Compare, contrast, Synthesize both articles.
- Definitely refer to both articles.
- Do not use long quotes from the articles.
- Fewer than 1.5 pages. Definitely not more than 2 pages.

National income accounting

GNP: $Y = C + I + G + X - M$

- C: aggregate consumption of g/s sold in market
- I: investing
- (C and I: private citizens)
- G: government expenditures
- X: exports of g/s to ROW
- M: imports of g/s from ROW

$CA = X_{g/s} - M_{g/s}$ (CA: current account balance)

Trade Balance $= X_{goods} - M_{goods}$

$\Rightarrow Y = C + I + G + CA$

$\Rightarrow Y - C - I - G = CA$

$\Rightarrow (Y - C - G) - I = CA$, where S (savings) $= Y - C - G$

$\Rightarrow CA = S - I$

a country is running a current account deficit if $CA < 0$ ($\Leftrightarrow S < I$) or surplus if $CA > 0$ ($\Leftrightarrow S > I$)

Equivalently,
$CA < 0 \Leftrightarrow X < M$ CA deficit
$CA > 0 \Leftrightarrow X > M$ CA surplus

a CA deficit must be financed, ie. the economy must borrow to pay for $M - X$.

also, we can have a CA deficit if the economy is not saving enough.

$S - I = CA = X - M$

S: aggregate saving
- private
- public

Let $S = \underbrace{S^P}_{\text{private saving}} + \underbrace{S^G}_{\text{government saving}}$

where $S^P = Y - T - C$
$S^G = T - G$

$> 0 \iff T > G$ (fiscal surplus)
$< 0 \iff T < G$ (fiscal deficit)

$\Rightarrow S^P + S^G - I = CA = X - M$

$\Rightarrow (Y - T - C) + (T - G) - I = CA = X - M$

Financing a deficit.

Suppose Argentinian gov't floats bonds. (ie argentina borrows)
- Who buys those bonds (loans argentina money)?
  - Private investors
  - Government

Suppose argentina takes a loan. Who loans to argentina?
- another government
- Commercial banks (this started in late 1960s)
- International institutions (i.e IMF, WB)

Oil crises in 1973 and 1979
- Oil price increase
- Oil exporting countries started having CA>0

or $X - M > 0$

- Oil importing countries started having $CA < 0$ or $X - M < 0$

The oil exporting countries put the extra cash in banks in Europe. The importing countries borrowed this money.

Bank loans were made at US prime + spread

(US prime: the lowest interest rate charged - usually reserved for other banks)

- Those loans were denominated in dollars.

Early 1980s
- Dollar became stronger (increases in value)
- US prime rate increased (tight monetary policy)

- If a country borrowed before 1980s, the amount they had to pay back went up dramatically because of this.

1982 - debt crisis - many Latin american countries became unable to repay loans.
- The called up the IMF to borrow more or shift around the payback schedule. The IMF imposes economic policy.

Structural adjustment (IMF policies)
- Trade policies to increase exports and decrease imports
- Cut government spending - usually takes the form of cuts to social services.

Globalization: Economic integration + other with ROW-

There are readings for next time.