

# Balance of Payments

Webnote 3390

## Domestic Economy: Inflows and Outflows of Money

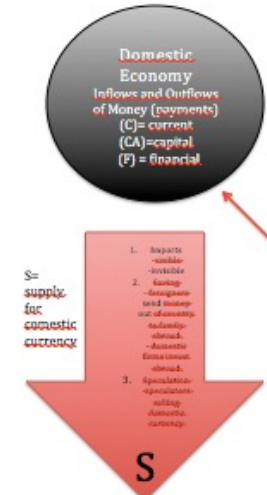
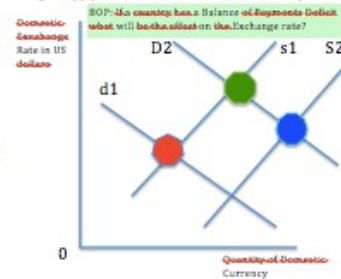
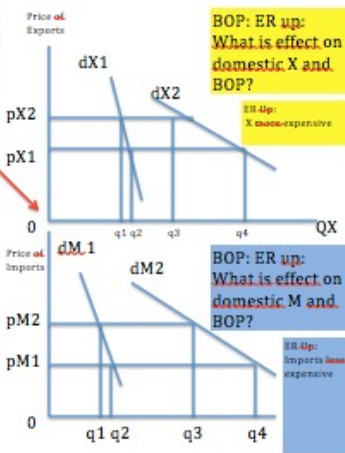


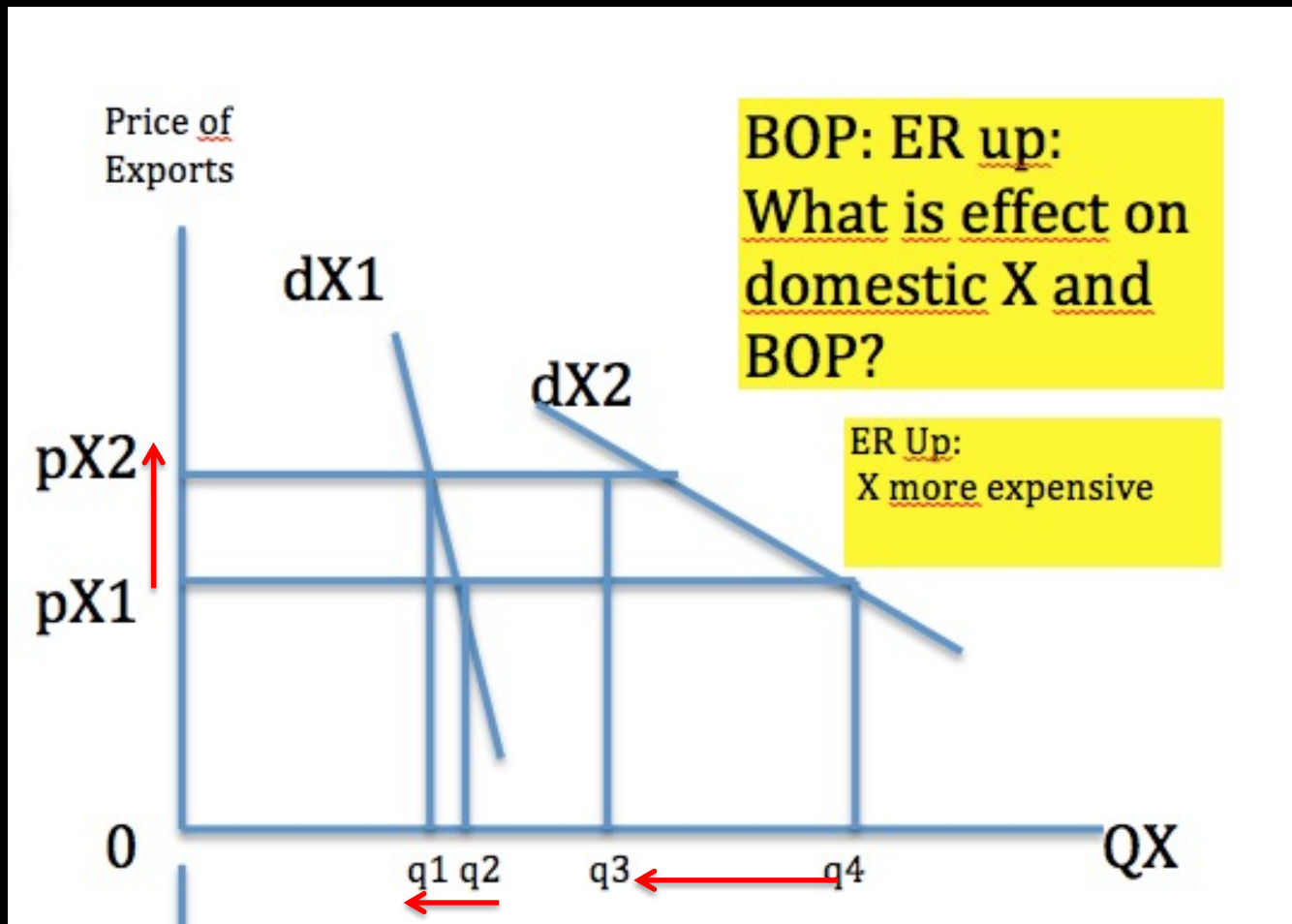
Fig.1 Supply and Demand of Domestic Currency



HL: Only  
Fig.2 Demand for Domestic Exports-Imports



# Currency Impact



# Bop - Inflow

D=  
demand  
for  
domestic  
currency

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

D

# BoP - Outflow

S=  
supply  
for  
domestic  
currency

1. Imports  
-visible  
-invisible
2. Saving  
- foreigners  
send money  
out of country  
to family  
abroad  
- domestic  
firms invest  
abroad
3. Speculation  
-speculators  
selling  
domestic  
currency

S

# BOP – macro impact

$$\text{AD (national income spending)} \\ = C + I + G + (X - M)$$

What happens in the BOP affects exchange rates and this has an impact on the AD of the economy.

**BOP:**

balance of payments  
affects the ER

**ER:** Exchange Rate  
affects the AD formula  
in terms of  $X + M$

