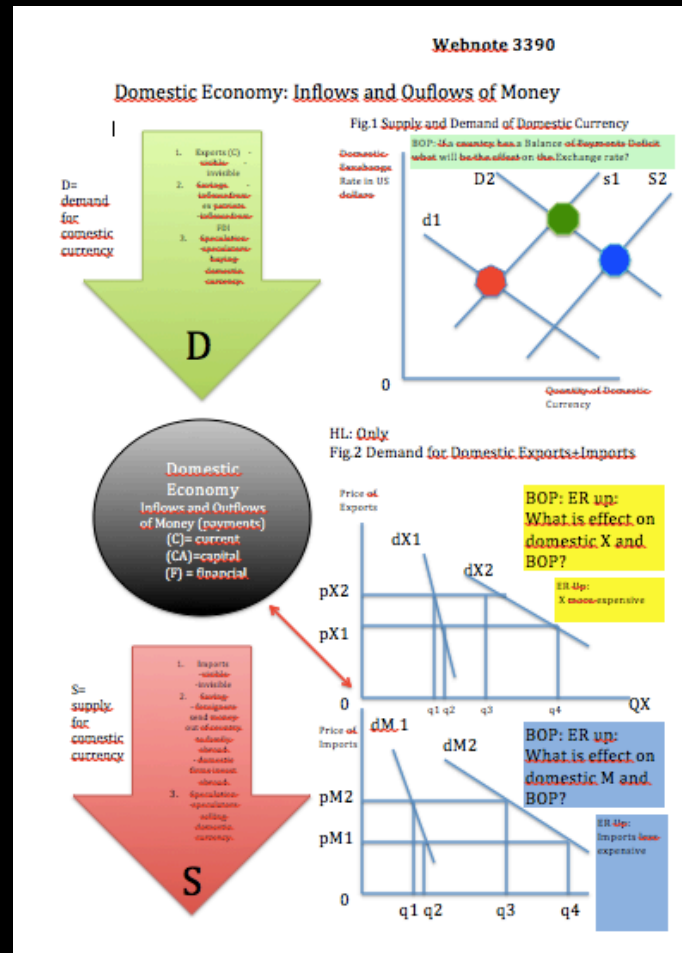
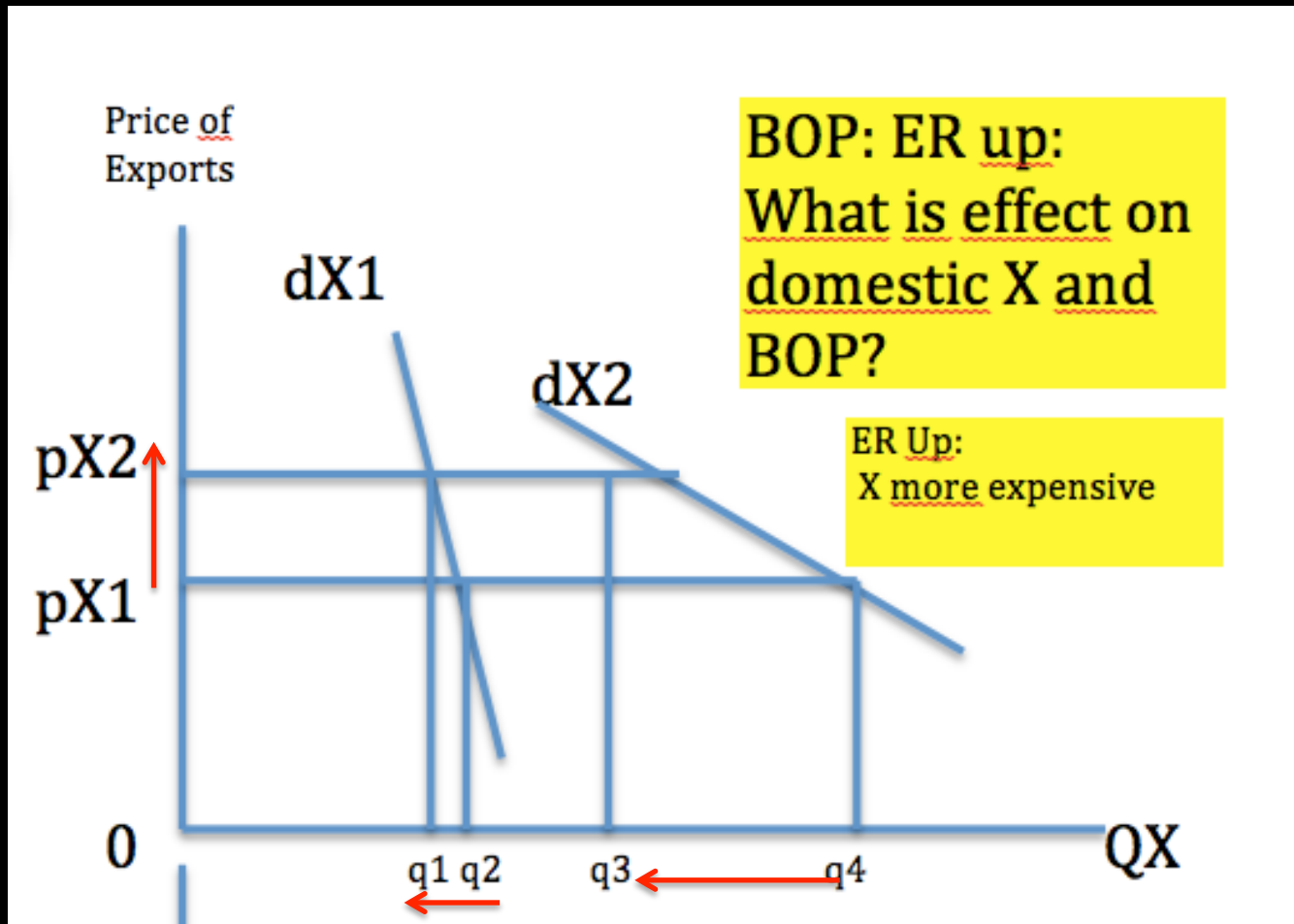


Balance of Payments



Currency Impact



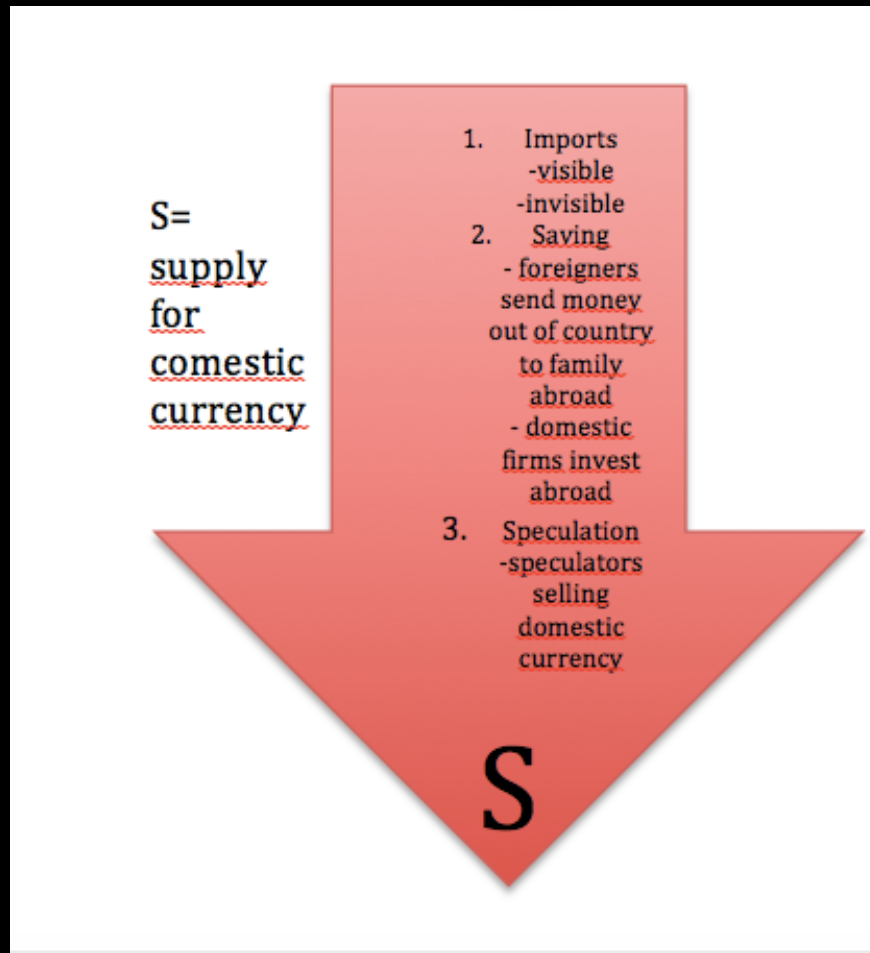
Bop - Inflow

D=
demand
for
comestic
currency

1. Exports (C) -
visible -
invisible
2. Savings -
inflows from
ex patriots
-inflows from
FDI
3. Speculation
-speculators
buying
domestic
currency.

D

BoP - Outflow



J Curve

P exports fall + price imports rises

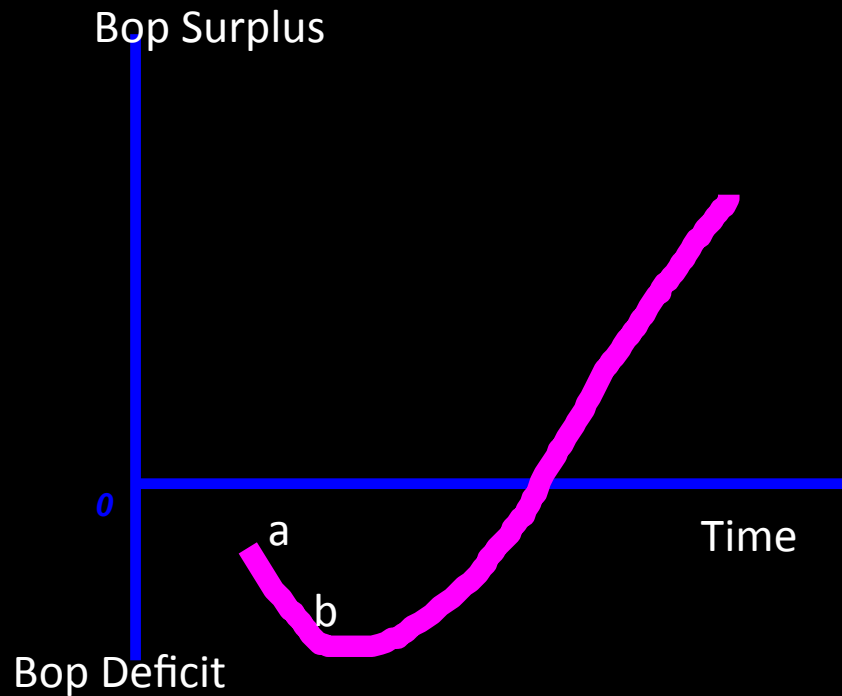
- Exports inelastic : revenue falls

- Imports inelastic: revenue rises

- Overall result is that BOP worsens in the short run. This is the J curve effect and is seen in Diagram A between points A and B.

Overall result is that BOP worsens in the short run. This is the J curve effect and is seen in Diagram A between points A and B.

A: The J curve effect



**Be careful...
This analysis is for a FALL in the exchange rate.**

Note :

In the short run demand for X and M likely to be inelastic so BOP worsens and this can lead to problems for the economy e.g. imported inflation

J Curve-risk of 'cost push' inflation as BOP worsens in the short run

B: Cost Push Inflation

