

CA = Net saving

$$I = S + (T - G) - (X - M)$$

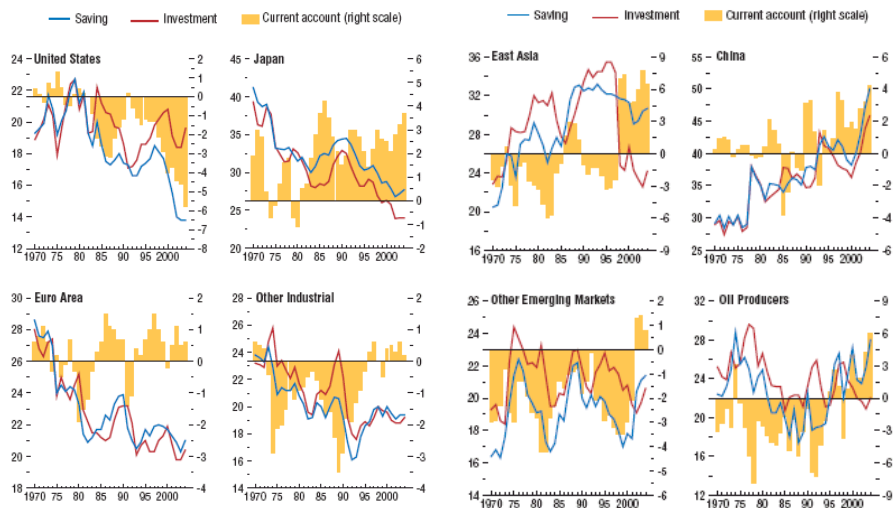
$$= S^p + S^G - CA$$

$$= S^p + S^G + S^F \quad \text{where } S^F = -CA$$

$$I = S^D - CA$$

$$CA = S^D - I$$

“Global Imbalances”

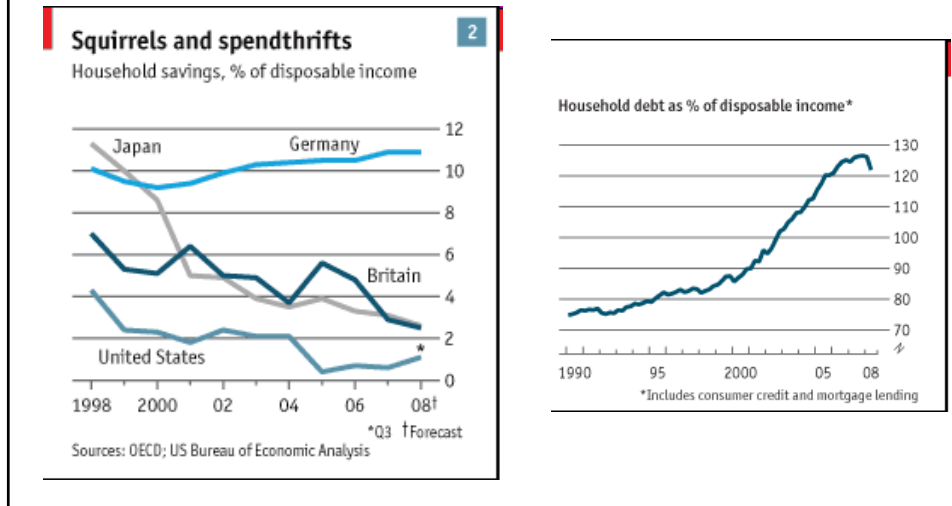


Sources: OECD Analytical Database; World Bank World Development Indicators; and IMF staff calculations.

Source: IMF, WEO, Sept. 2005

orange bar – CA balance; blue line – nat'l saving; red line – investment

Americans do not save and are heavily indebted



Industrial World

Net dissavers (CA < 0)

- US, UK, Iceland, etc.
- Hurt by the subprime crisis because the ability to repay the debt has deteriorated significantly
- (Permanent) Income has deteriorated
- Not so much room for fiscal stimuli b/c they are heavily indebted to start with

Net savers (CA > 0)

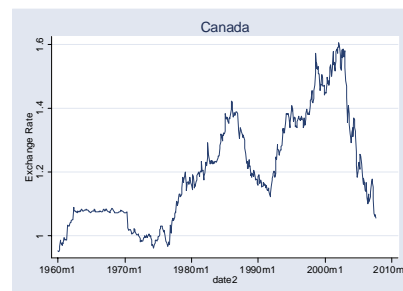
- Germany, Japan, etc.
- Hurt by the crisis because the assets they hold from dissavers have lost the values significantly
- Their exports have fallen because of the drop in the world's demand, esp. that from the U.S.
- (Permanent) Income has deteriorated
- Not so much room for fiscal stimuli b/o different reasons

Developing World

The performance of the countries in this group depends on the following three points

- Commodity exporters or importers?
- Is the public sector heavily indebted?
- Is the country indebted to foreigners?

How can we categorize Latin America, Asia, and Eastern Europe?



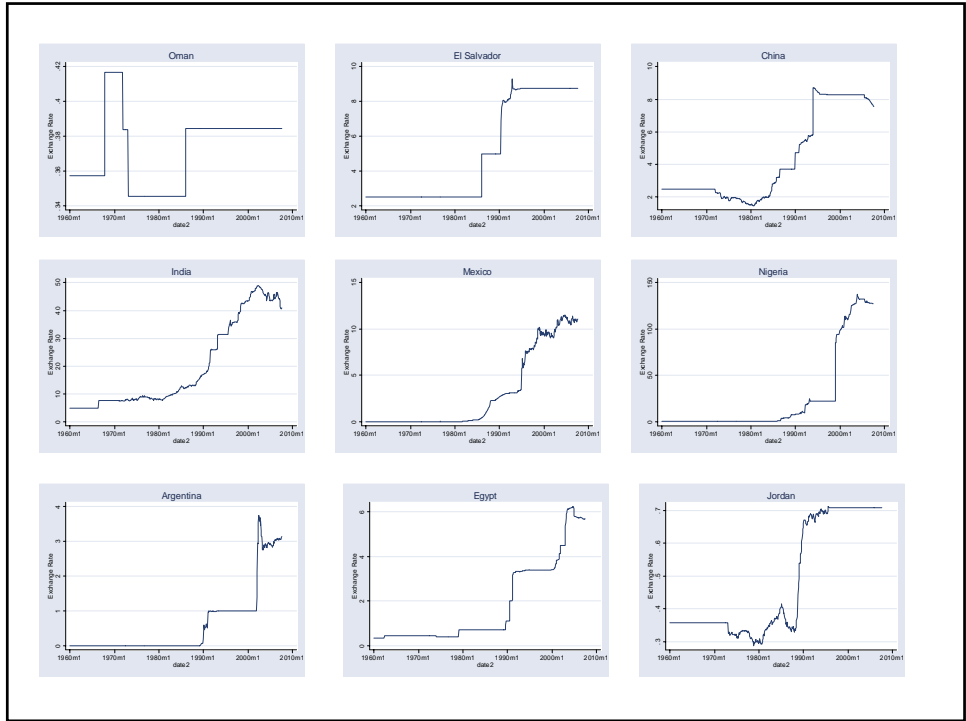


Table 13-4: Today's Dollar/Euro Exchange Rate and the Expected Dollar Return on Euro Deposits When $E_{\$/\text{€}}^e = \1.05 per Euro

Today's Dollar/Euro Exchange Rate	Interest Rate on Euro Deposits	Expected Dollar Depreciation Rate against Euro	Expected Dollar Return on Euro Deposits
$E_{\$/\text{€}}$	$R_{\text{€}}$	$\frac{1.05 - E_{\$/\text{€}}}{E_{\$/\text{€}}}$	$R_{\text{€}} + \frac{1.05 - E_{\$/\text{€}}}{E_{\$/\text{€}}}$
1.07	0.05	-0.019	0.031
1.05	0.05	0.00	0.05
1.03	0.05	0.019	0.069
1.02	0.05	0.029	0.079
1.00	0.05	0.05	0.10

Figure 13-3: The Relation Between the Current Dollar/Euro Exchange Rate and the Expected Dollar Return on Euro Deposits

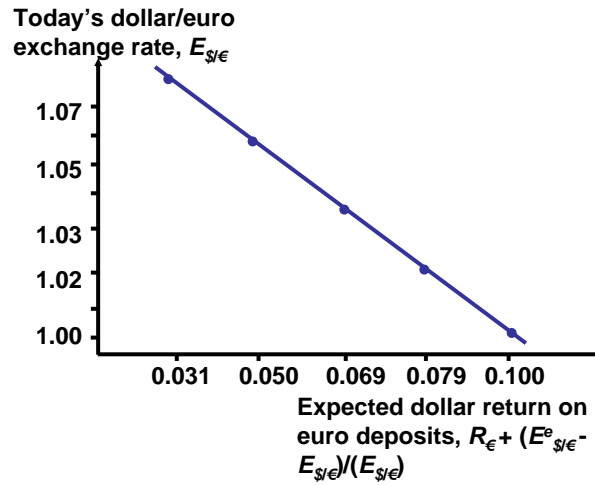


Figure 13-4: Determination of the Equilibrium Dollar/Euro Exchange Rate

