

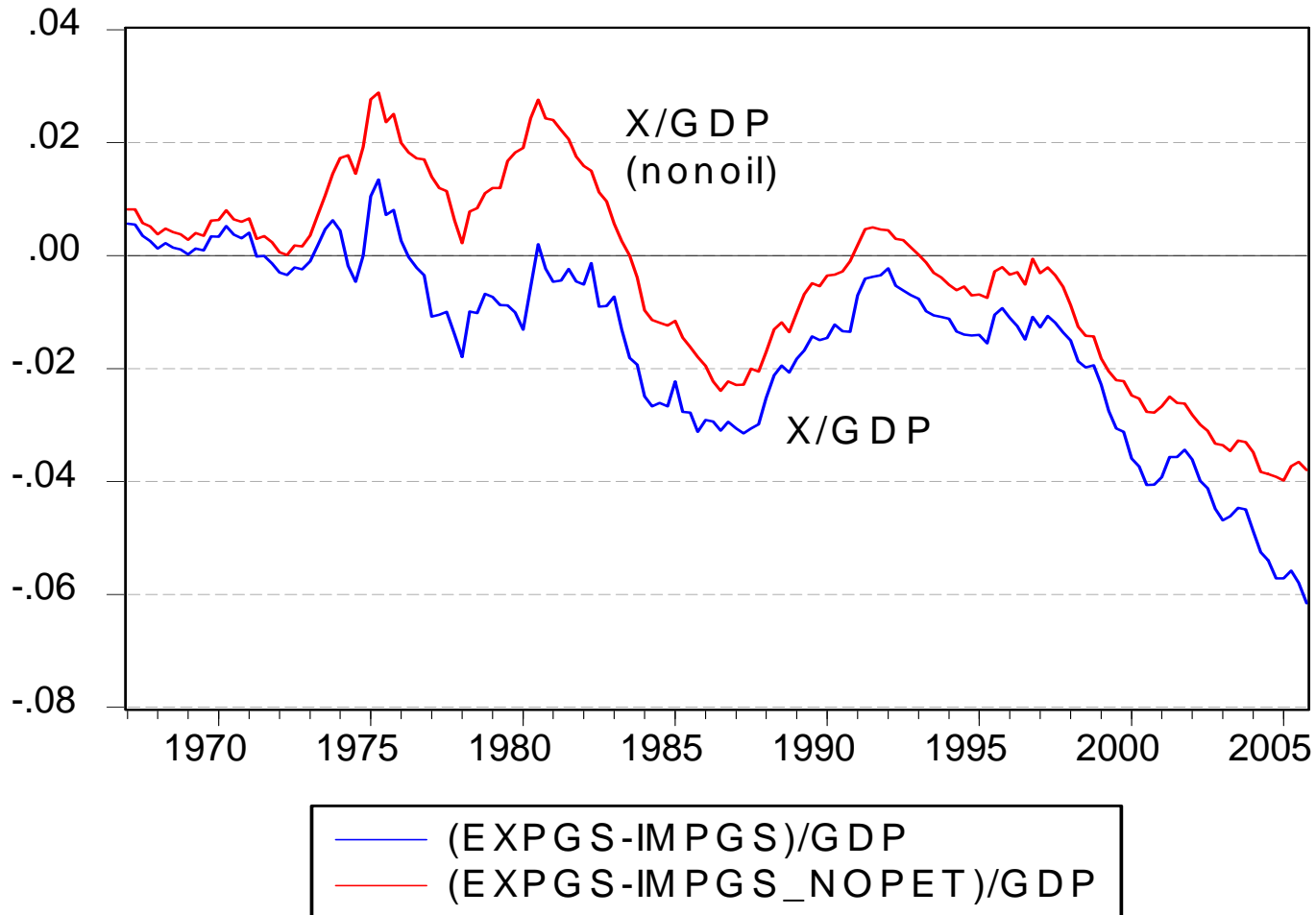
# **Key International Macroeconomic Issues**

Instructor: Menzie Chinn

Economics 302

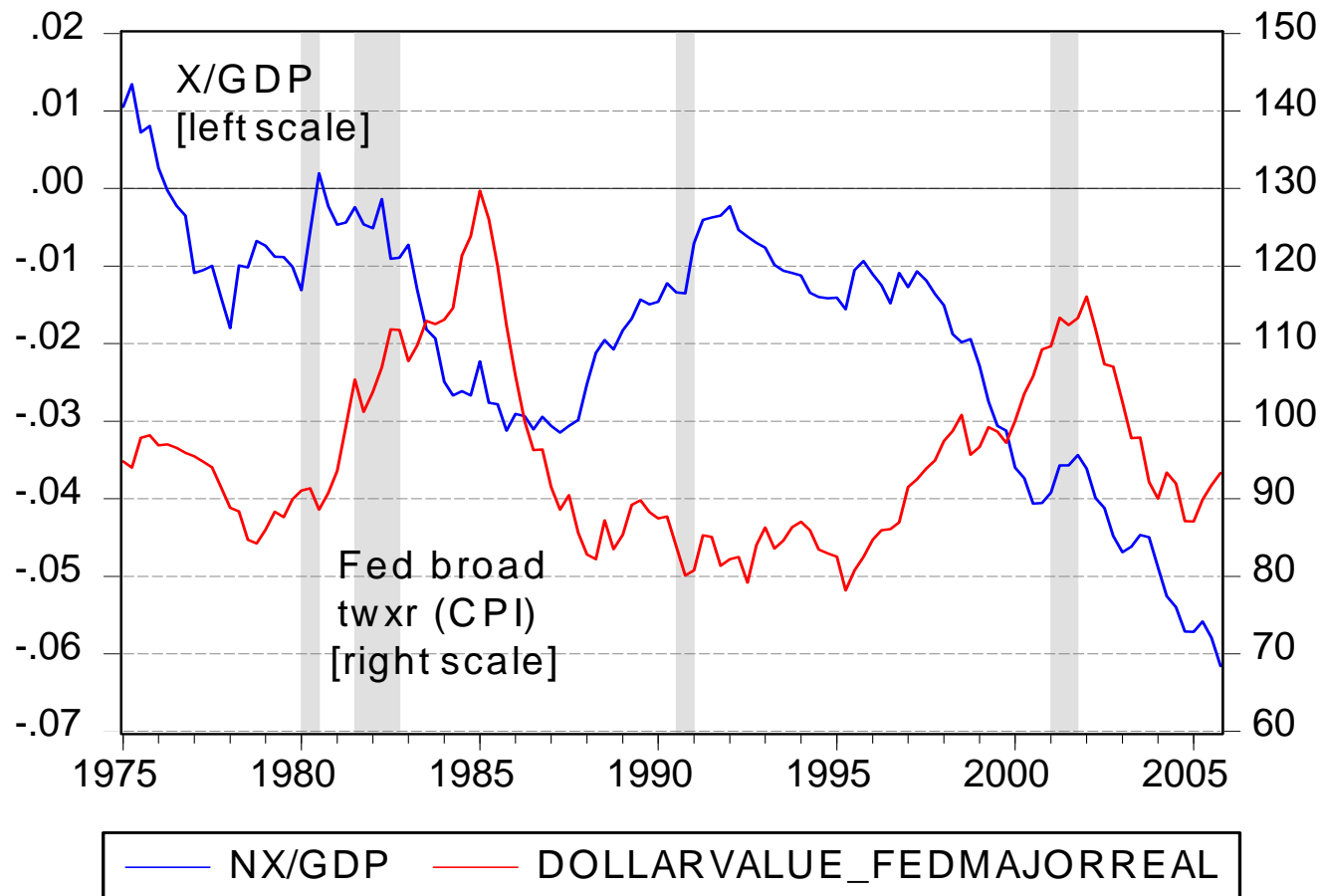
Spring 2006

# Net Exports/GDP

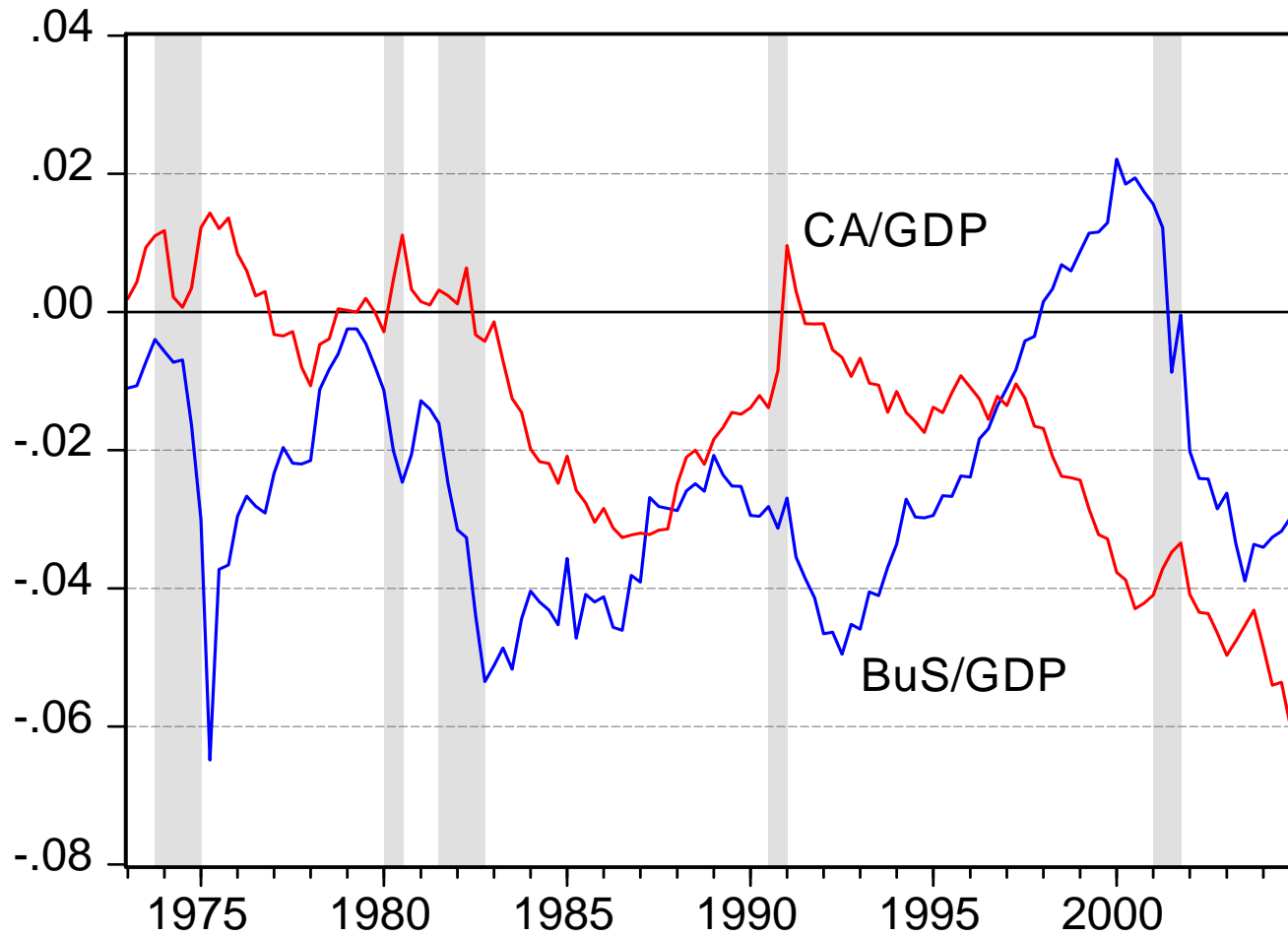


Source: BEA

# Net Exports and Dollar Value

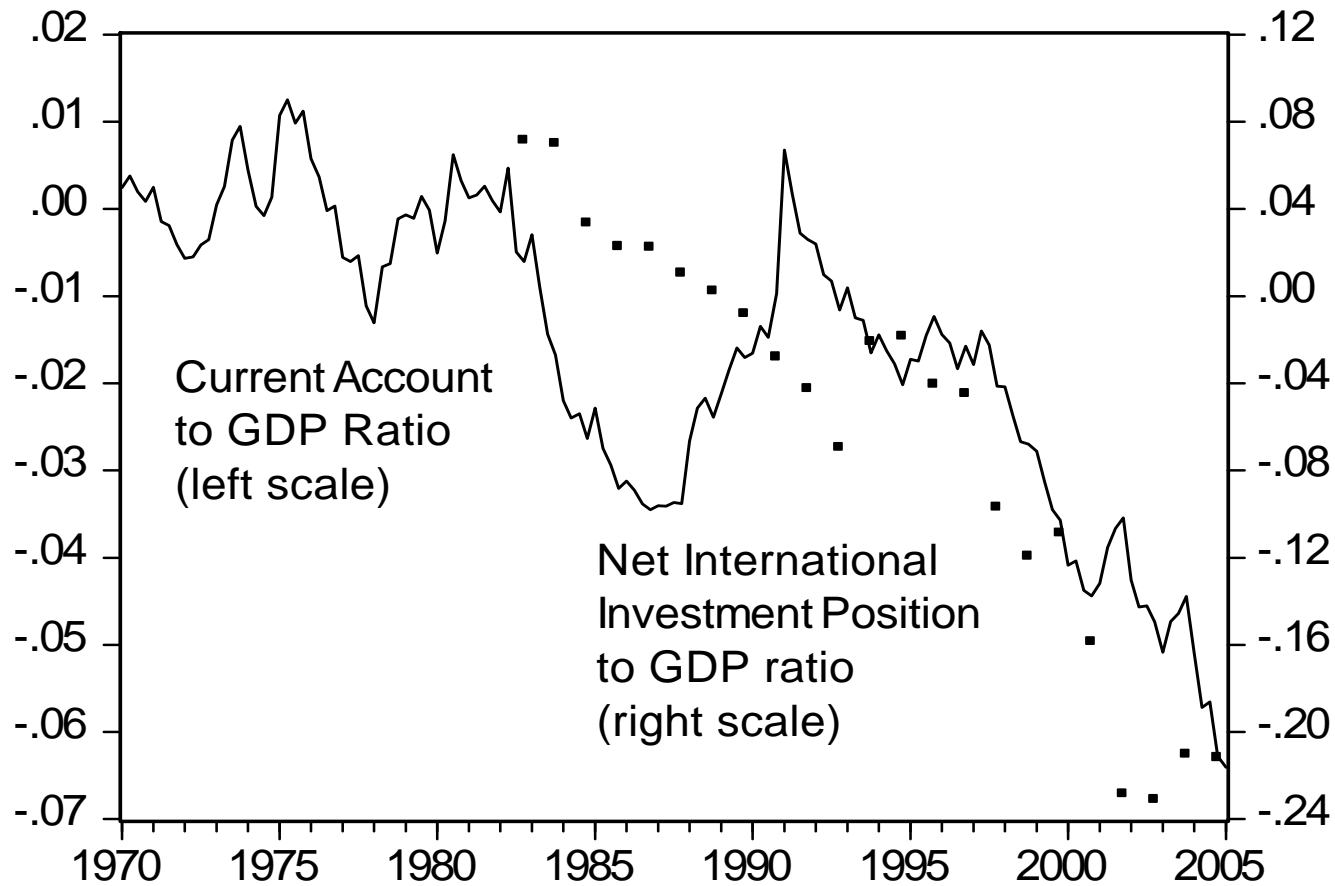


# The current acct. & budget deficit

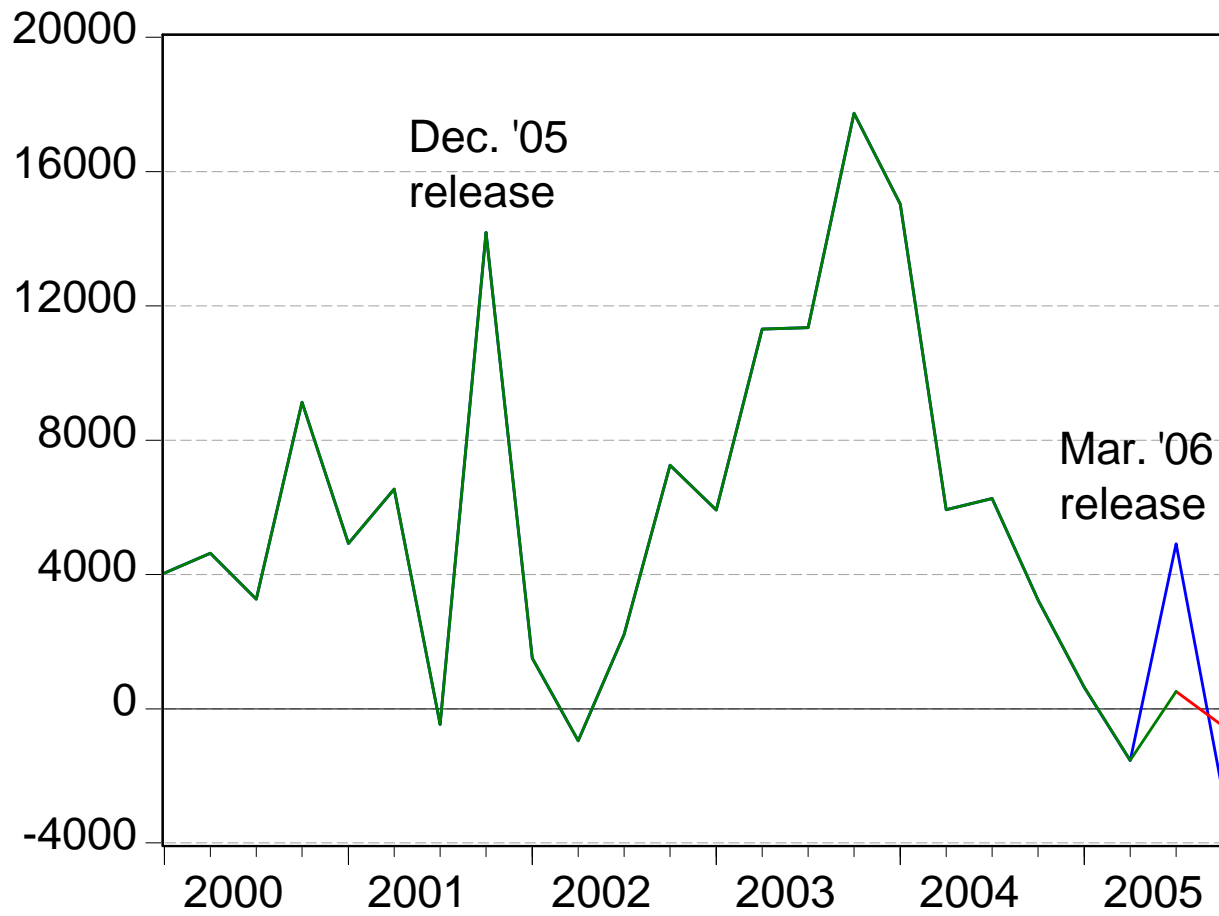


Source: BEA

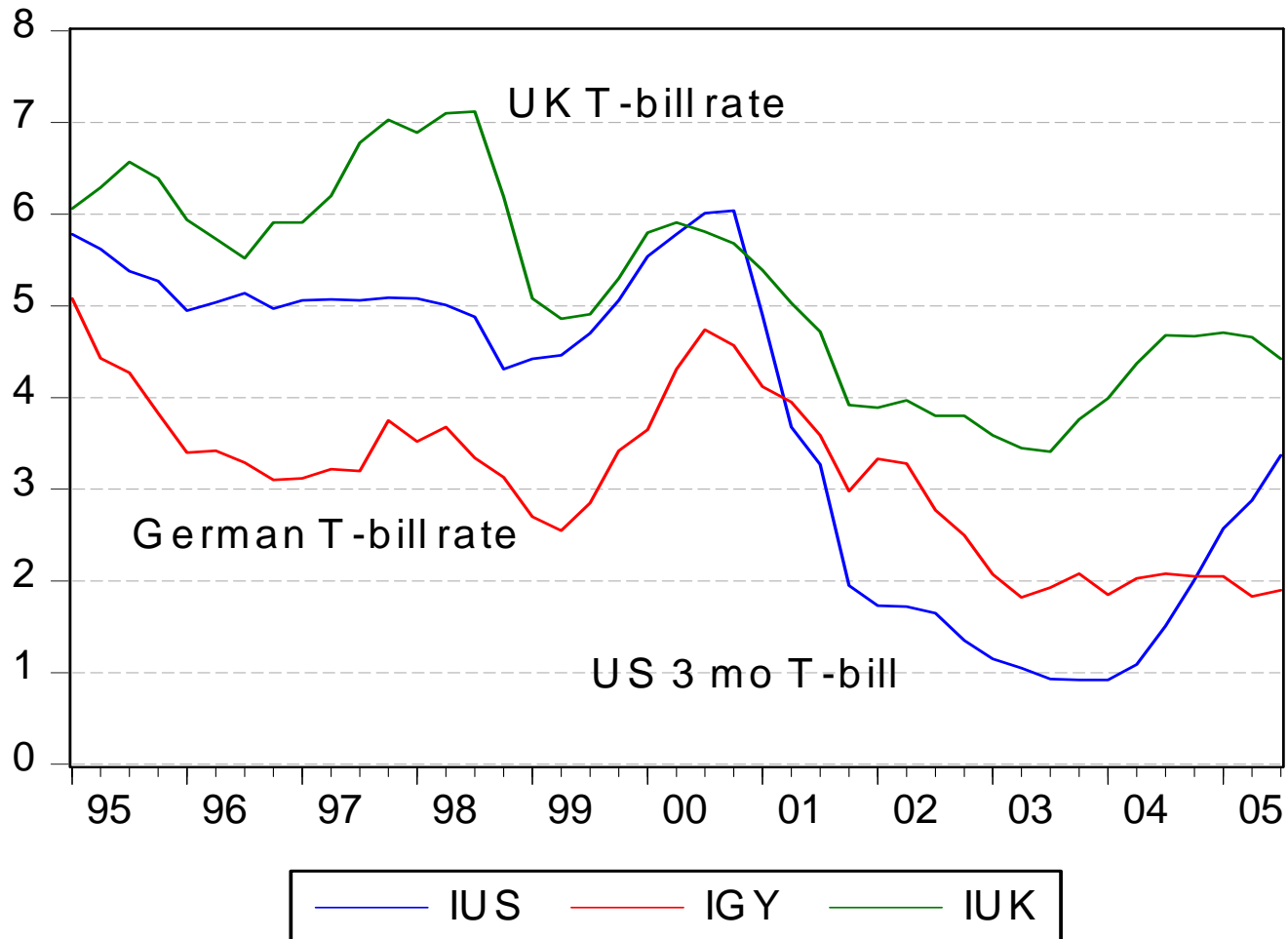
# US Net Int'l Inv. Position to GDP



# Net Income



# Interest Rates

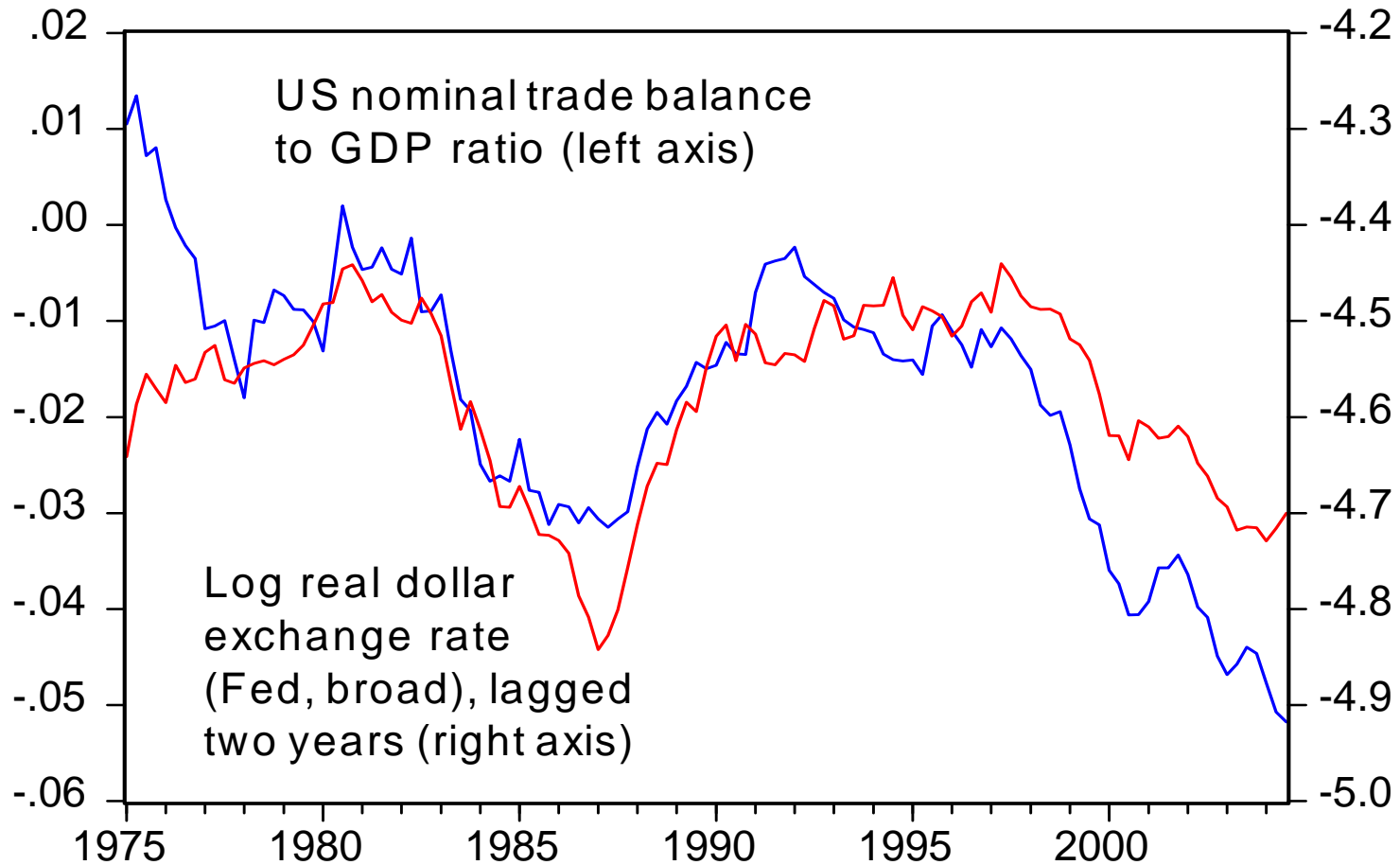


# Policy options

- Dollar depreciation
- Hoping for foreign growth
- Banking on the Chinese
- Monetary policy
- Fiscal restraint



# Dollar depreciation as panacea?

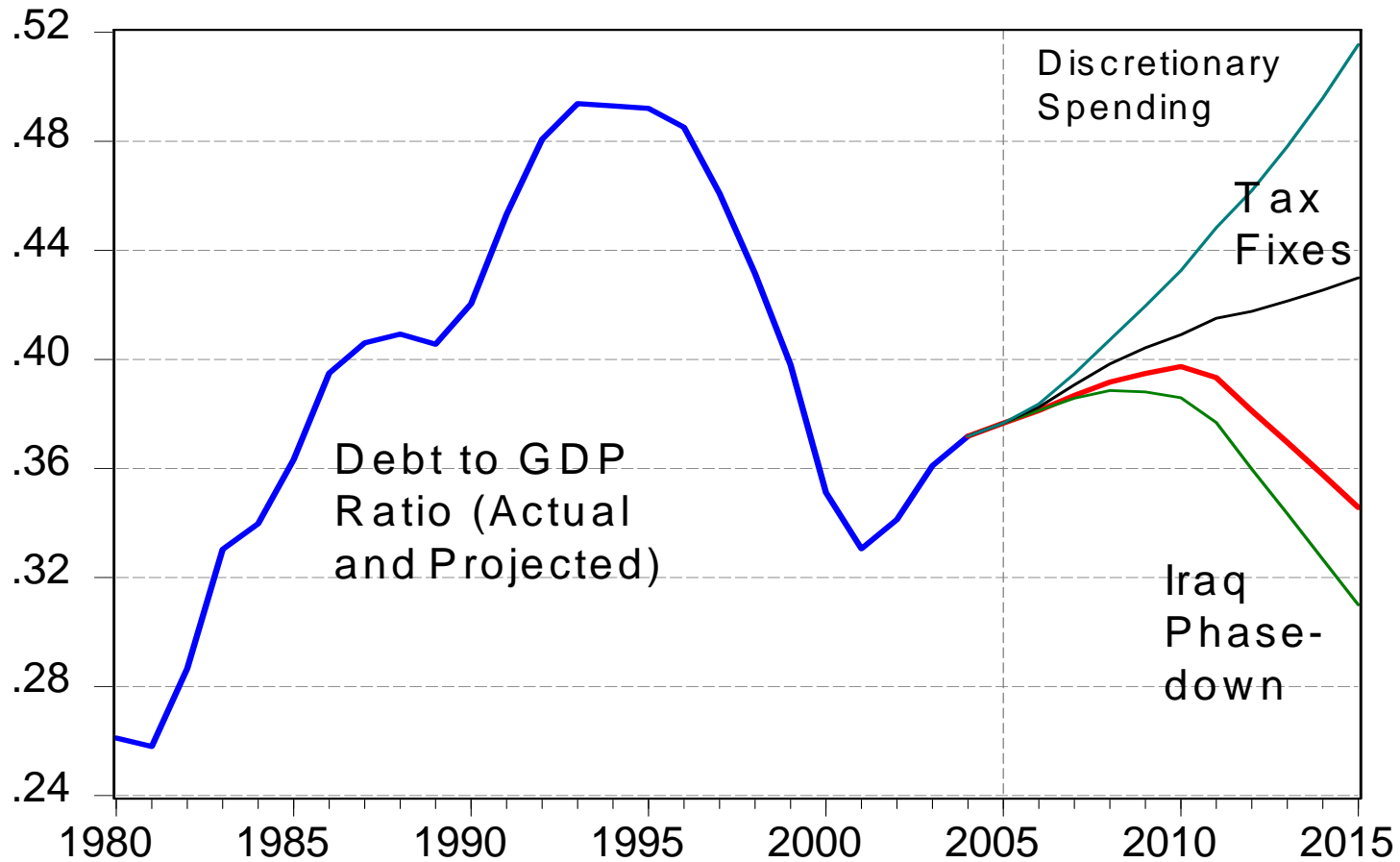


Sources: BEA and Fed

# The import of fiscal policy

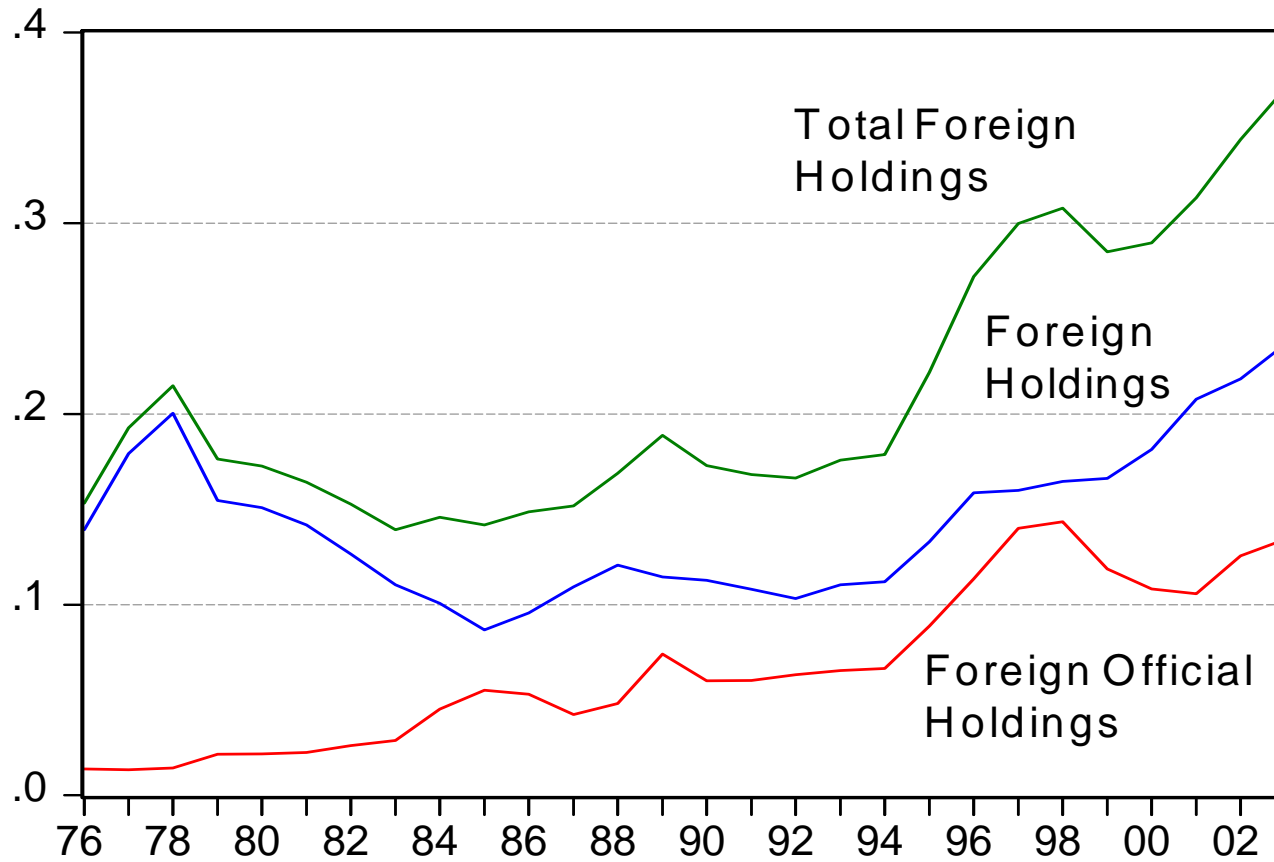
- No other viable options (can't bet on future revaluation shocks)
- Stabilization of the CA is not the same as sustainability
- Given US growth and investor preferences, govt debt accumulation pins down the CA over time

# Fiscal policy & and CA sustainability



Source: CBO (Aug. 2005)

# Foreign Holdings of Treasuries



Treasuries *normalized* by  
govt. debt held by public

Source: BEA

# Implications of fiscal restraint

**Table A4. Tax Cut, United States**

(Drop in wage and salary tax rate of 1 percent of GDP)

Deviations from baseline, in percent

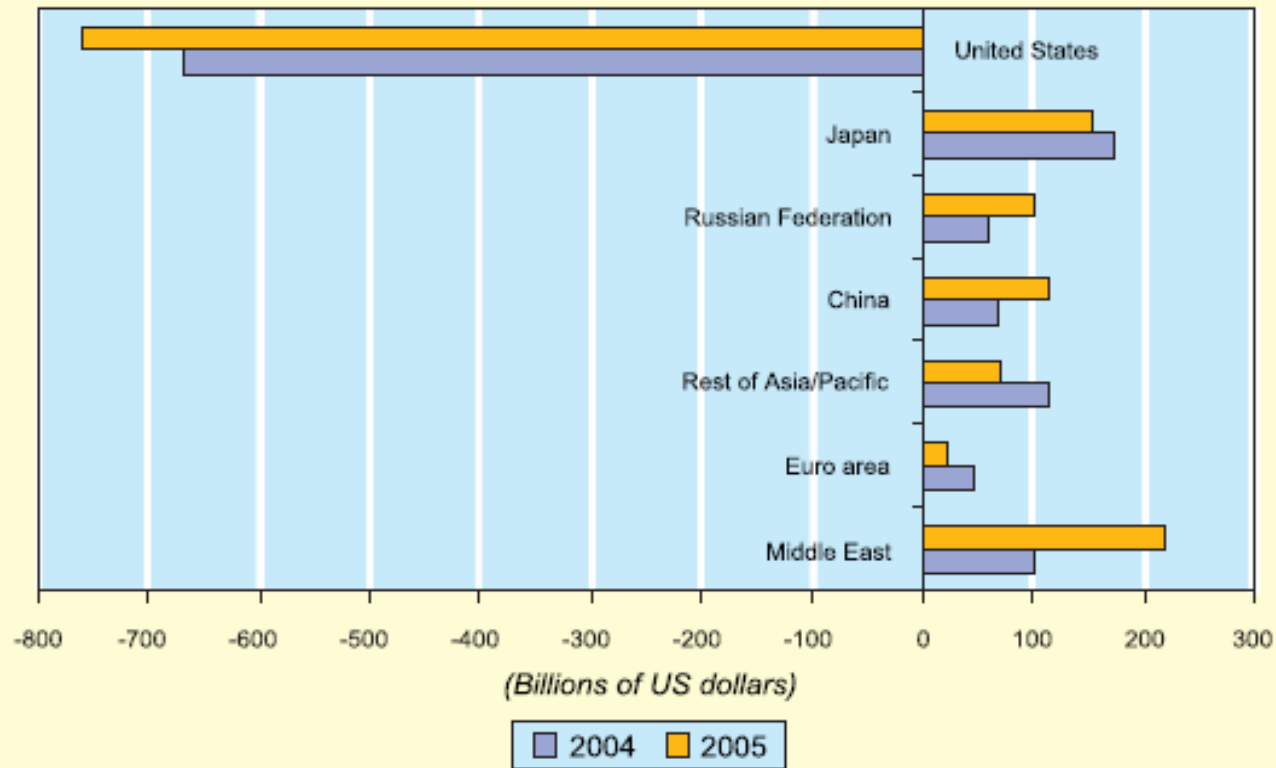
|                             | Years after shock |      |      |      |      |
|-----------------------------|-------------------|------|------|------|------|
|                             | 1                 | 2    | 3    | 4    | 5    |
| <b>United States</b>        |                   |      |      |      |      |
| GDP Level                   | 0.4               | 0.8  | 0.8  | 0.6  | 0.4  |
| Inflation (Consumer Prices) | 0.1               | 0.3  | 0.7  | 1.0  | 1.2  |
| Current account (% GDP)     | -0.2              | -0.3 | -0.3 | -0.4 | -0.5 |
| Govt net lending (% GDP)    | -0.9              | -0.8 | -0.8 | -0.9 | -1.1 |

Source: Dalsgaard, André and Richardson (OECD WP #306, 2001)

# Global Rebalancing

# Global Rebalancing

Figure 3. Current account balances for selected economies, 2004-2005



Source: IMF, *World Economic Outlook, September 2005: Building Institutions* (Washington, D.C., IMF, 2005).

Notes: Figures for 2005 and 2006 are IMF projections.

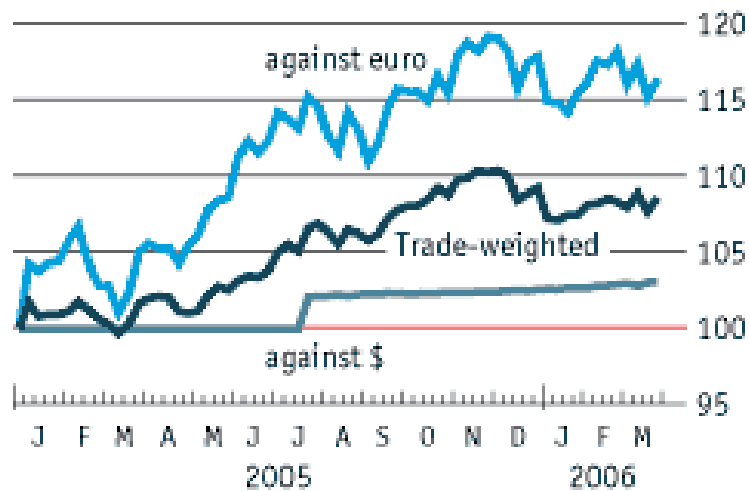
Source: UN ESCAP, *Key Economic Developments and Prospects in the Asia-Pacific Region 2006* (Dec. 2005)

# Where does China fit in?

## The great crawl of China

The yuan:

January 1st 2005=100



Real trade-weighted exchange rate, 2000=100



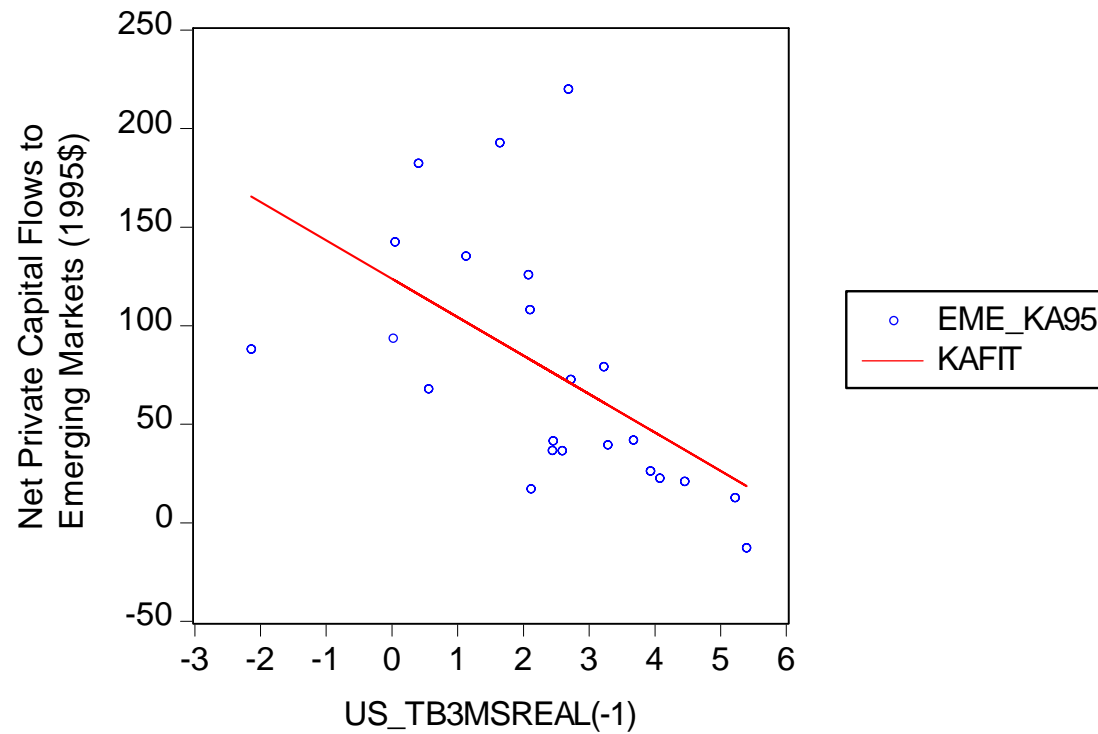
Sources: Thomson Datastream; JPMorgan Chase



# Implications for Emerging Markets

- As US interest rates rise, US growth falls
- As US interest rates rise, asset prices in emerging markets fall
- This could lead to financial crises

# Capital Flows to Emerging Markets



# What Have Real Interest Rates Done Recently?

