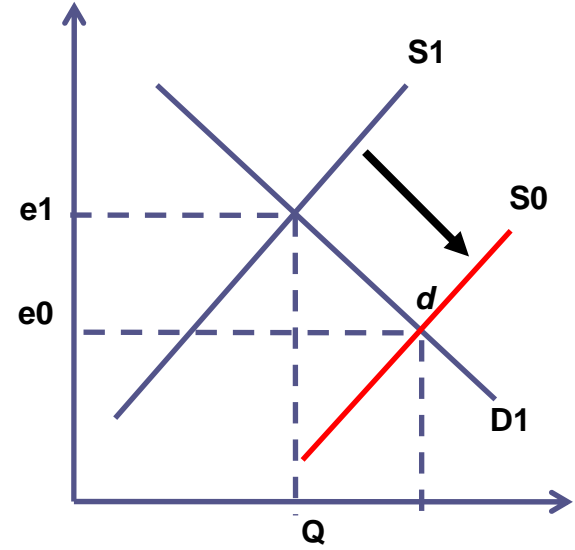
Money / income

Interest rate (%)



Capital flows

Exchange rate



Foreign exchange

...THANK YOU...

Q&A