

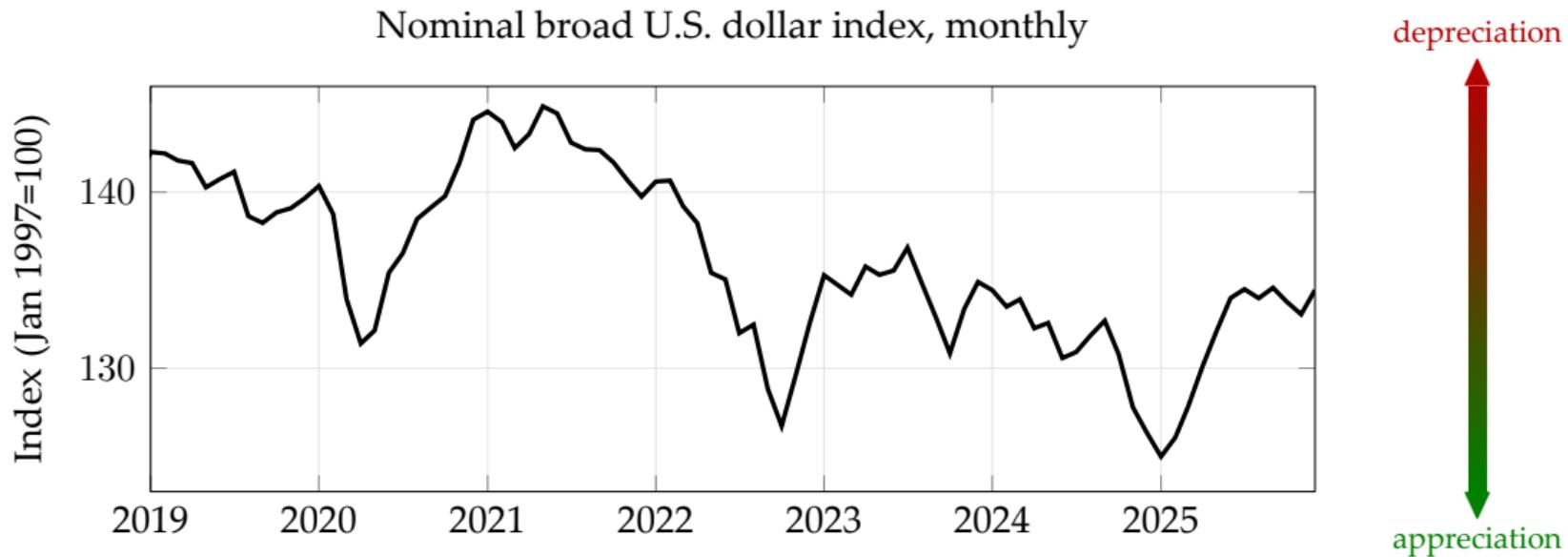
# ECON 1550: International Finance

## A Tour of the Class

# What is International Finance?

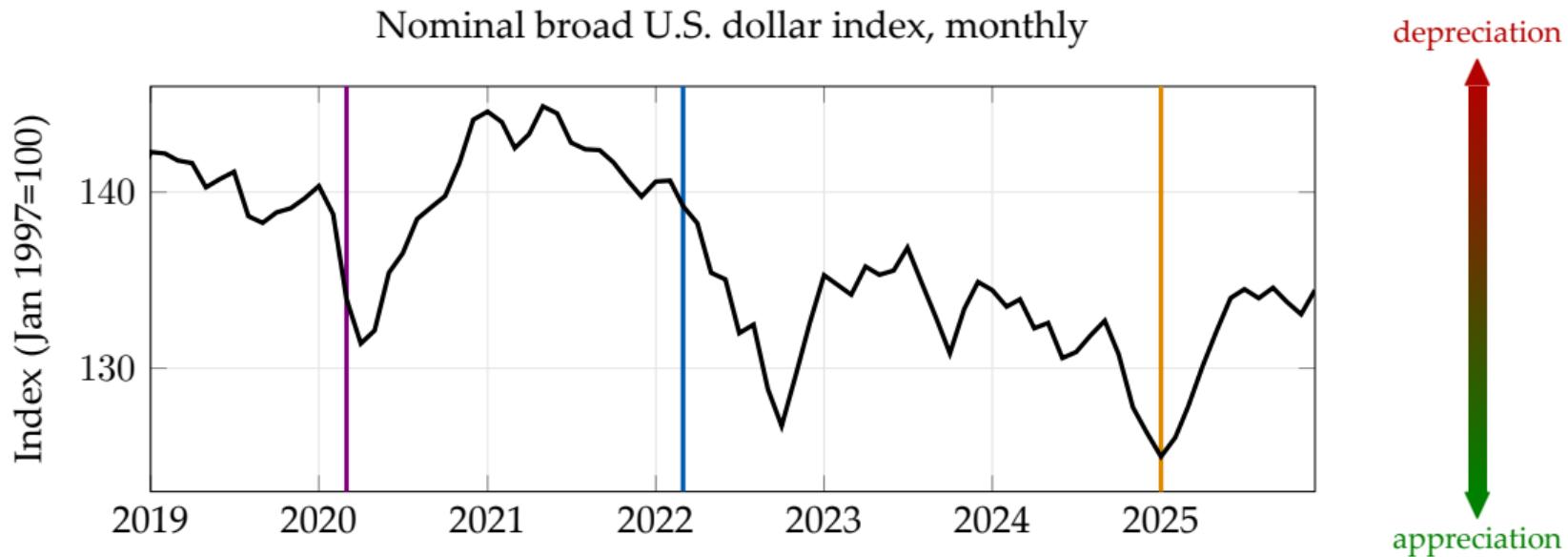
- Extension of Intermediate Macro to open economies
- Open economies:
  - Imports and Exports
  - $Y = C + I + G$  becomes  $Y = C + I + G + EX - IM$
- Why finance?
  - Exports and imports must be paid for!
  - If a country imports more than it exports, it must issue IOUs
  - IOUs are *financial assets*
  - $EX - IM$  = change in net foreign wealth

# Dollar Exchange Rate: 2019–present



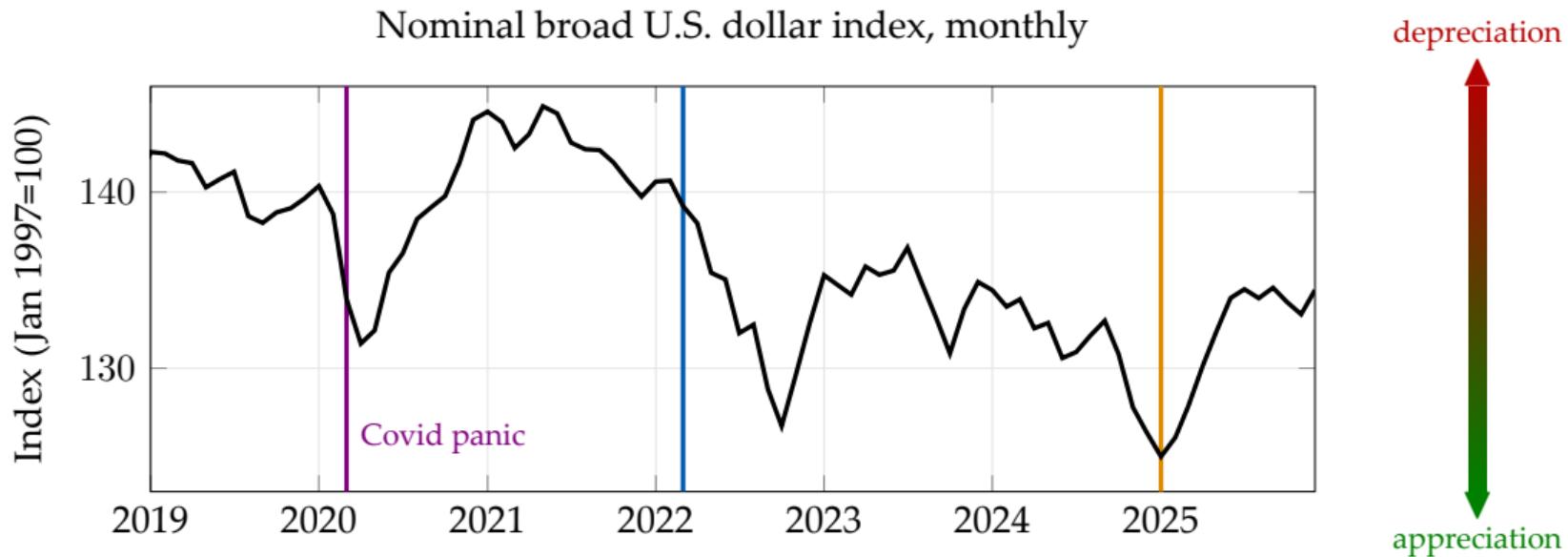
Source: Board of Governors of the Federal Reserve System (US) via FRED (TWEXBMTH and TWEXBGSMTH, spliced).

# Dollar Exchange Rate: 2019–present



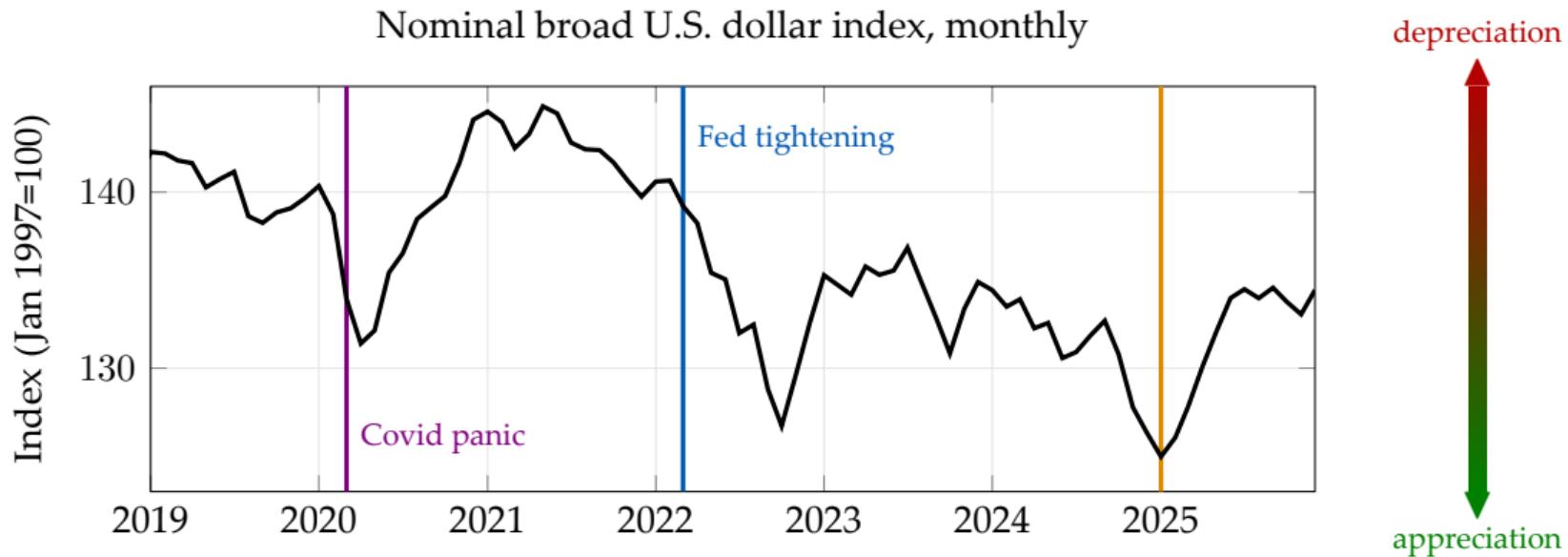
Source: Board of Governors of the Federal Reserve System (US) via FRED (TWEXBMTH and TWEXBGSMTH, spliced).

# Dollar Exchange Rate: 2019–present



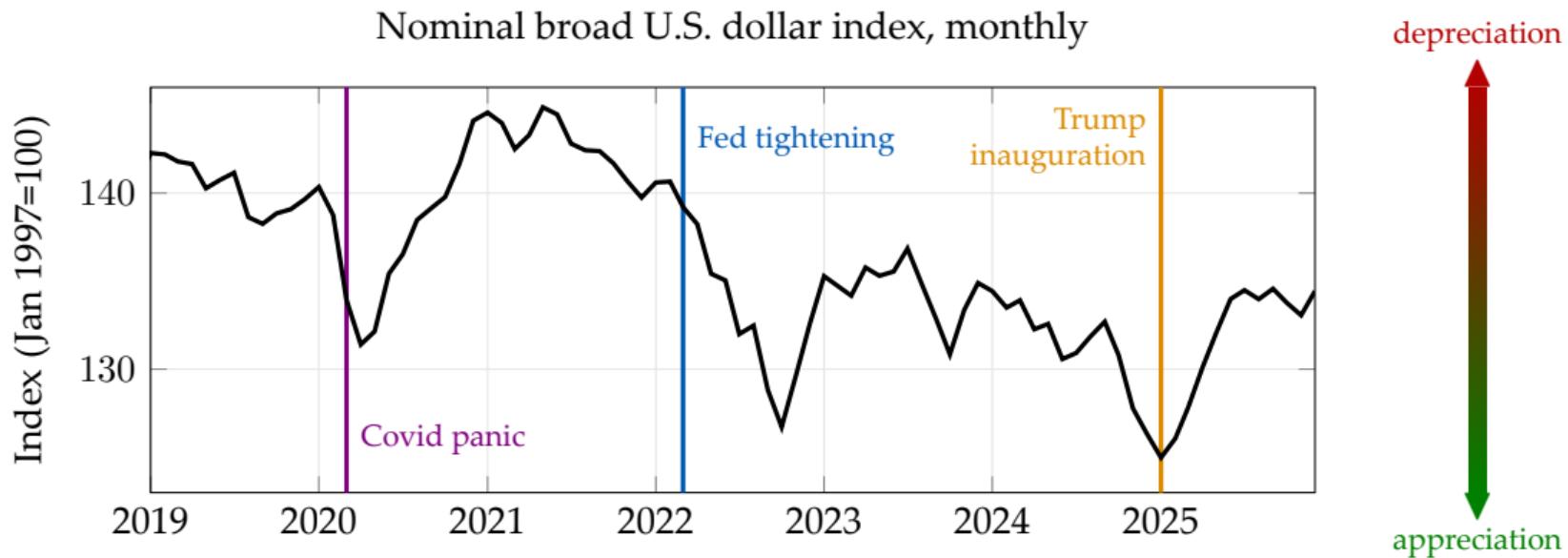
Source: Board of Governors of the Federal Reserve System (US) via FRED (TWEXBMTH and TWEXBGSMTH, spliced).

# Dollar Exchange Rate: 2019–present



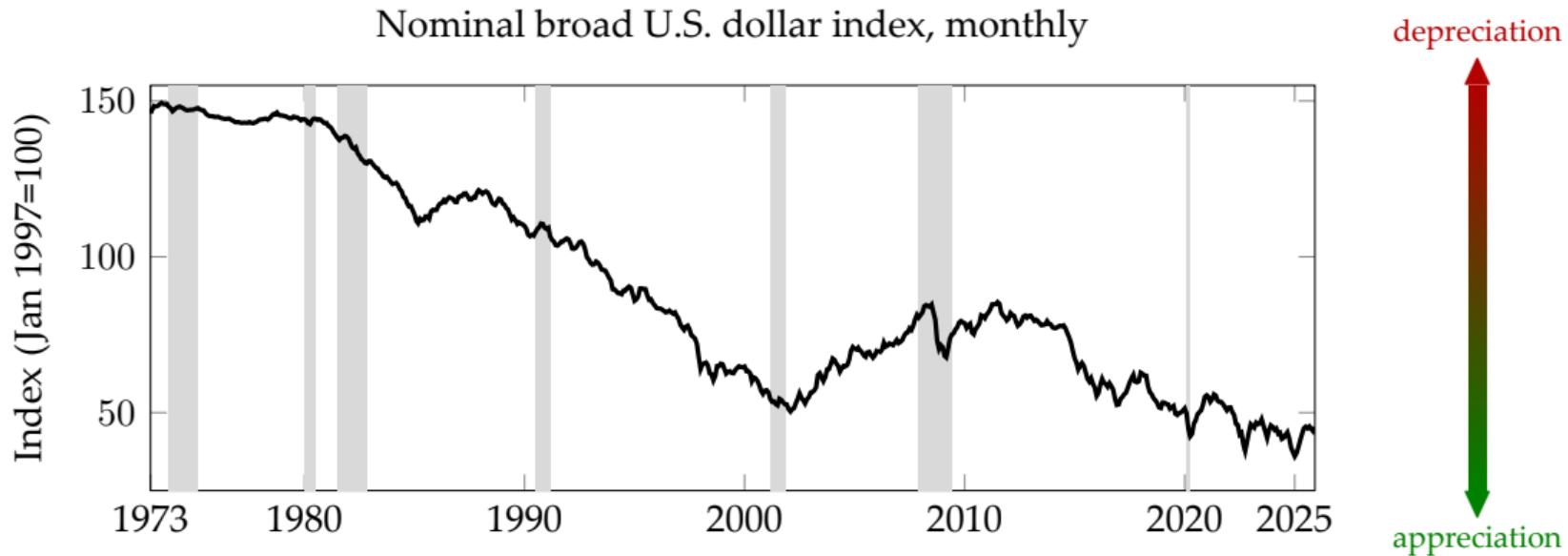
Source: Board of Governors of the Federal Reserve System (US) via FRED (TWEXBMTH and TWEXBGSMTH, spliced).

# Dollar Exchange Rate: 2019–present



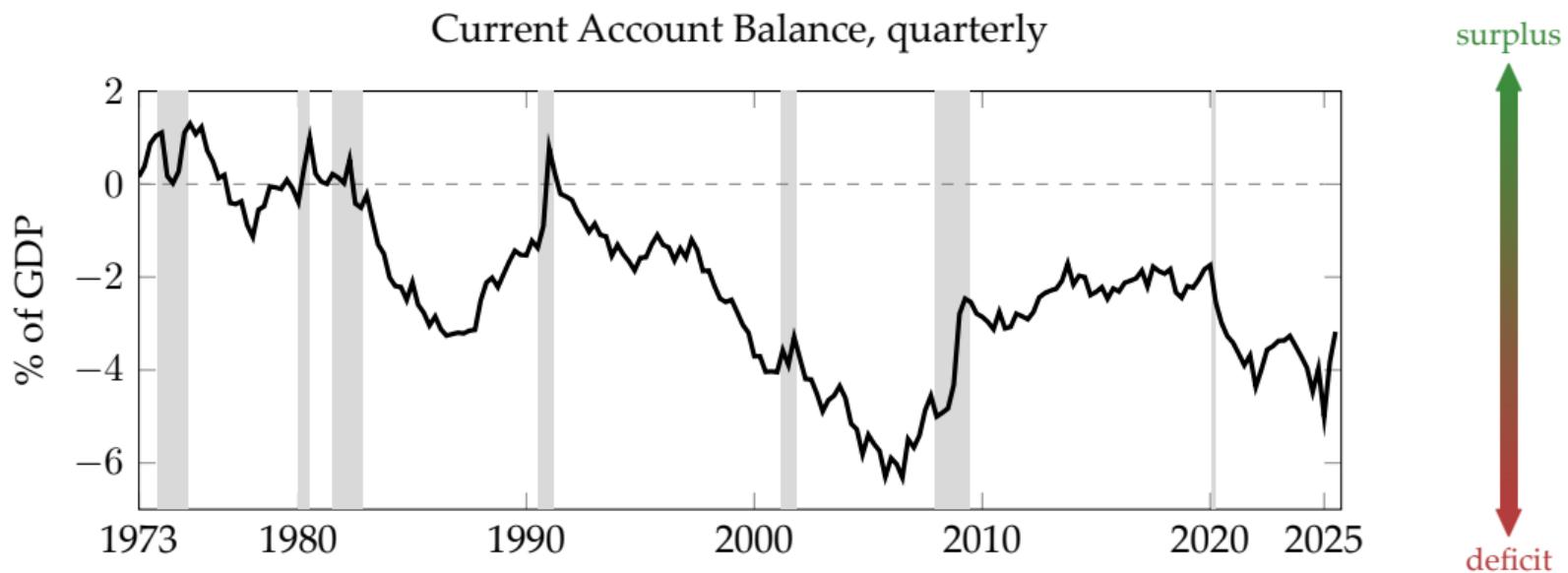
Source: Board of Governors of the Federal Reserve System (US) via FRED (TWEXBMTH and TWEXBGSMTH, spliced).

# Dollar Exchange Rate: 1973–present

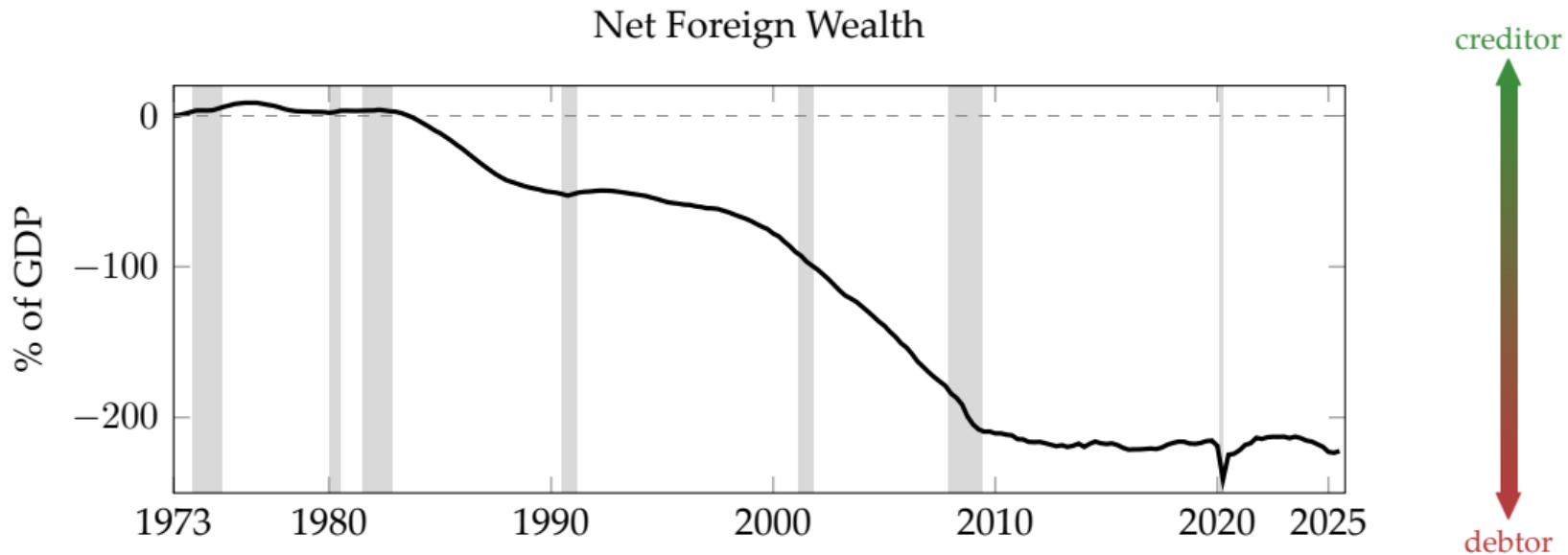


Source: Board of Governors of the Federal Reserve System (US) via FRED (TWEXBMTH and TWEXBGSMTM, spliced).

# U.S. Current Account Balance: 1973–present



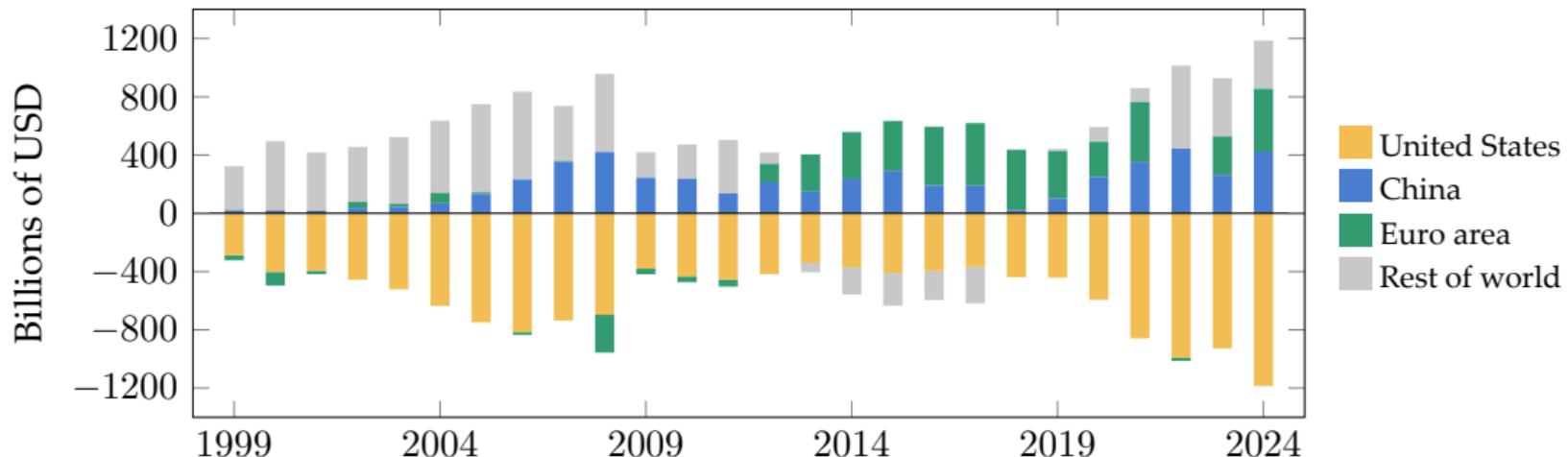
# Net Foreign Wealth



Source: BEA via FRED (NETFI, GDP). Constructed NFW = cumulative current account / GDP.

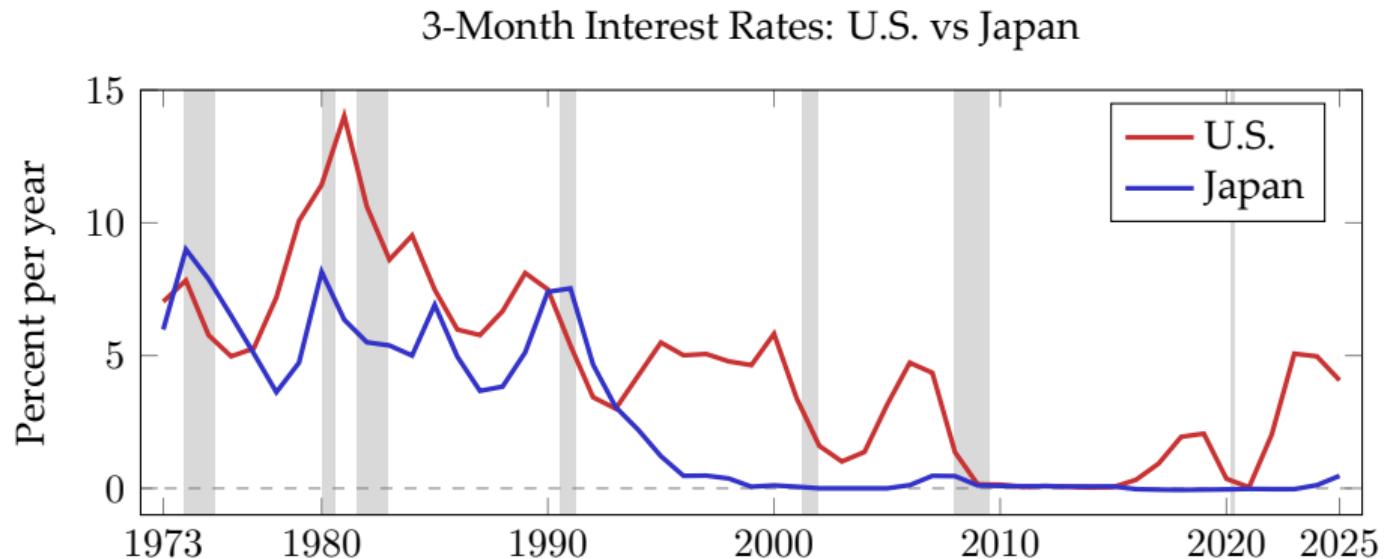
# Global External Imbalances

Current Account Balances by Region, 1999–2024



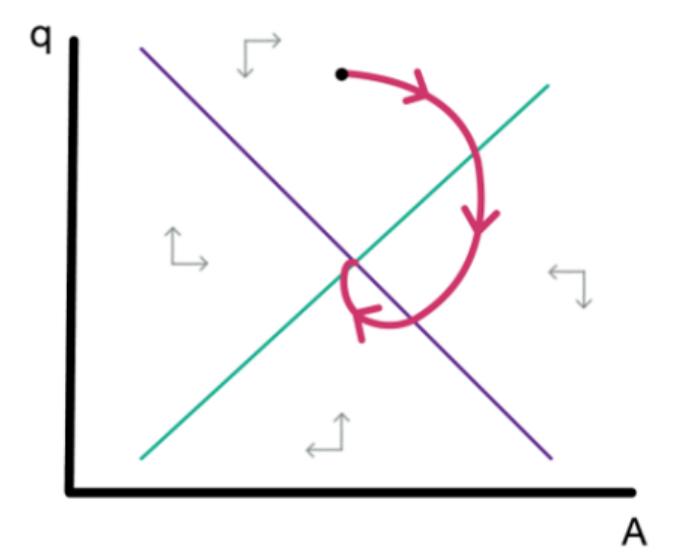
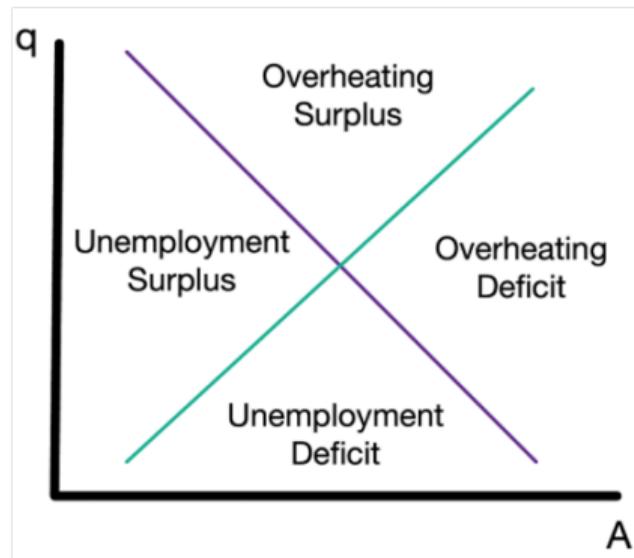
Source: IMF DataMapper API, WEO, indicator BCA (current account balance, billions USD). Rest of world = residual to balance global accounts.

# Large Interest Rate Differentials

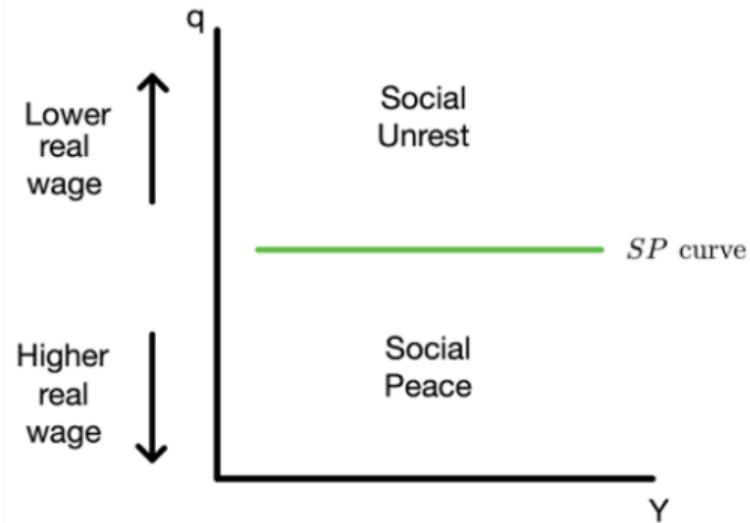
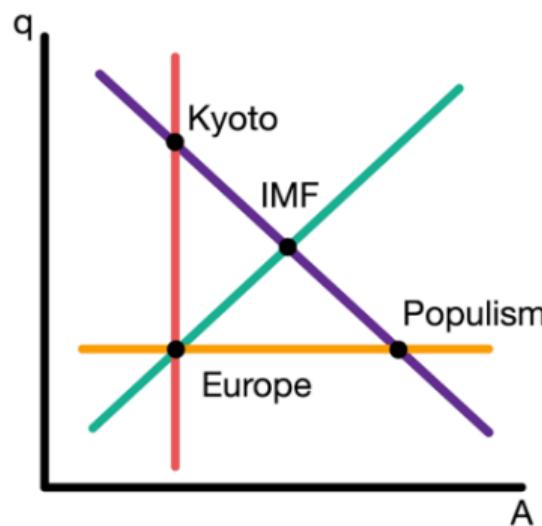


Source: FRED. US: TB3MS (3-month T-bill). Japan: IRSTCB01JPM156N (central bank rate, 1973–84), IRSTCI01JPM156N (call money rate, 1985–present). Annual averages.

# Exchange Rate Dynamics



# Policy Trade-offs



# Takeaways

- **To remember:** International finance connects exchange rates, trade balances, interest rates, and policy choices
- **To do for Friday:**
  - Read the note “Models in Economics”
  - Complete the “Getting Started” module on Canvas