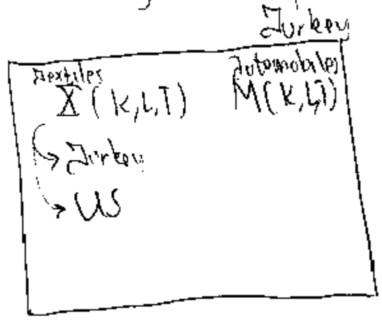
Elson's article

Recall: $S^P + S^G - I = CA = X - M$
$(Y - C - T)\ (T - G)$

At the end of WWII, IMF and WB were created to facilitate international trade.

IMF - If country has $CA < 0$, then $\uparrow X$ or $M \downarrow$

1) Export orientation via subsidies, tax credits
2) Eliminate import barriers
- Import substitution industrialization (ISI)
  - "Infant industry argument" - protect own industry by blocking imports via tariffs, quotas.
  - Creates demand for domestic output and expands the industry.
  - 1960s - 1970s: ISI was the predominant industrialization policy.
- Close economy a little.
- We measure "openness" of an economy by $\frac{X + M}{GNP}$
- Even the US has some trade barriers.
  - The potential of positive externalities in an industry is potentially cause for gov't.



M(K,L,T) are import-competing goods. Supporting M(K,L,T) with policies takes resources away from X(K,L,T).

3 Deregulation - Decreasing government's role in markets
- Eliminate taxes and subsidies.

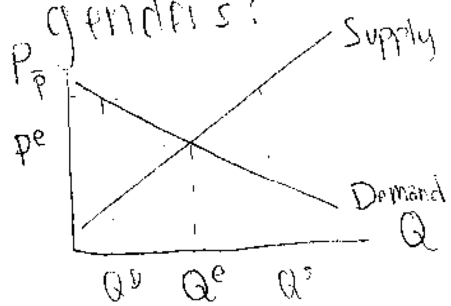
4 Decrease government spending on social services
- Tax policy is difficult to change.
- Bad for education and health services.

5 Stabilization policies to control inflation.

6 Wage/salary freeze.
- If wages increase as much as inflation, real purchasing power does not change.
- Dornbusch

7 Devalue domestic currency. (Exchange rate policy)
- On average, this leads to increased exports and decreased imports => CA deficits ↓.

Do these policies have a differential impact across genders?



If $\bar{p} > p^e$, $Q^S(\bar{p}) > Q^D(\bar{p})$

Exchange rates are determined using supply and demand.
- Supply less => exchange rate will increase.

(x) Who prints money? Is it the Fed or the treasury?