

## **Balance of Payments Accounting**

■ Distinguish between the current account and the capital account in our balance of payments.

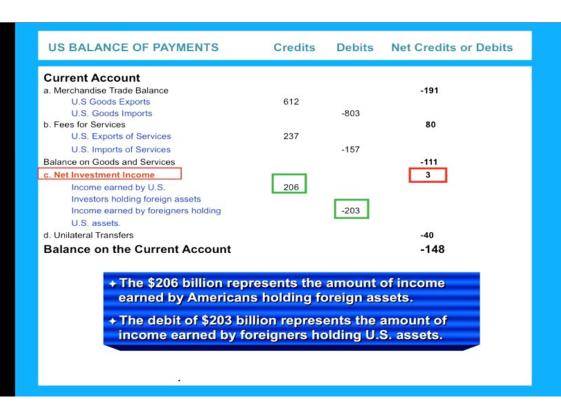
## **The Trade Identity Equation**

If a country runs a trade deficit in its current account, it must balance that deficit with inflows into its capital account!

US BALANCE OF PAYMENTS	Credits	Debits	Net Credits or Debits
Current Account a. Merchandise Tade Balance	125 (20		-191
U.S Goods Exports U.S. Goods Imports b. Fees for Services	612	-803	80
U.S. Exports of Services U.S. Imports of Services Balance on Goods and Services	237	-157	-111
c. Net Investment Income Income earned by U.S.	206		3
Investors holding foreign assets Income earned by foreigners holding U.S. assets.		-203	
d. Unilateral Transfers  Balance on the Current Account			-40 -148
Capital Account			
a. Foreign purchases of assets in the United States     b. U.S. purchases of assets abroad	517	-376	
Balance on Foreign/U.S. Purchases c. Official reserves			141 7
Balance on Capital Account Sum of Current and Capital Accounts			-148 -0-

Current Account			
. Merchandise Trade Balance			-191
U.S Goods Exports	612	000	
U.S. Goods Imports Fees for Services		-803	80
U.S. Exports of Services	237		00
U.S. Imports of Services		-157	
salance on Goods and Services			-111
. Net Investment Income			3
Income earned by U.S.	206		
Investors holding foreign assets		-203	
Income earned by foreigners holding U.S. assets		-203	
Unilateral Transfers			-40
Balance on the Current Account			-148
The merchandise			
fuels and manufa			AND DESCRIPTION OF THE PERSON

US BALANCE OF PAYMENTS	Credits	Debits	Net Credits or Debits
Current Account			
. Merchandise Trade Balance	212		-191
U.S Goods Exports U.S. Goods Imports	612	-803	
Fees for Services		-003	80
U.S. Exports of Services	237		
U.S. Imports of Services		-157	
alance on Goods and Services			-111
. Net Investment Income			3
Income earned by U.S.	206		
Investors holding foreign assets Income earned by foreigners holding		-203	
U.S. assets		-203	
. Unilateral Transfers			-40
Salance on the Current Account			-148
+ Fees for services income and foreign travel.	lude shipp	ing, fina	ncial services,
+ This category has be the U.S. has shifted f to a more service-ori	rom a man	ufacturin	



US BALANCE OF PAYMENTS	Credits	Debits	Net Credits or Debits
Current Account			
. Merchandise Trade Balance			-191
U.S Goods Exports	612		
U.S. Goods Imports		-803	
. Fees for Services			80
U.S. Exports of Services	237		
U.S. Imports of Services		-157	
Balance on Goods and Services			-111
. Net Investment Income			3
Income earned by U.S.	206		
Investors holding foreign assets			
Income earned by foreigners holding		-203	
U.S. assets.			
I. Unilateral Transfers			-40
Balance on the Current Account			-148

## The Capital Account

- One part of the capital account shows "officialreserve changes."
- When all countries have purely marketdetermined exchange rates, the category equals zero.
- When countries "intervene" in foreign exchange markets, they attempt to affect the exchange rate by buying and selling foreign currencies.

US BALANCE OF PAYMENTS	Credits	Debits	Net Credits or Debits
Current Account			
a. Merchandise Trade Balance			-191
U.S Goods Exports	612	1000	
U.S. Goods Imports		-803	
b. Fees for Services	237		80
U.S. Exports of Services	237	-157	
U.S. Imports of Services Balance on Goods and Services		-157	-111
Data to otto data data data to trade			
c. Net Investment Income	200		3
Income earned by U.S. Investors holding foreign assets	206		
Income earned by foreigners holding		-203	
U.S. assets		-203	
d. Unilateral Transfers			-40
Balance on the Current Account			-148
Balance on the Current Account			-140
Capital Account			
a. Foreign purchases of assets in	517		
the United States			
b. U.S. purchases of assets abroad		-376	
Balance on Foreign/U.S. Purchases			141
c. Official reserves			7
Balance on Capital Account			148
Sum of Current and Capital Accounts	•		-0-

