World Economy

Four sector economy analysis – openned economy

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The four sector economy

Total planned expenditure in the four sector economy is extended to a net export, it means, difference between export and import.

$$AD = C + I + G + NX$$

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Net export

The difference between export and import value is net export.

$$NX = X - M$$

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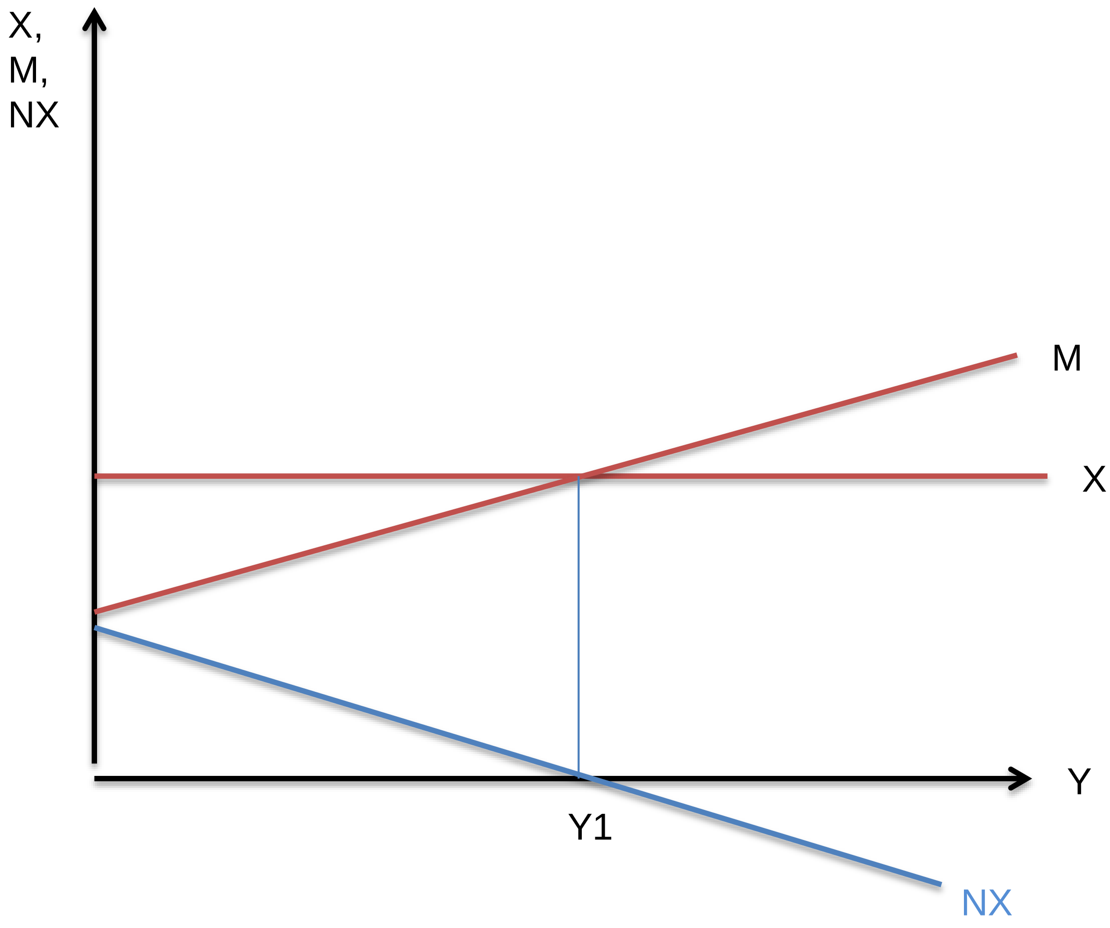
Keynesian function of net export



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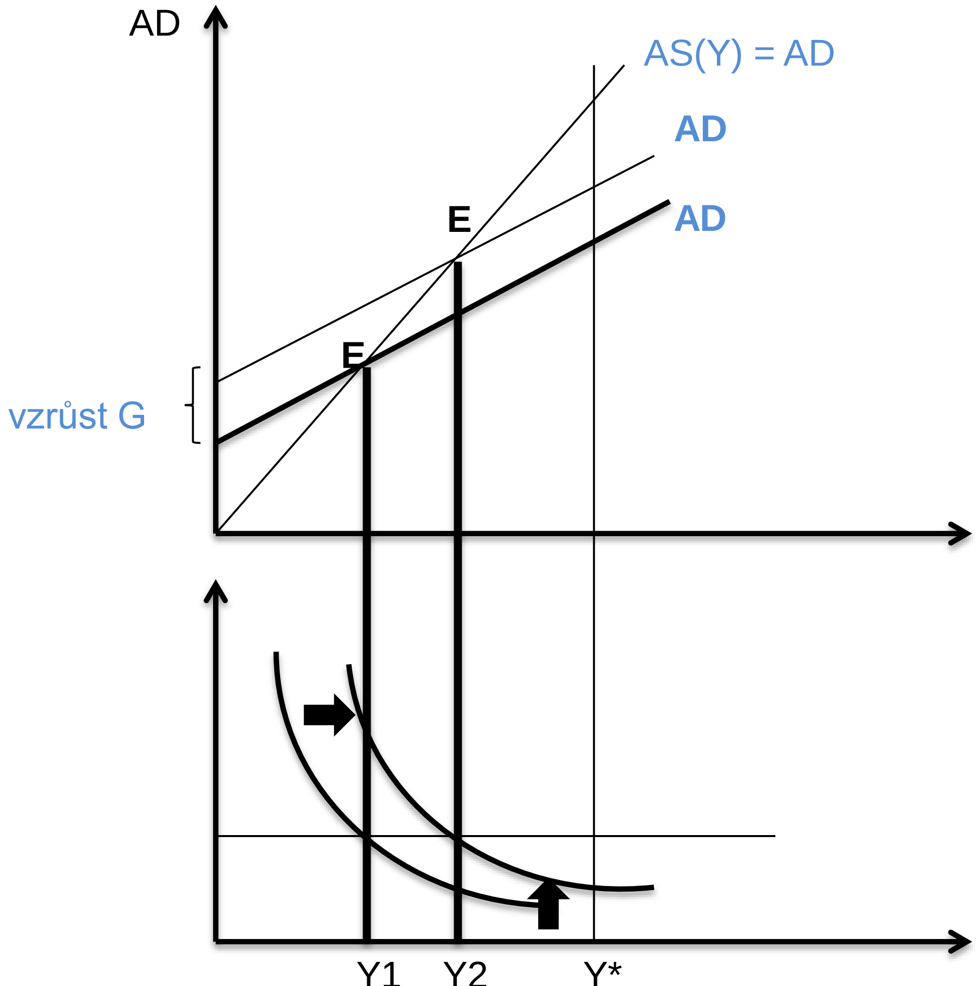
The equilibrium output in the four sector economy



Openned economy

Economy openness express it s involvement into an international relations, that are presented by product moving, factors of production services and financial assets.

Economy opennes rate = Export/GDP

or (Export + Import)/GDP

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An international Trade

All exchange transaction realized through national economy boundary.

Causes of foreign trade:

- natural and climatic conditions
- different consumer preferences
- conflict between production and consumption
- Economies of scale
- realization of absolute advantage

National balance of payments

It captures all transaction of an economic subjects with abroad.

It is an international movement of goods and service, incomes, transfers in the internatinal sphere, long-run and short-run capital and foreign exchange reserves.

a) The horizontal structure

b) The vertical structure

A: Current account

1. Balance of trade
2. Balance of services
3. Balance of incomes
4. Common transaction

B: Capital account

C: Financial account

1. Direct investment
2. Portfolio investment
3. Other investment

D: Errors, opomenutí a kurzové rozdíly

E: Foreign exchange reserves

The Horizontal structure of the PB

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The vertical structure of the PB

It corresponds to the credit and the debit writting of different transaction.

The transaction is captured allwais 2x in PB.

A Credit collumn – sign +

A Debit collumn – sign -

Compensation of the PB

1. The exchange mechanism

- If the economy has surplus in the trade balance, foreign customers have to constantly demand the domestic currency to pay for their import though it.
- Increased demand for domestic currency will lead to its evaluation.
- Currency appreciation will lead to a deterioration in net exports of domestic country (import increases and export decreases)
  and domestic country's trade balance starts getting worse.

Compensation of the PB

2. Income mechanism

- Increasing surplus in the trade balance will lead to GDP growth.
- Part of the import is dependent on the GDP, the result is, that import starts growing and trade balance starts getting worse.

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Compensation of the PB

3. Price mechanism

- An increasing surplus in the trade balance will lead to depletion of productive capacity of domestic manufacturers.
- Producers raise prices.
- Price growth will lead to decline in exports and trade balance starts getting worse.

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