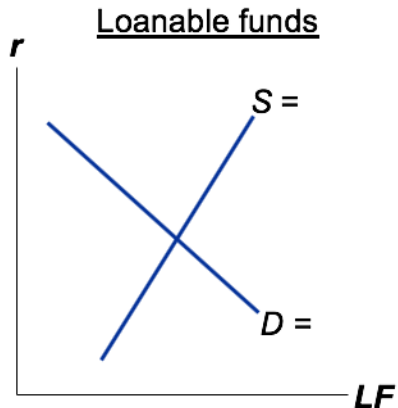


"The main purpose in studying economics is to avoid being fooled by economists." -Joan Robinson

Eco300 Macroeconomic Theory
9/26/2019 in-class activity- Open Economy

Name _____

Suppose the government runs a budget deficit (previously, the budget was balanced). Use the appropriate diagrams to determine the effects on the real interest rate and net capital outflow.



Initially, the government budget is balanced and trade is balanced ($NX = 0$). Suppose the government runs a budget deficit. As we saw earlier, r rises and NCO falls. How does the budget deficit affect the U.S. real exchange rate? The balance of trade?

