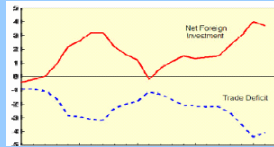


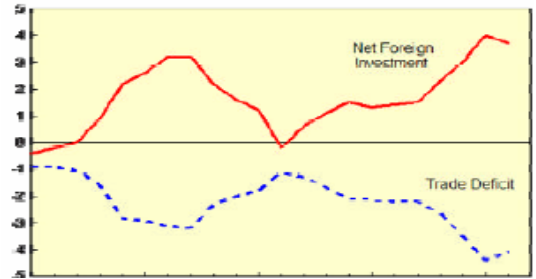
Investment and the Trade Balance



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Lectures in Macroeconomics- Charles W. Upton

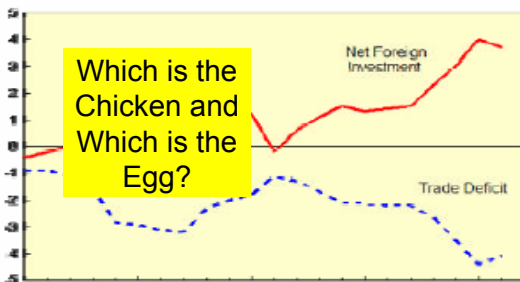
Net Foreign Investment and the Trade Deficit (As % of GDP), 1980-2000



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Investment and the Trade Balance

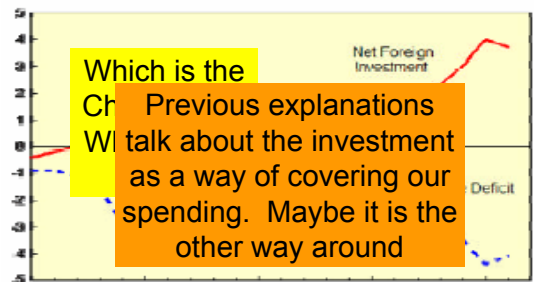
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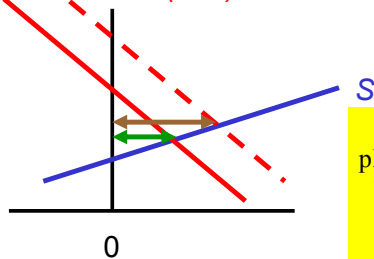


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Investment and the Trade Balance

(d) Investment Opportunities

$$D \approx I - S + (G-T) + X-M$$



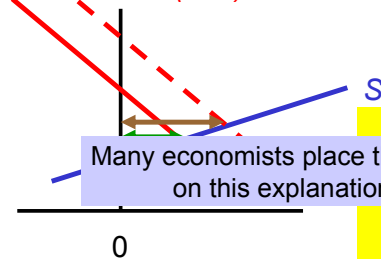
This is the place to invest because the economy is good.

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Investment and the Trade Balance

(d) Investment Opportunities

$$D \approx I - S + (G-T) + X-M$$



Many economists place their bets on this explanation. This is the place to invest because the economy is good.

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Investment and the Trade Balance

An Analogy

- You discover an undeveloped Caribbean island with resort potential. You persuade the locals to exploit it.

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- Is this bad? Obviously not.

Evidence

- Does the trade balance track saving?

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Trade and Investment

- 19th Century Trade Balances
- Post World War II
- The Business Cycle
- International Comparisons

19th Century Trade Balances

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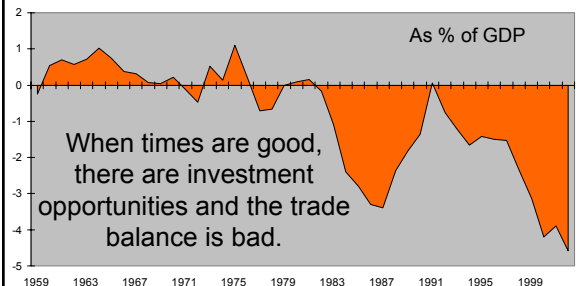
19th Century Trade Balances

- In the last part of the 19th century, the United States ran a substantial current account deficit, financed substantially by the British.
- There were significant investment opportunities in this rapidly growing economy.
- Both Americans and the British benefited. We got a higher capital stock, while British investors earned a higher return than they could at home.

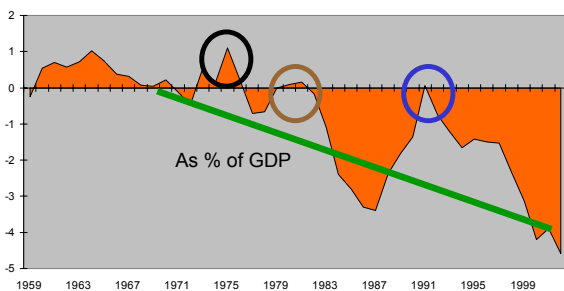
Trade after World War II

- At the end of WW II, the United States ran a significant current account surplus, for exactly the same reason. The War devastated Europe, and investment opportunities there were highly profitable.

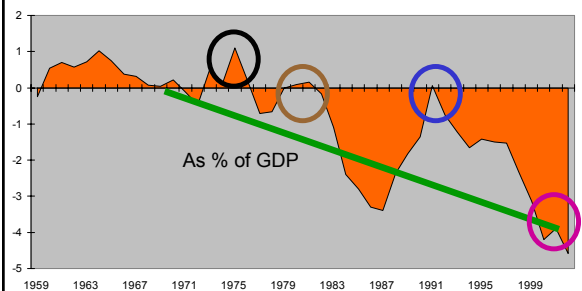
Balance on Current Account



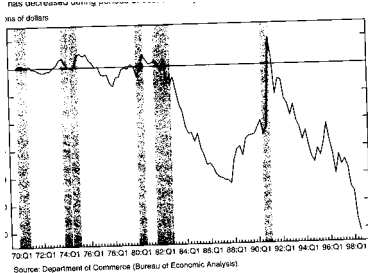
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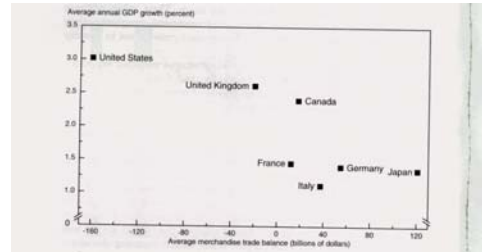
Balance on Current Account



Trade Deficits and Business Cycles

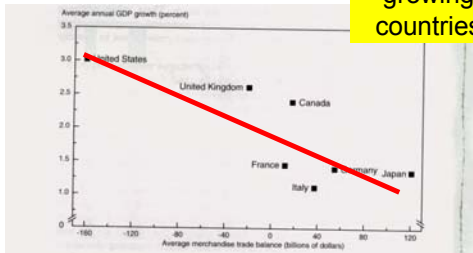


G-7 Experience



G-7 Experience

Don't invest in slow growing countries



End

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