UNIT 5 – The open economy

5.1 Introduction to Open Economy Macroeconomics
• Dimensions of openness
• Measures of trade openness
• Exchange rate concepts
• The importance of international financial transactions
• Balance of payments accounts and national income and product accounts
• Macroeconomic identities in an open economy
• Income, expenditure and the Current Account
• The disposition of national Savings and the financing of domestic investment.
• The composition of the Current Account

5.2 Goods markets and financial markets in an open economy
Goods markets
• Domestic demand and demand of domestic goods
• The determinants of imports and exports
•Equilibrium output and the trade balance
• Changes in domestic demand and in foreign demand: comparison
• Fiscal policy revisited
• Depreciation and the trade balance
• Fiscal policies and exchange rate policies
Financial markets
• Choice between domestic and foreign assets
• Interest rates and exchange rates: the uncovered interest parity condition (UIP)
• The UIP as a condition on the exchange rate
• "Sudden stops and limits of the UIP.

5.3 Output, the interest rate and the exchange rate: the basic IS-LM in an open economy
• Goods markets equilibrium and financial markets equilibrium.
• The IS curve in an open economy
• IS-LM in an open economy (under floating exchange rates and perfect capital mobility)
• Monetary policy in an open economy: the transmission mechanisms
• Fiscal policy in an open economy
• Effects of international real and financial shocks.
• Exchange rate regimes (definitions and comment on data)
• Fixed Exchange rates under perfect capital mobility
• Monetary policy under fixed exchange rates and perfect capital mobility.
• Fiscal policy under fixed exchange rates.
• International financial shocks under fixed exchange rates.