



Lecture 3

- Double-Entry bookkeeping
- BOP summary sheet
- Central bank operations

Double-Entry Bookkeeping

- Credit items (cash ins or capital inflows):
 - items give rise to payments inward to the country
- Debit items (cash outs or capital outflows):
 - items give rise to payments outward from country
- Examples:
 - X, M, services, transfers, investment, reserves
- Balance of Payments:
 - ◆ Def. 1: $BOP = C/A + K/A = 0$
 - (each good is traded for sth. of equal value)
 - ◆ Def. 2: $BOP = \text{Official reserve transactions balance}$
 - $= I + II + III = -IV$

U.S. International Transactions, 1996/98 (in Billions of dollars)

	1996	1998
Exports of goods	\$611.7	\$670.2
Imports of goods	-\$799.3	-\$917.2
Balance of Trade	-\$187.7	
Exports of services	\$223.9	\$263.7
Imports of services	-\$150.4	-\$181.0
Balance on goods and services	-\$114.2	
Income receipts on U.S. assets abroad	\$196.9	\$258.3
Income payments on foreign assets in the U.S.	-\$205.3	-\$270.5
Balance on goods, services, and income	-\$122.6	
Unilateral transfers, net	-\$42.5	-\$44.1
(Government -\$18.9)	(-17.4)	
(Private -\$23.6)	(-26.7)	
Current account balance	-\$165.1	
U.S. official reserve assets, net (increase, -)	\$6.7	-\$6.8
U.S. government assets abroad, net (increase, -)	-\$0.7	-\$0.4
U.S. private assets abroad, net (increase -)	-\$312.8	-\$285.6
Foreign official assets in the U.S., net (increase +)	\$122.8	-\$21.7
Other foreign assets in the U.S., net (increase +)	\$402.3	\$524.3
Capital account balance	\$218.3	
Statistical discrepancy	-\$53.1	
Balance of Payments	0	

Central Bank Operations

- Implements domestic monetary policies:
 - ◆ Controls money supply:
 - ◇ Printing \$ or set reserve ratio (old fashion)
 - ◇ Open market operations
 - ◆ “Controls” interest rate:
 - ◇ Sets interbank lending rate and discount rate
- Implements foreign exchange rate policy:
 - ◆ Chooses either a fixed or a flexible regime
 - ◆ Holds a large amount of foreign currency (i.e. foreign official reserves)
 - ◆ Can affect the market rate by buying or selling currencies in the foreign exchange market (diagram)
 - ◇ BOP₂ excludes these transactions and hence shows the market performance in the absence of central banks