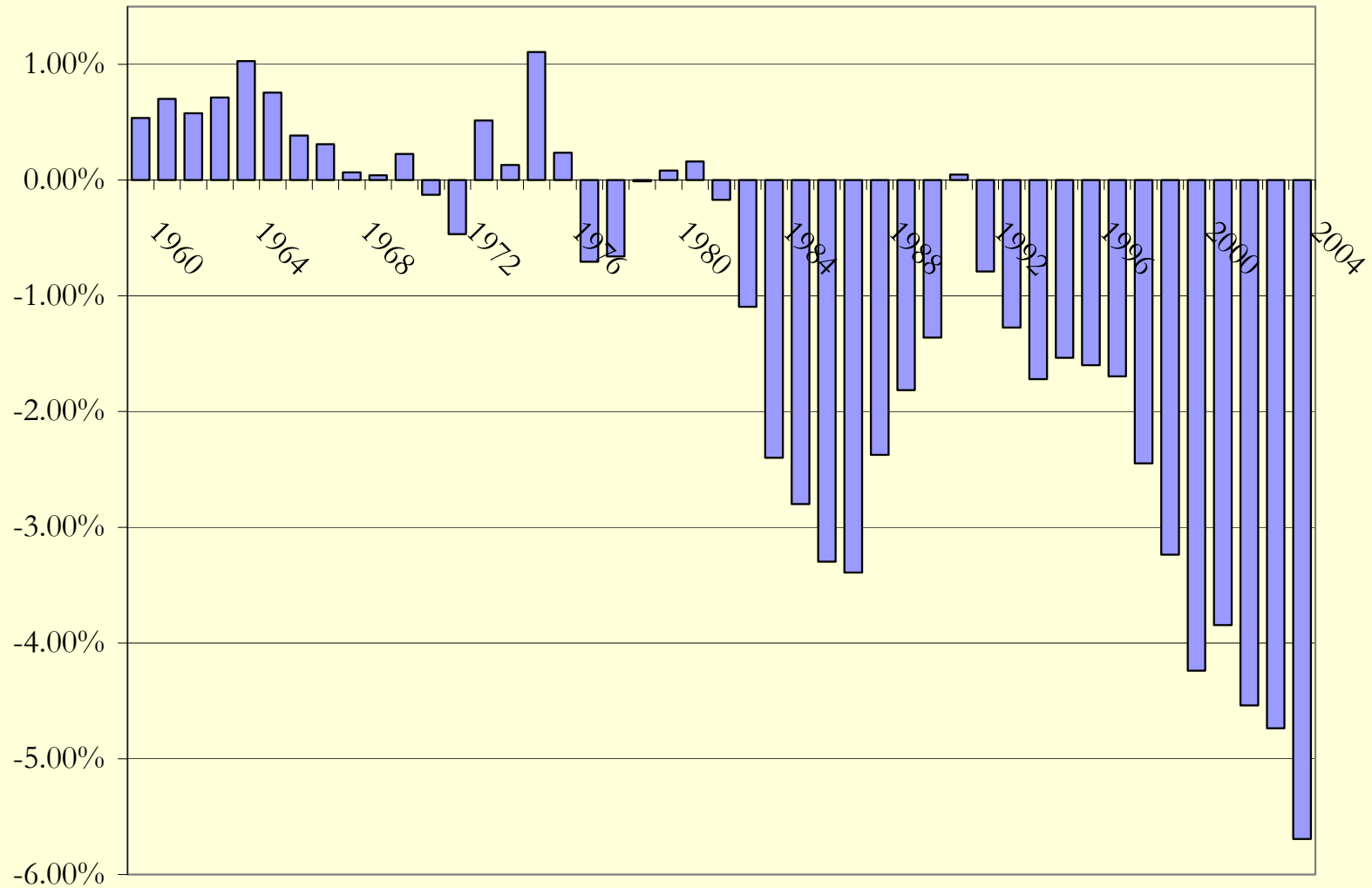
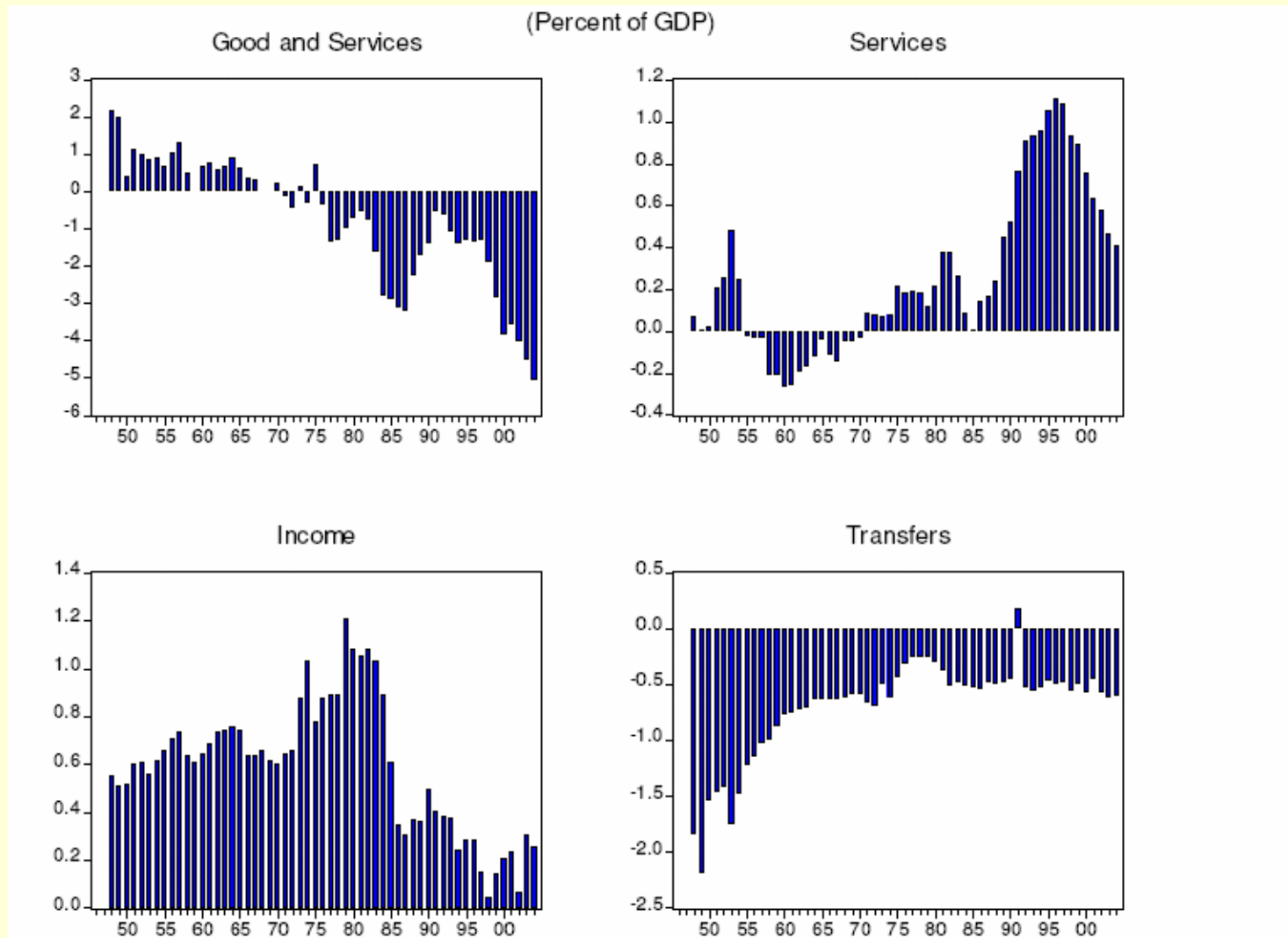


# Current Account as Share of GDP



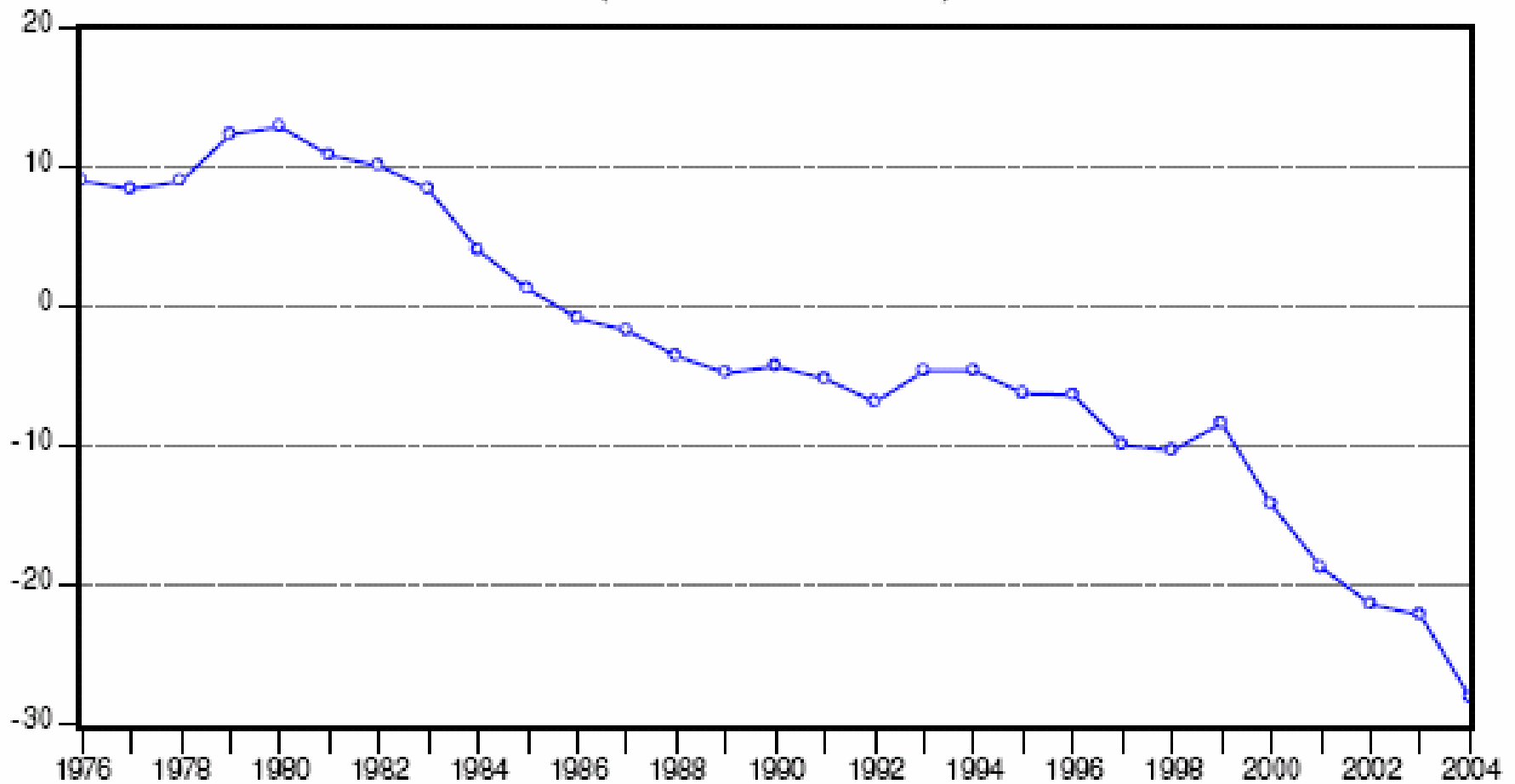
# Components of Current Account Deficit, 1946-2004



Source: International Transactions, Economic Report of President 2005

# US Net International Investment Position

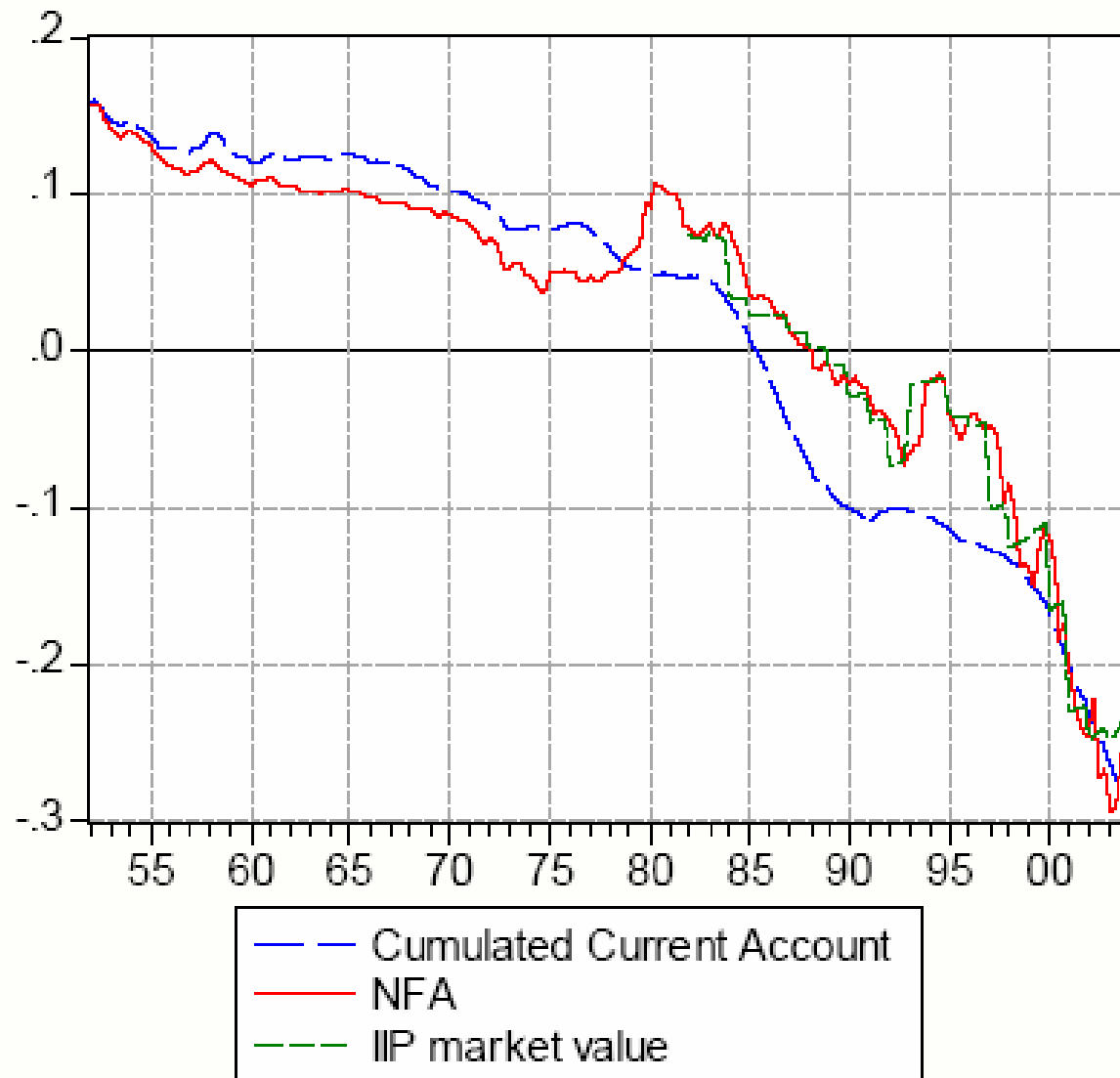
(share of GDP)



Source: BEA, International Investment Position

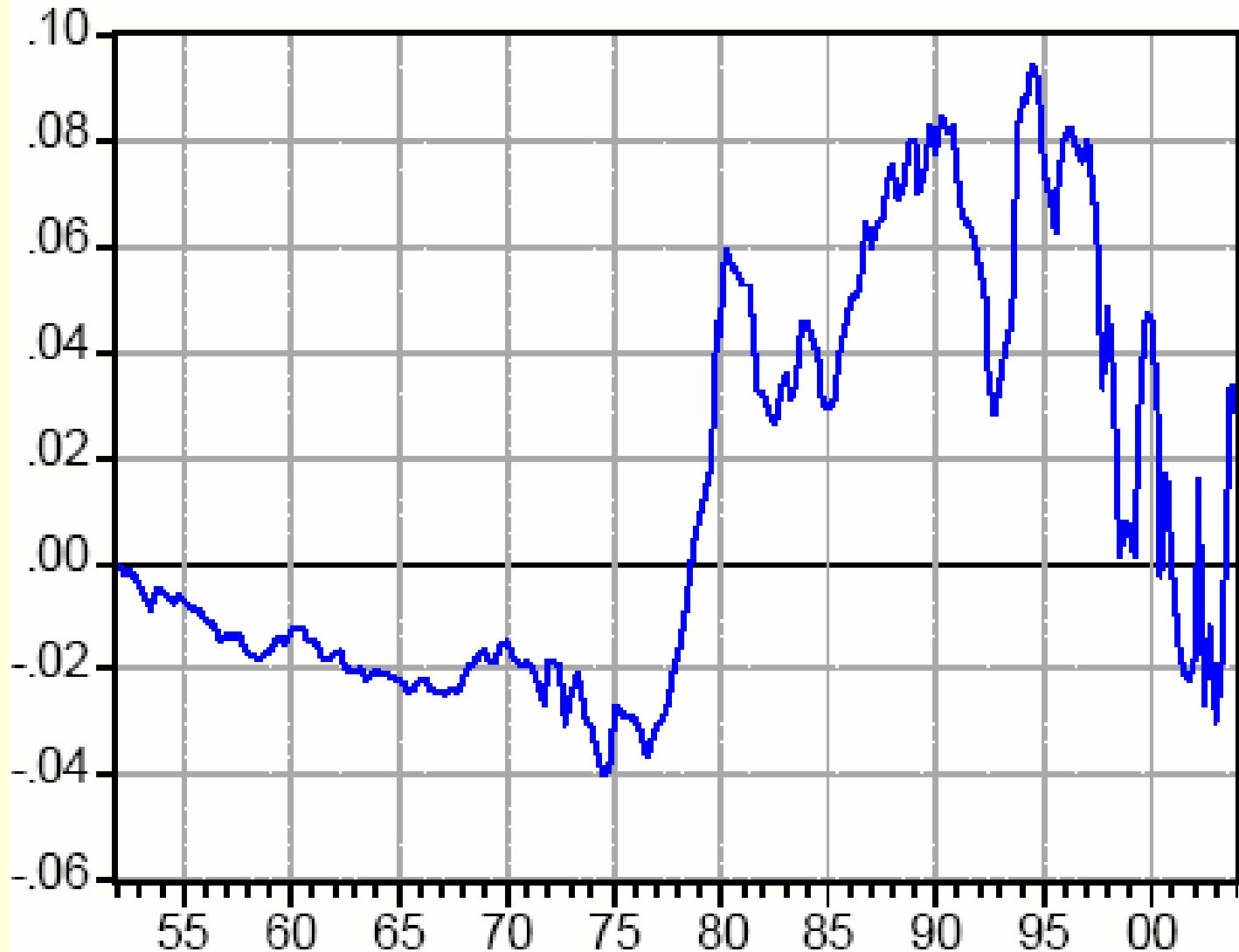
# U.S. Net Foreign Assets, relative to GDP

1952:1 to 2004:1

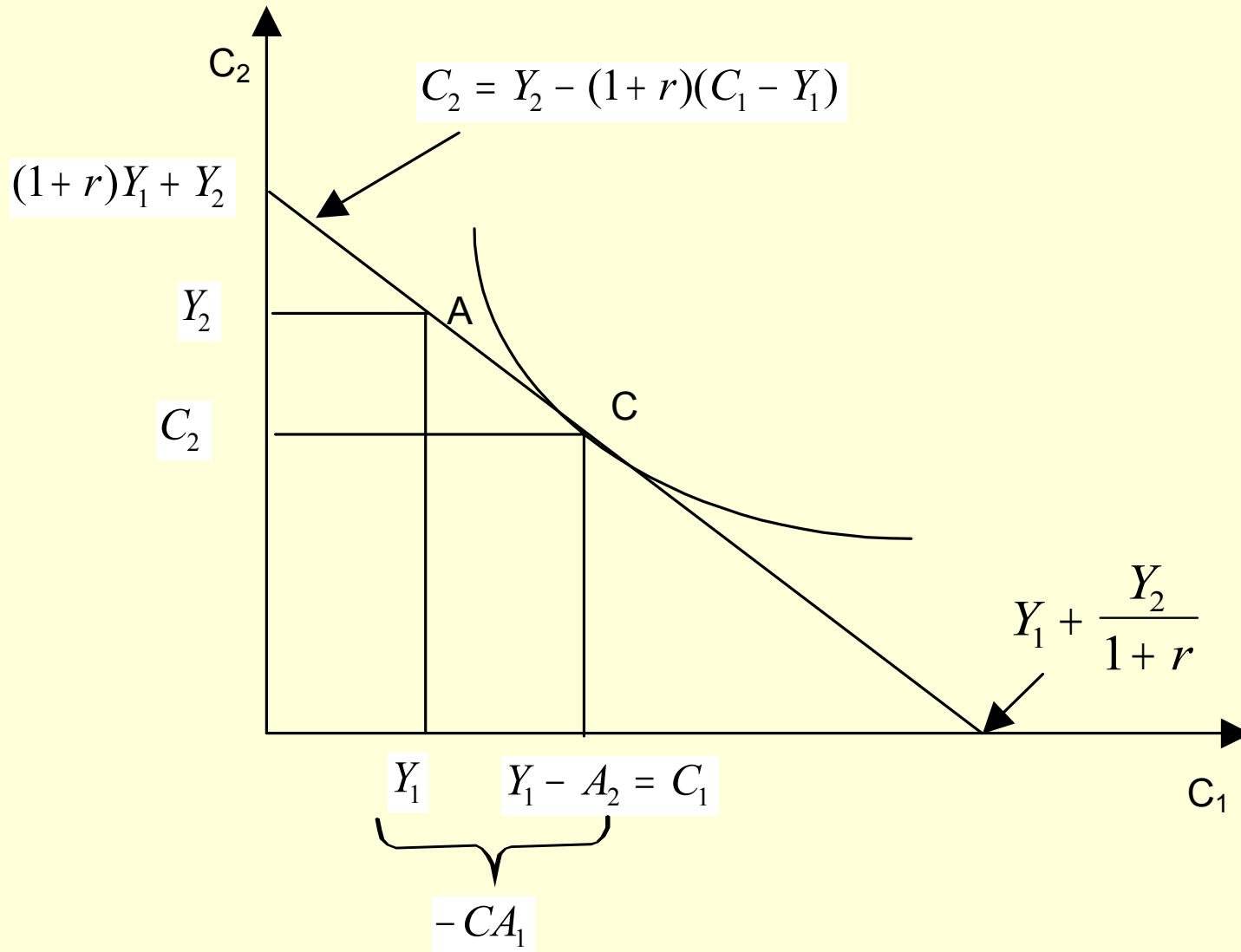


# Net Valuation Component (relative to GDP)

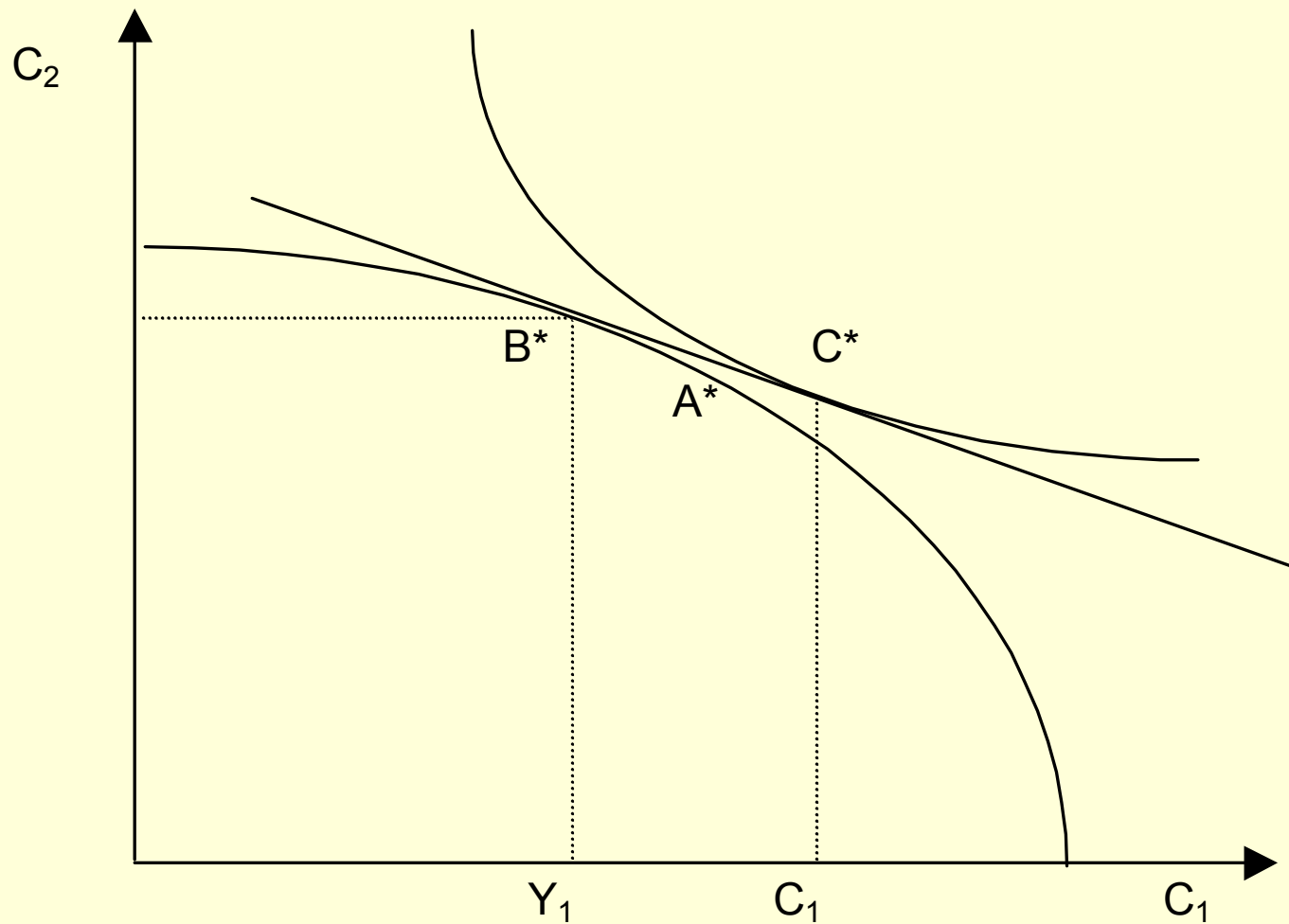
$$\equiv NFA^* - \sum CA$$



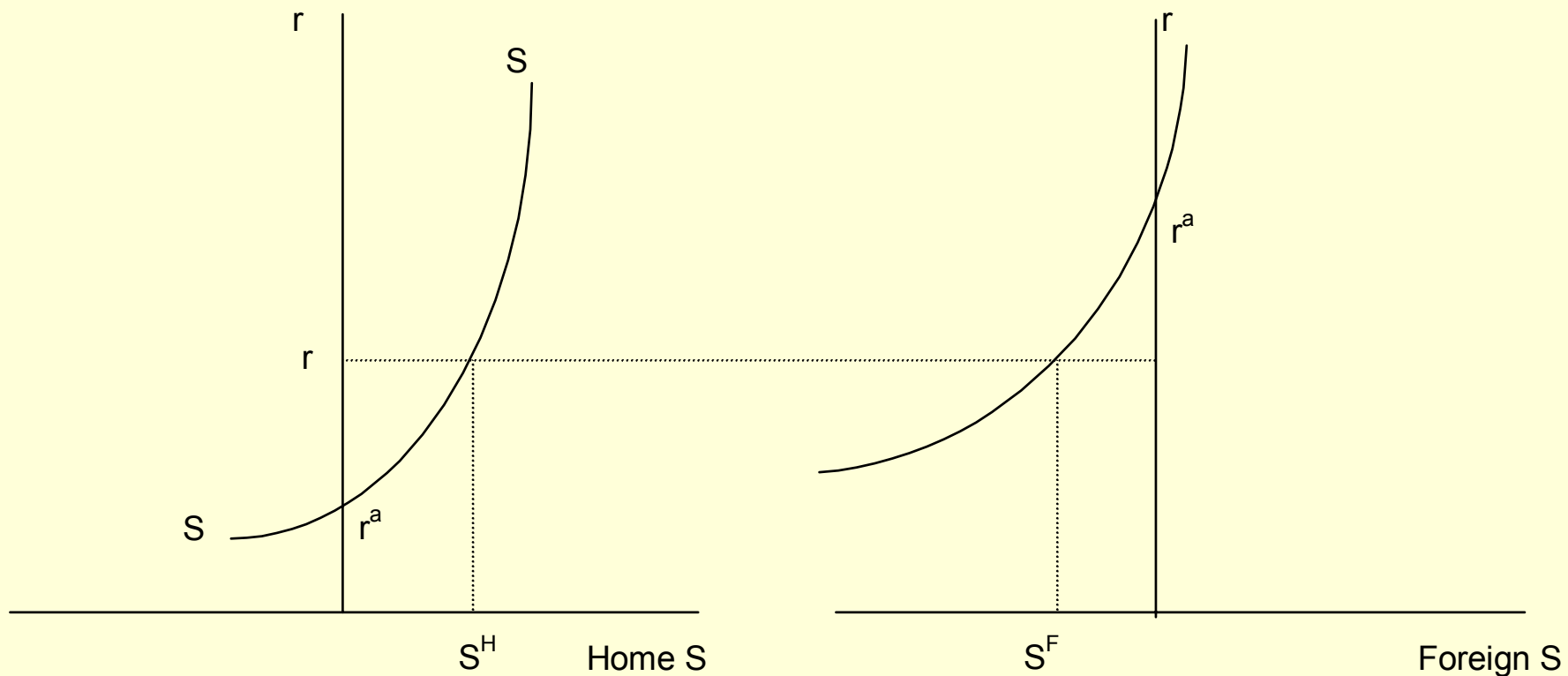
# Consumption over Time and the Current Account



# Adding Investment

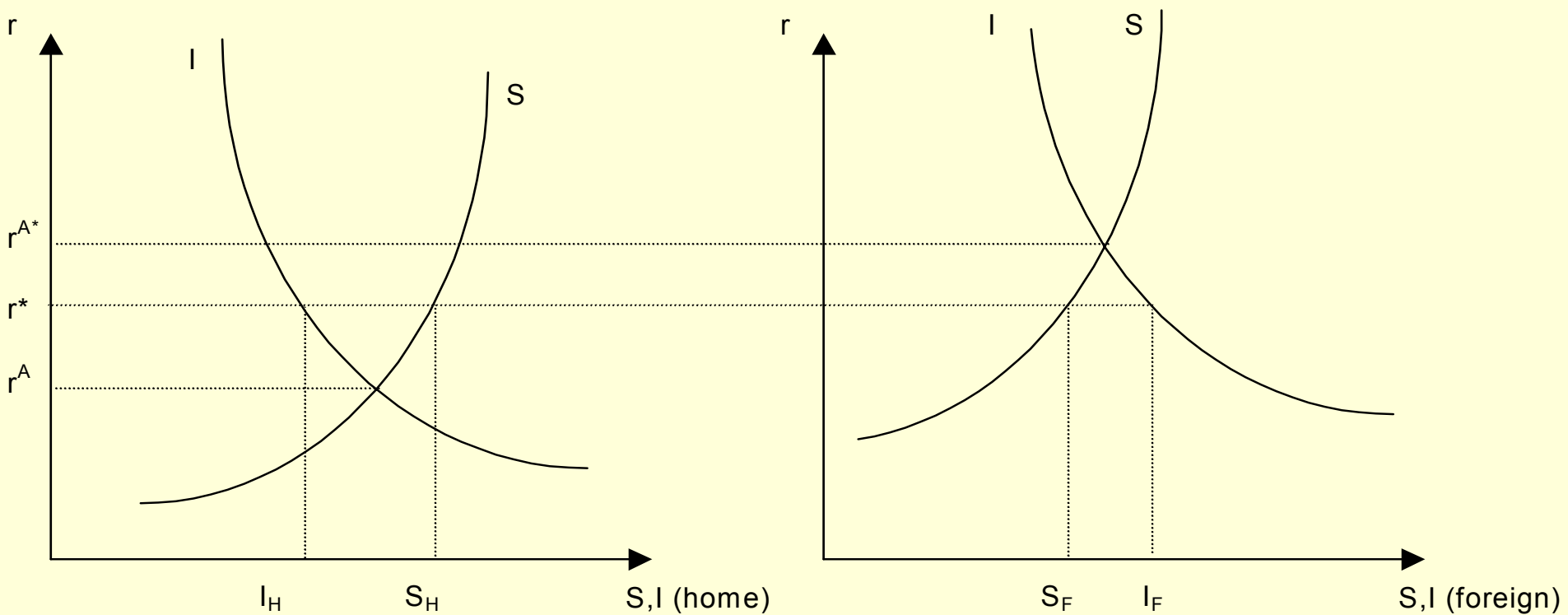


# Two Country Model

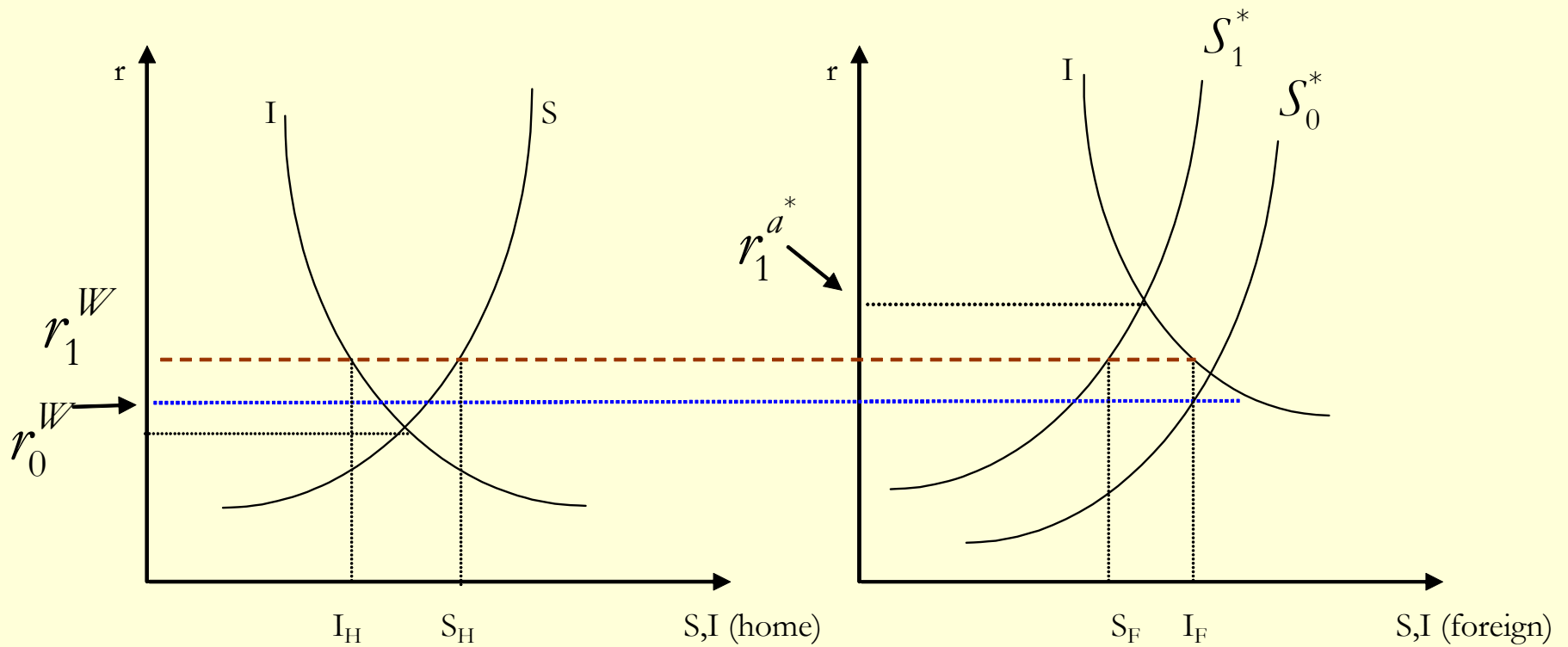




# Global Equilibrium with Investment

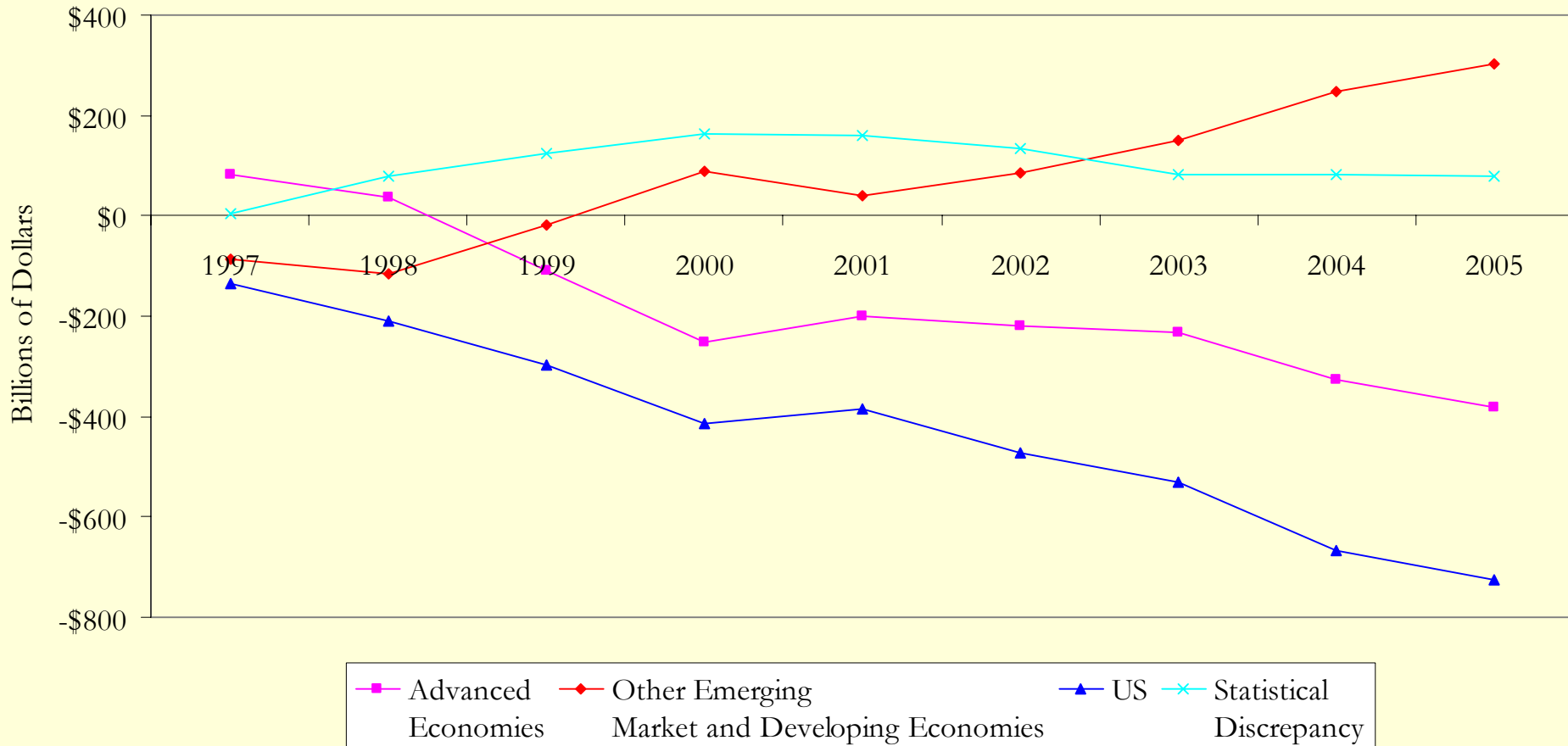


# A Decrease in Foreign Savings

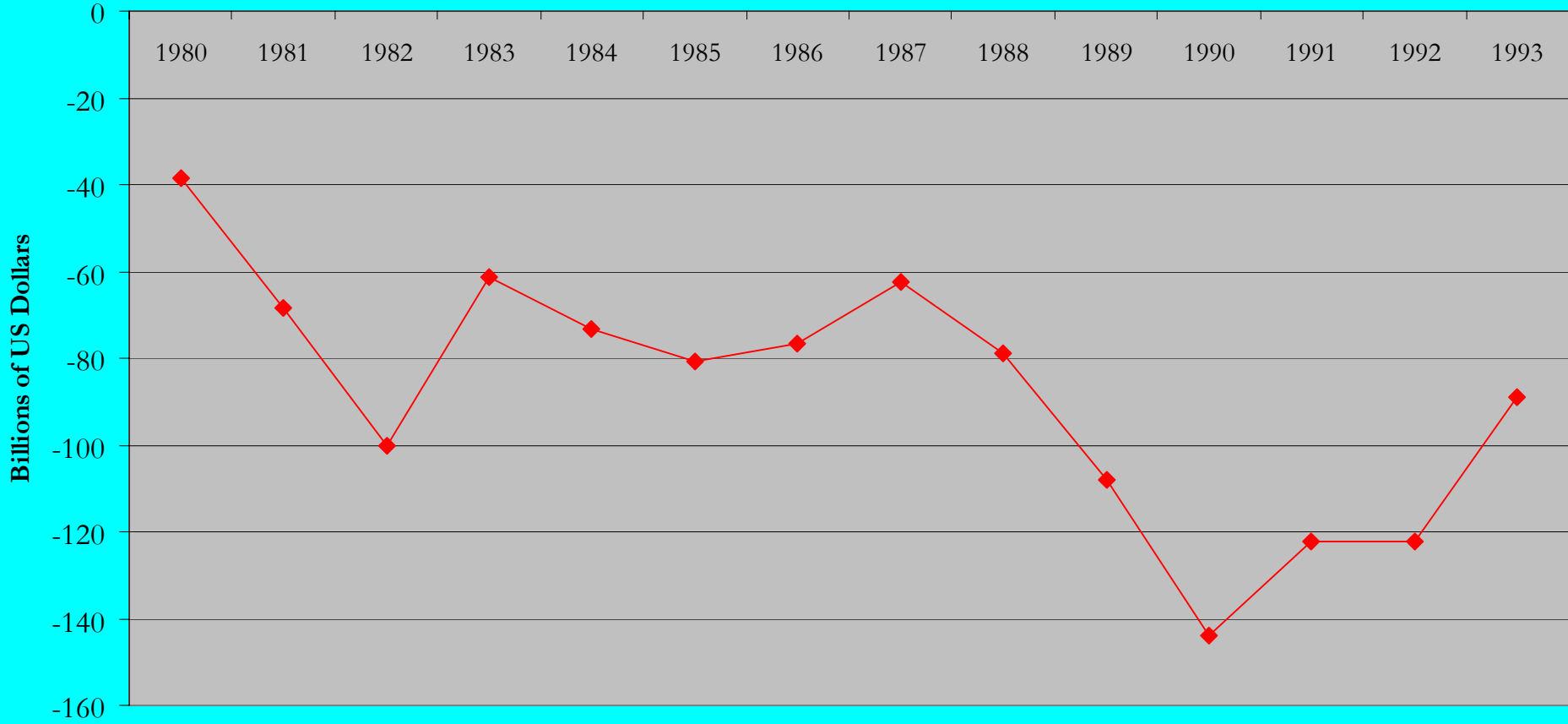


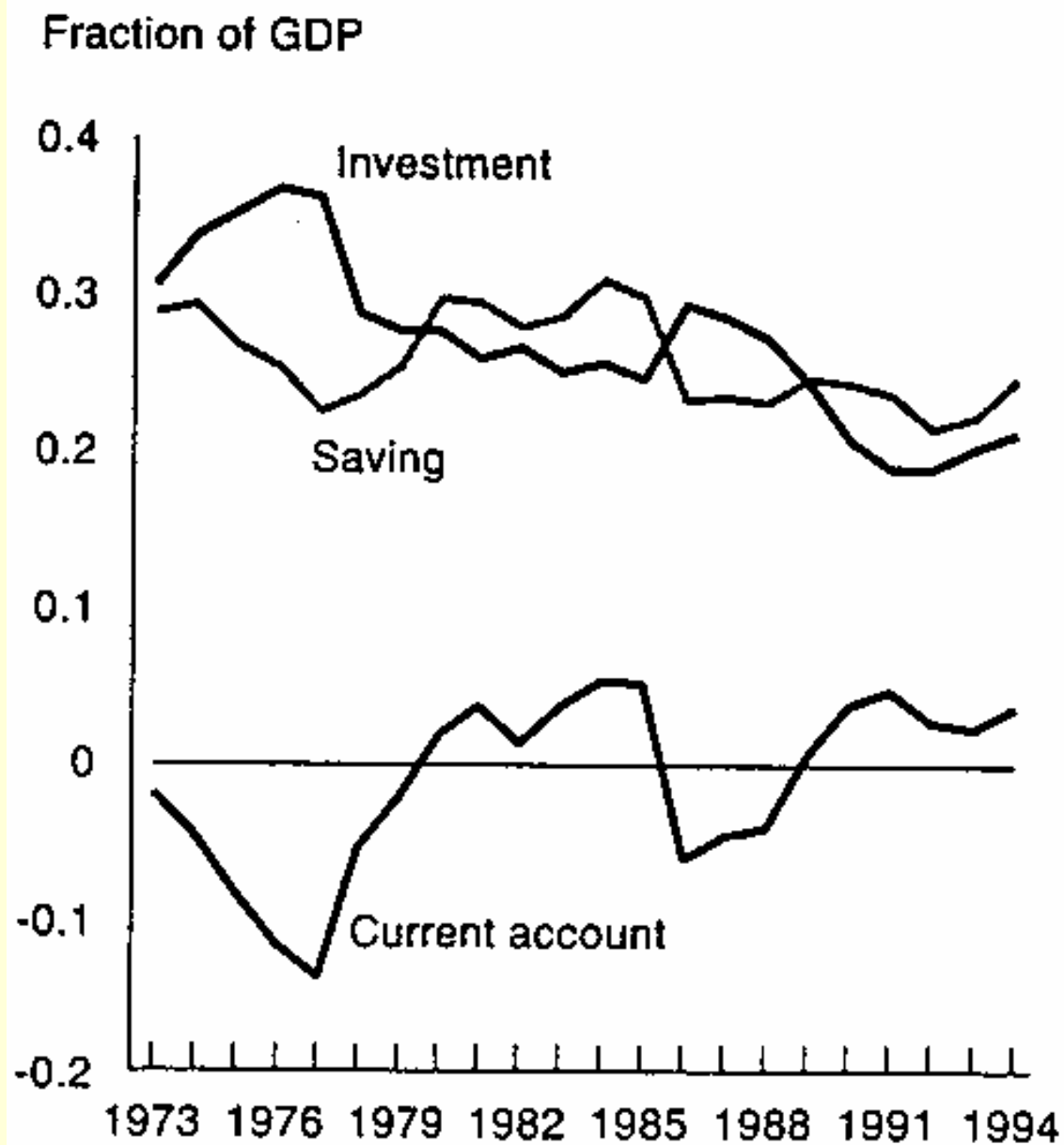
$$S_H - I_H = -(S_F - I_F)$$

# Current Account Balances by Major Grouping



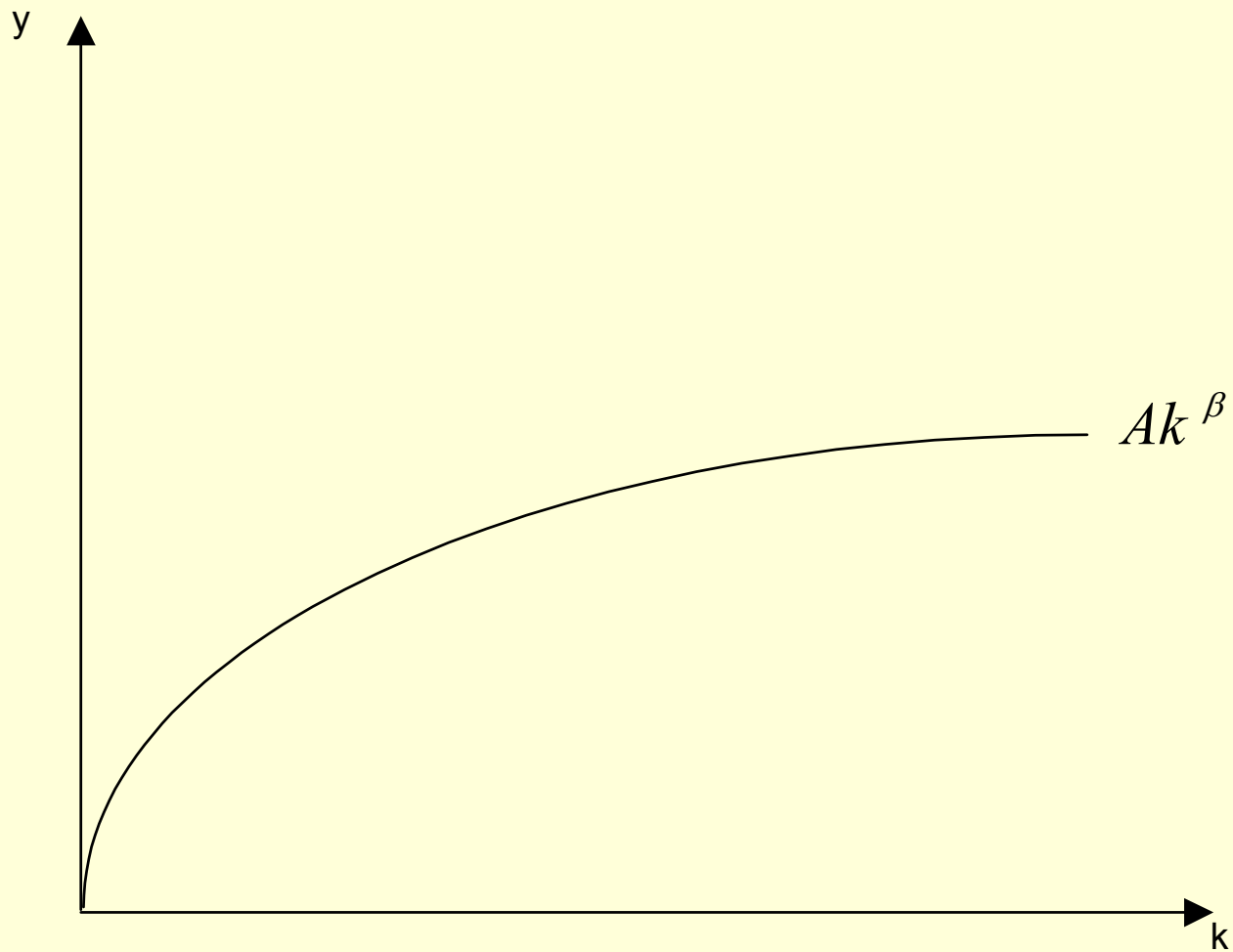
# World Current Account Balance, 1980-1993



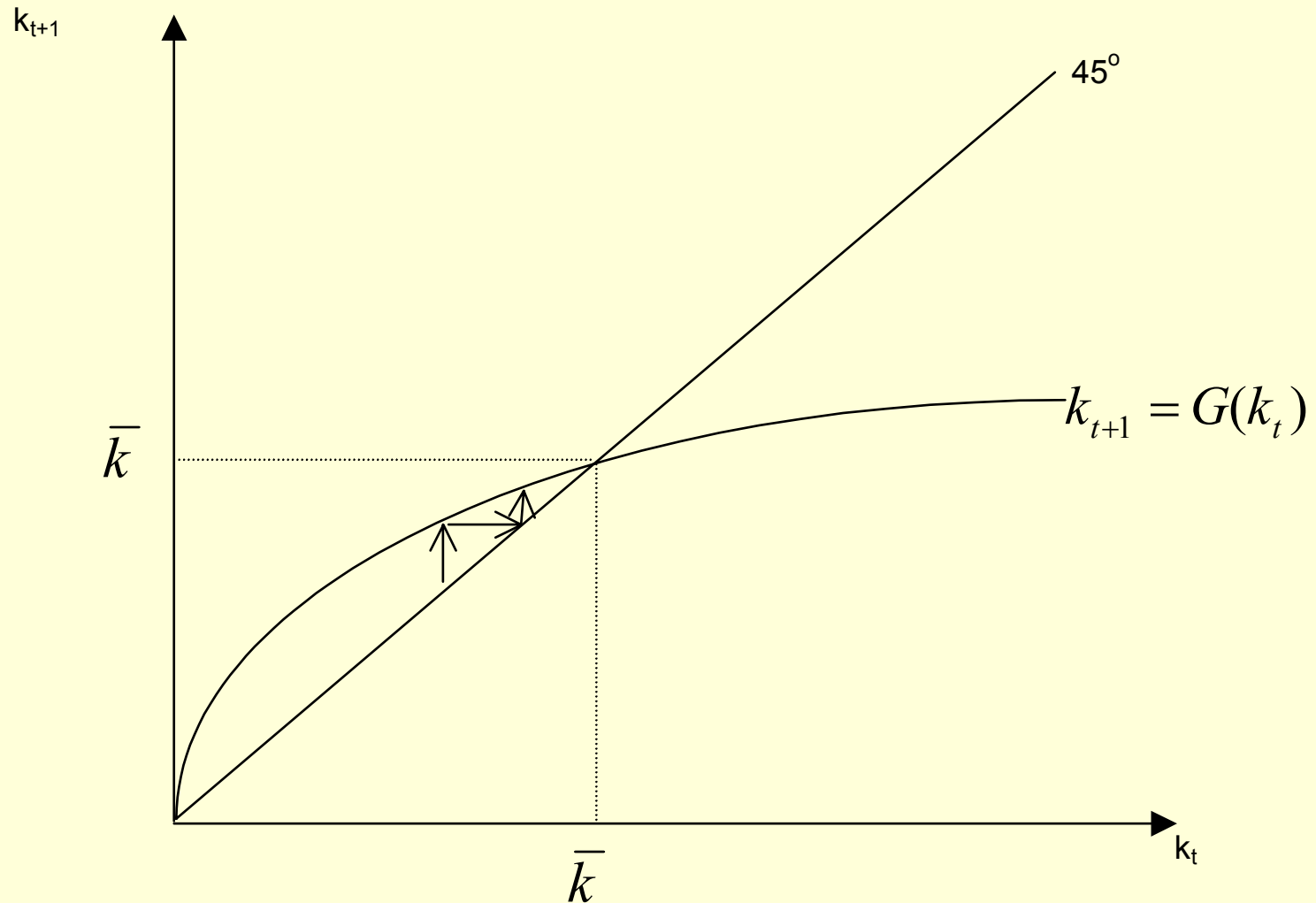


**Figure 1.2**  
 Norway's saving-investment balance, 1973-94. (Source: OECD)

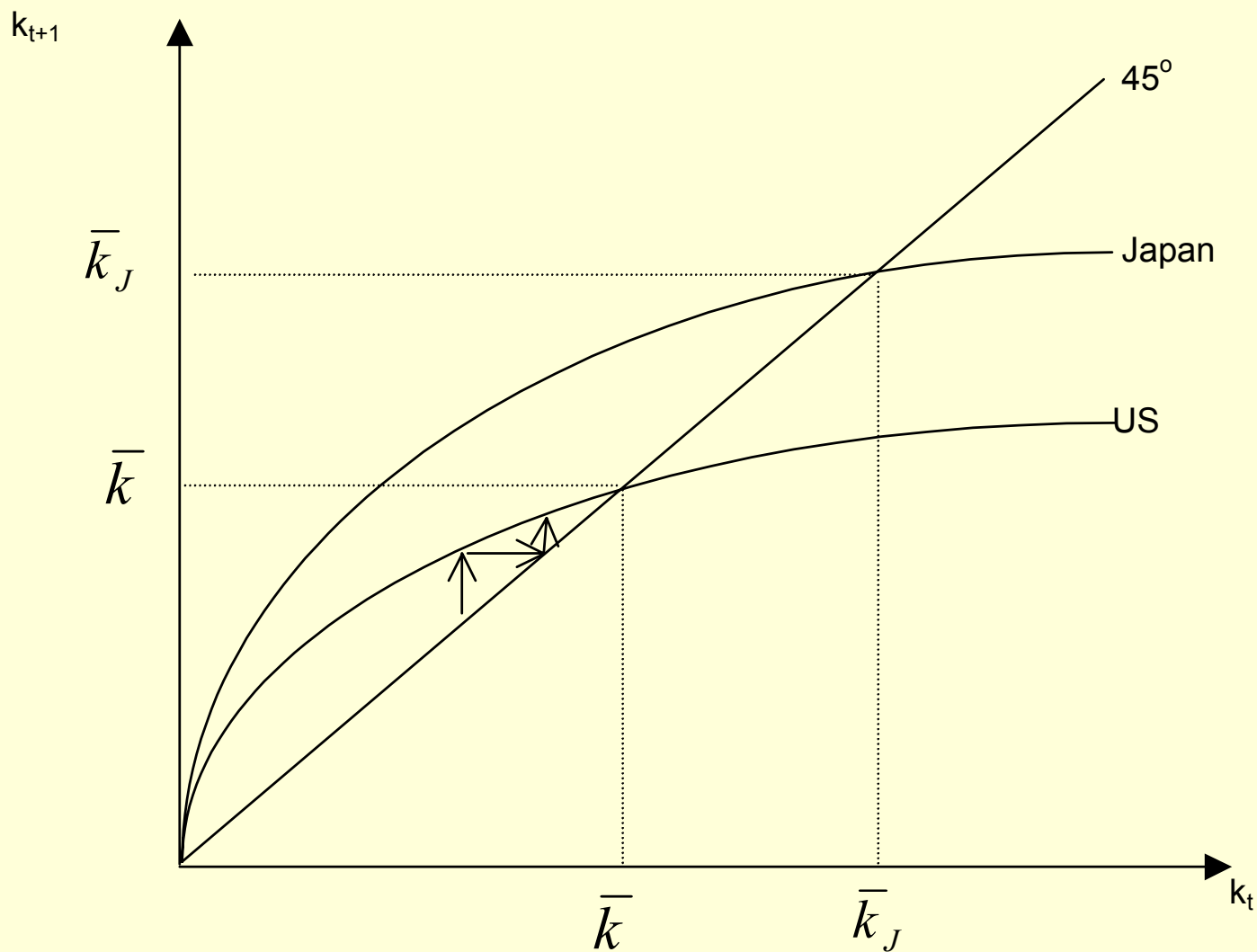
# Production Function



# Transition to Steady State Equilibrium

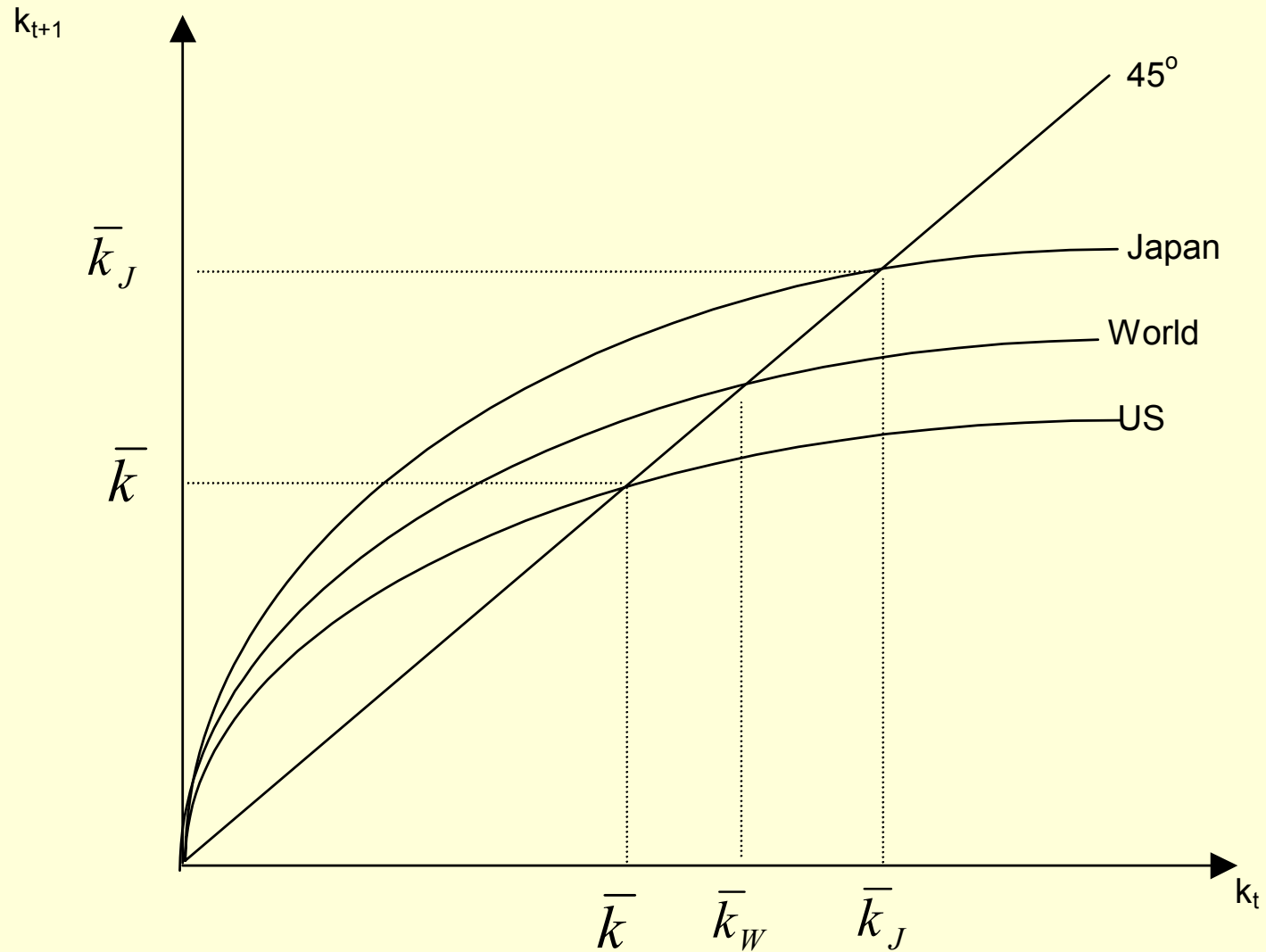


# Autarkic Equilibrium

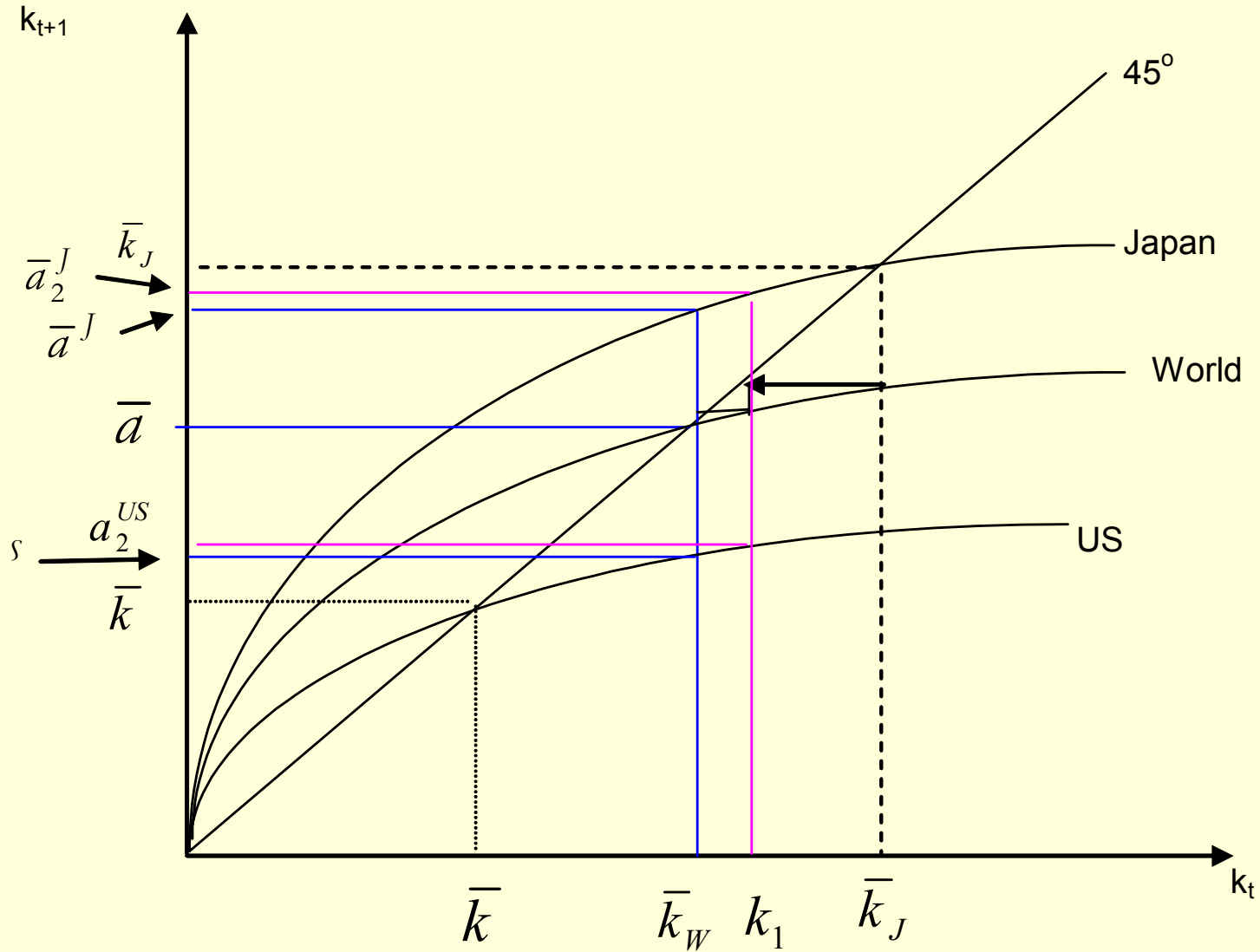




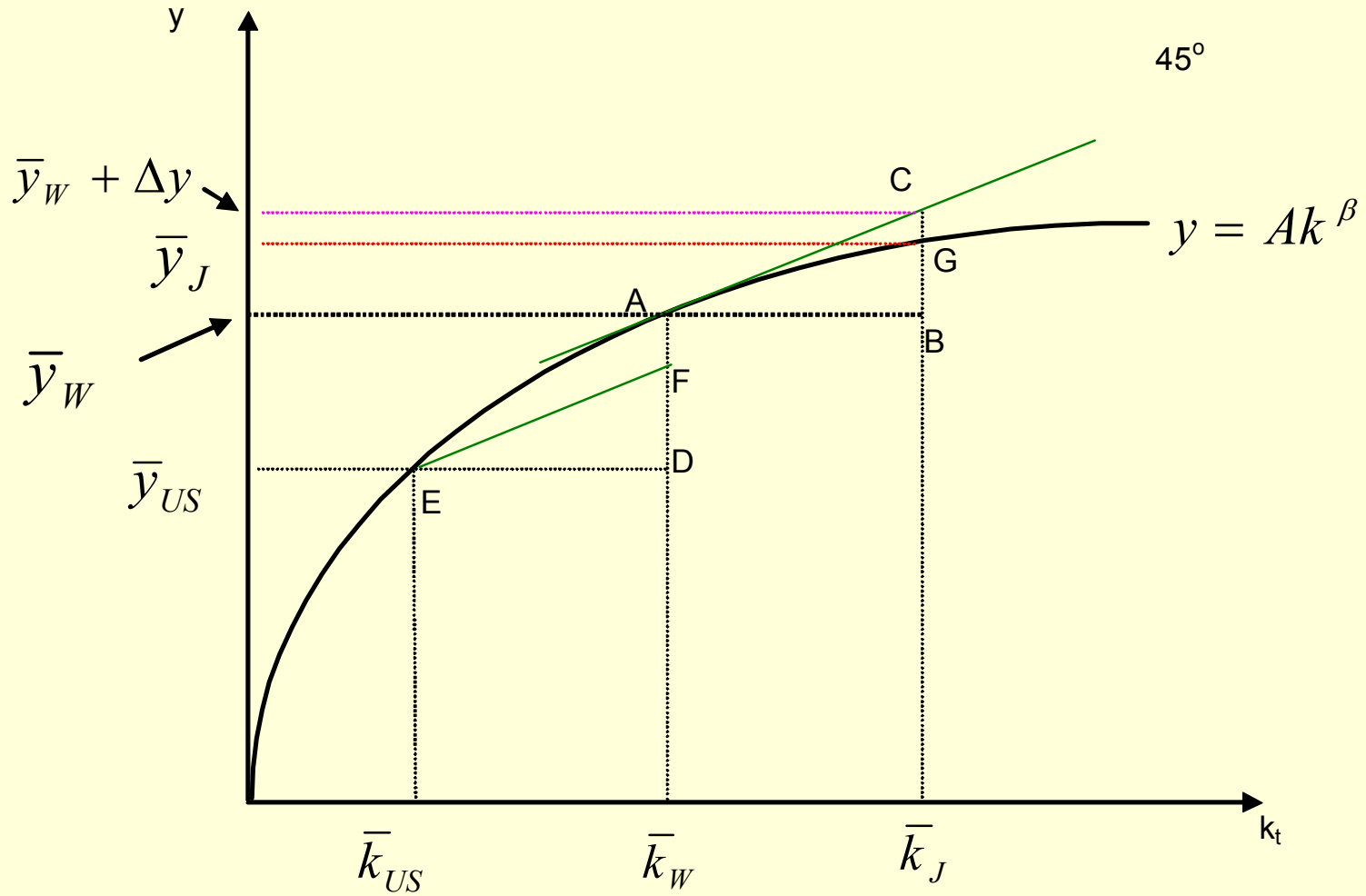
# Equilibrium in the Two-Country Model



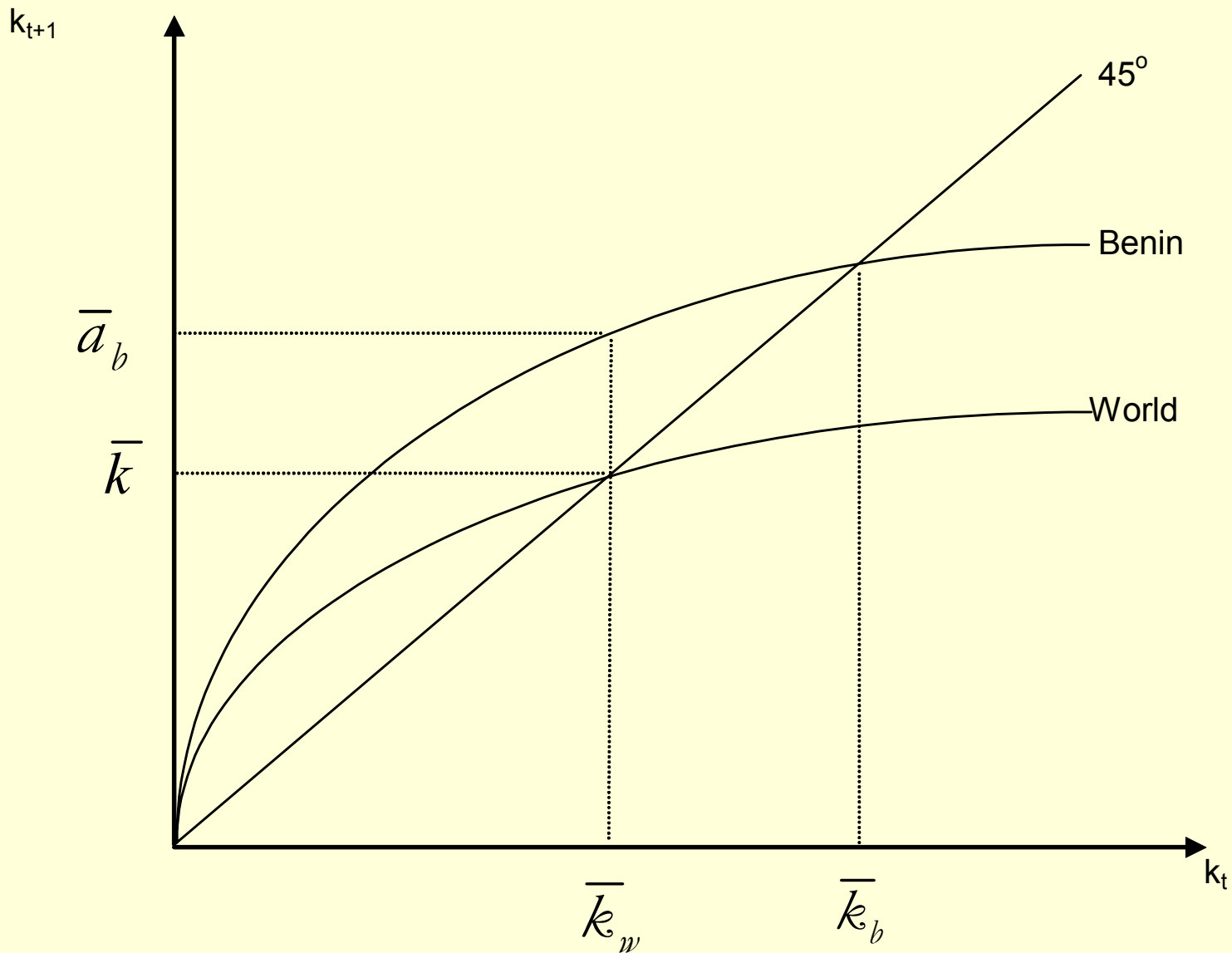
# Adjustment to the Steady State



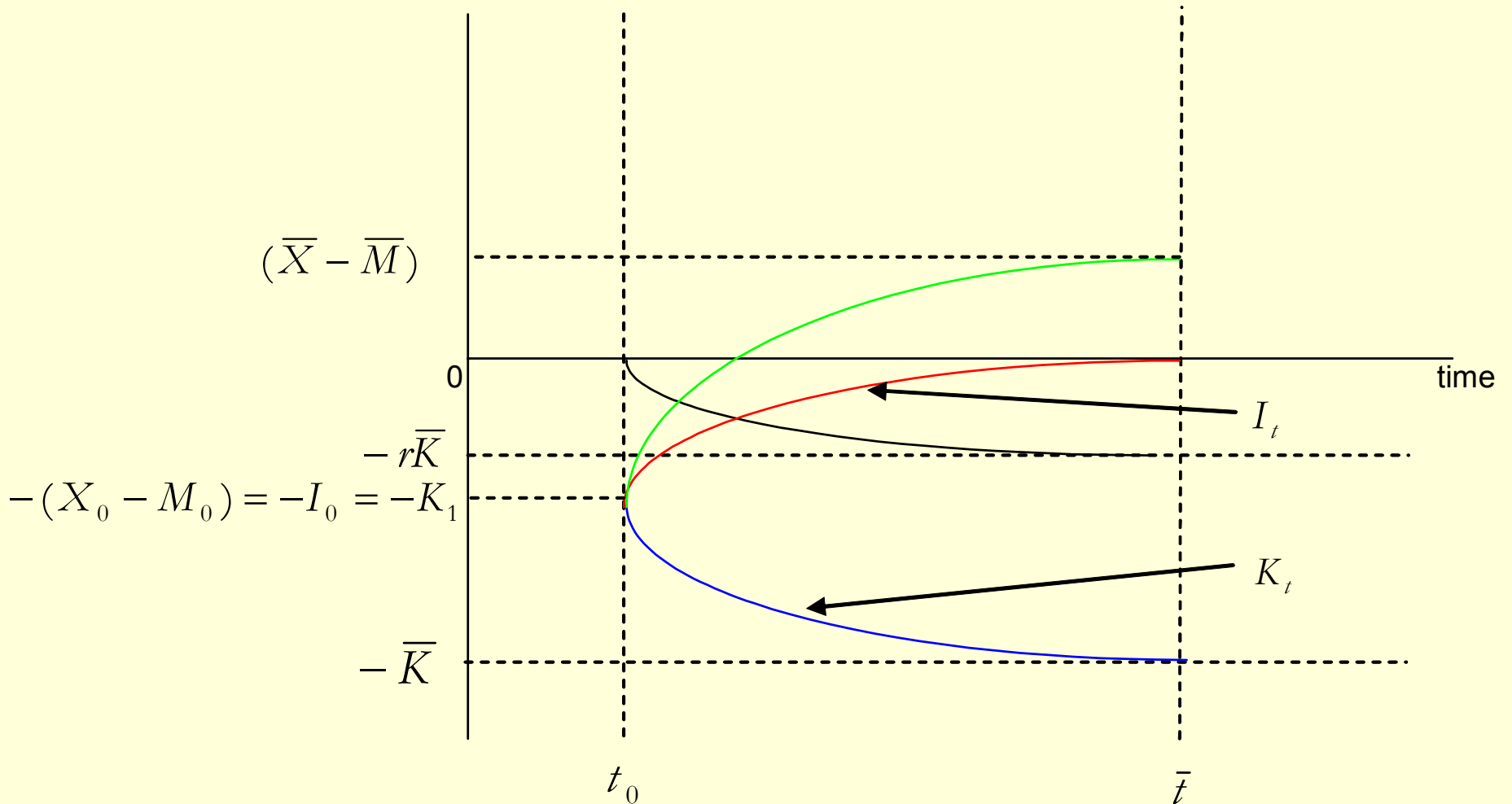
# Benefits of Opening



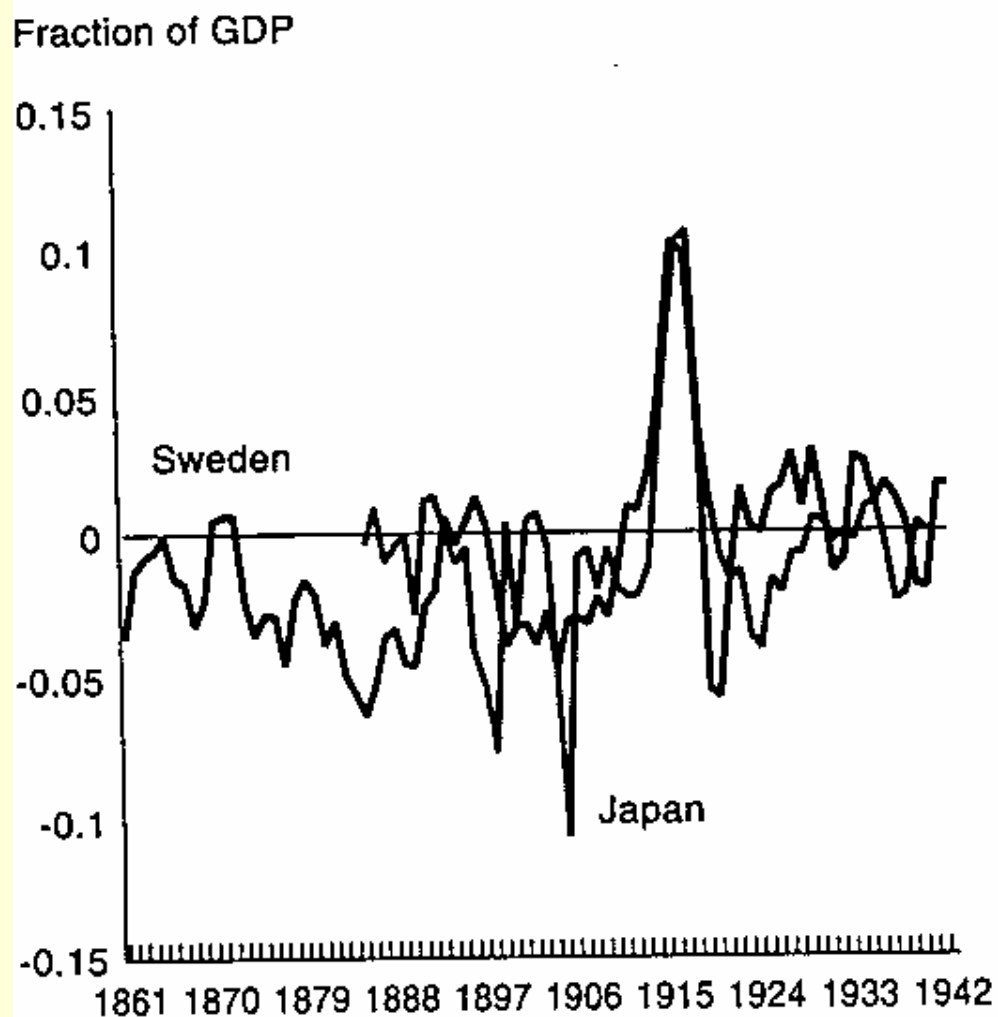
# A Small Country Opens



# Adjustment to New Steady State



# War and the Current Account



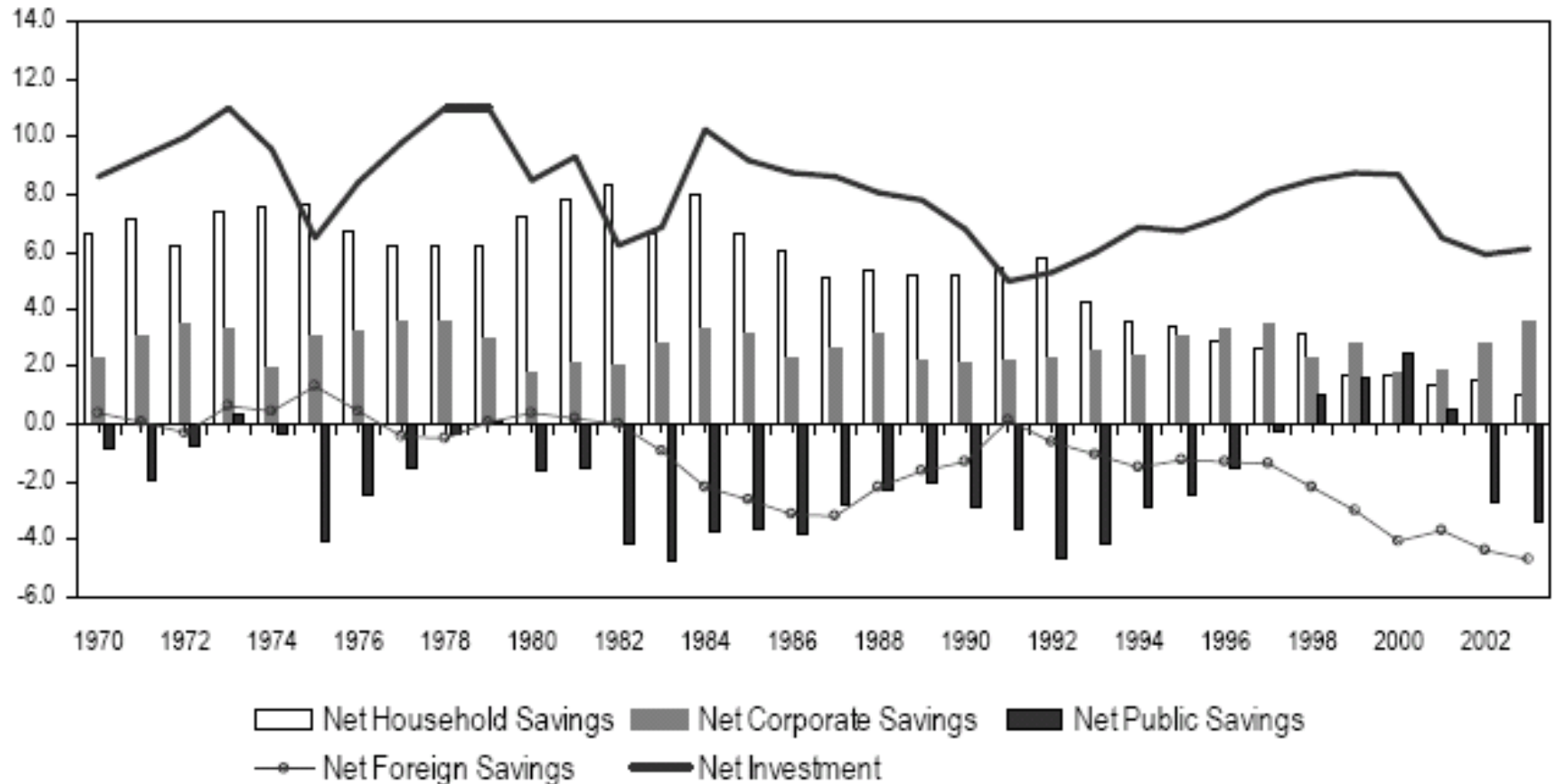
**Figure 1.6**  
Current accounts of Japan and Sweden, 1861–1942

# Adam Smith on National Debts

- "When national debts have once been accumulated to a certain degree, there is scarce, I believe, a single instance of their having been fairly and completely paid. The liberation of public revenue, if it has ever been brought about at all, has always been brought about by a bankruptcy; sometimes by an avowed one, but always by a real one, though frequently by a pretended payment [in a depreciated currency]...When it becomes necessary for a state to declare itself bankrupt, in the same manner as when it becomes necessary for an individual to do so, a fair, open, and avowed bankruptcy is always the measure which is both least dishonourable to the debtor, and least fruitful to the creditor." *Wealth of Nations*, Book V, Chapter III, 882.

# US Savings and Investment, 1970-2003

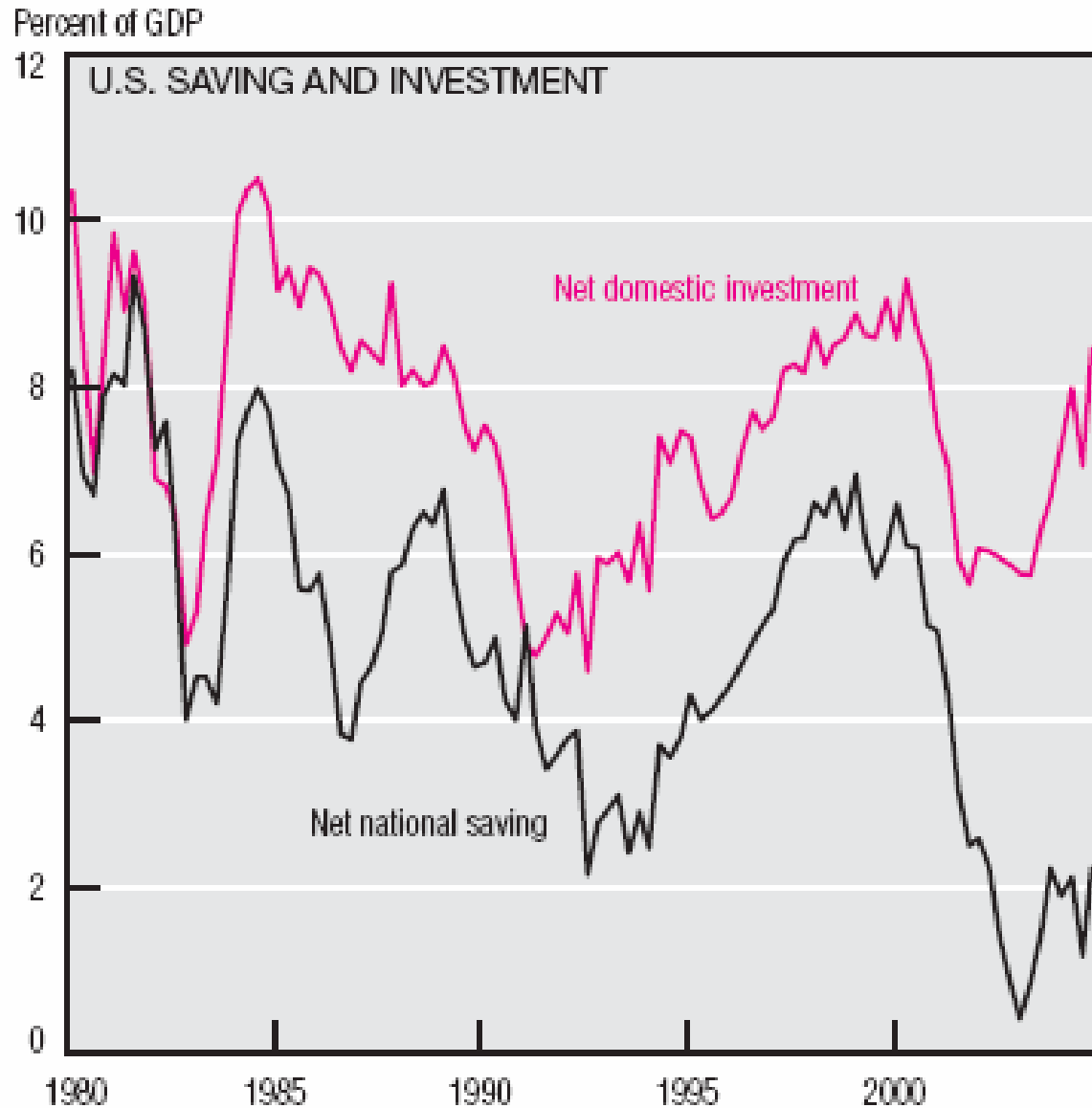
(percent of GDP)



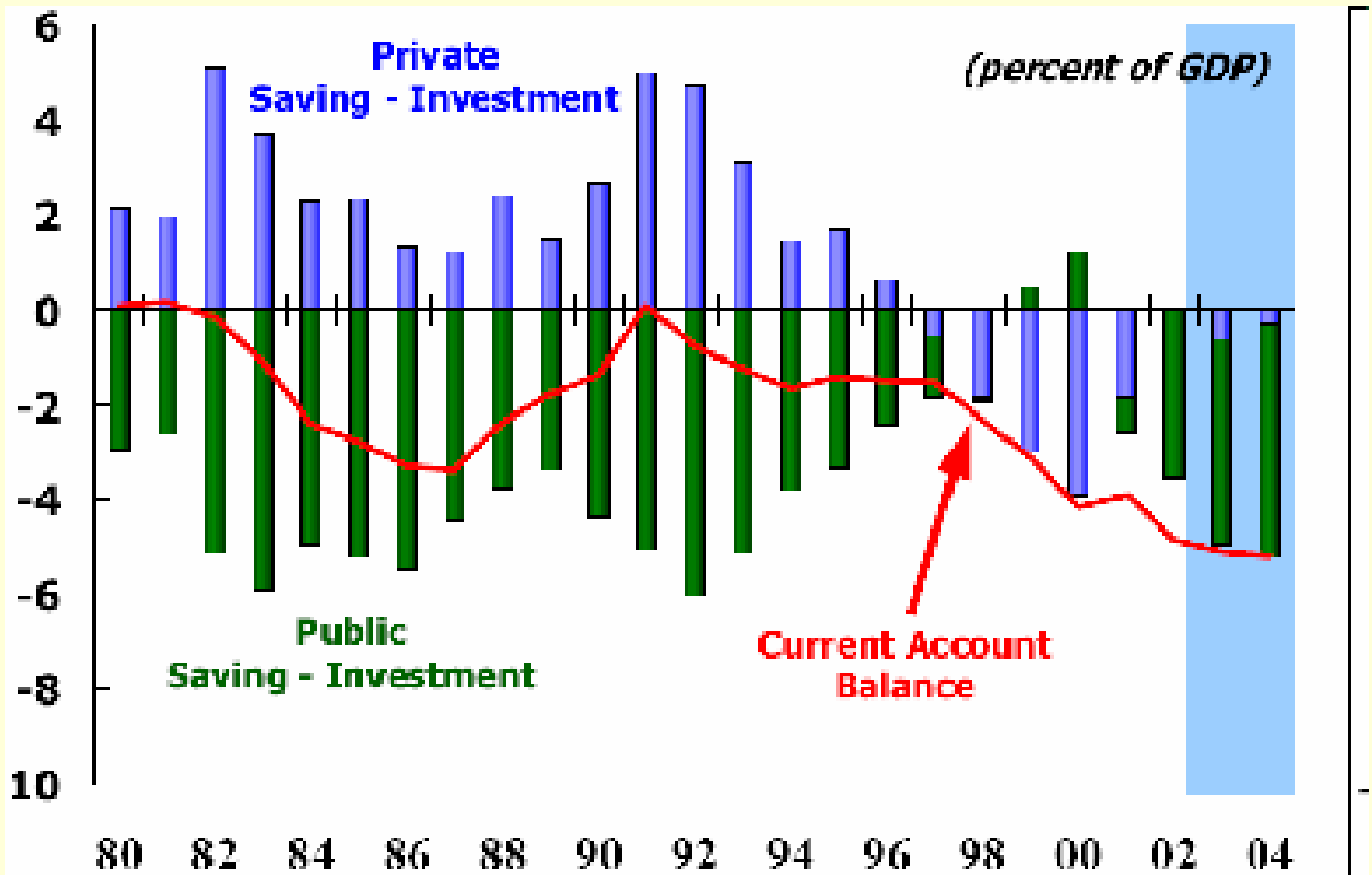
Source: BEA, U.S. International Transactions



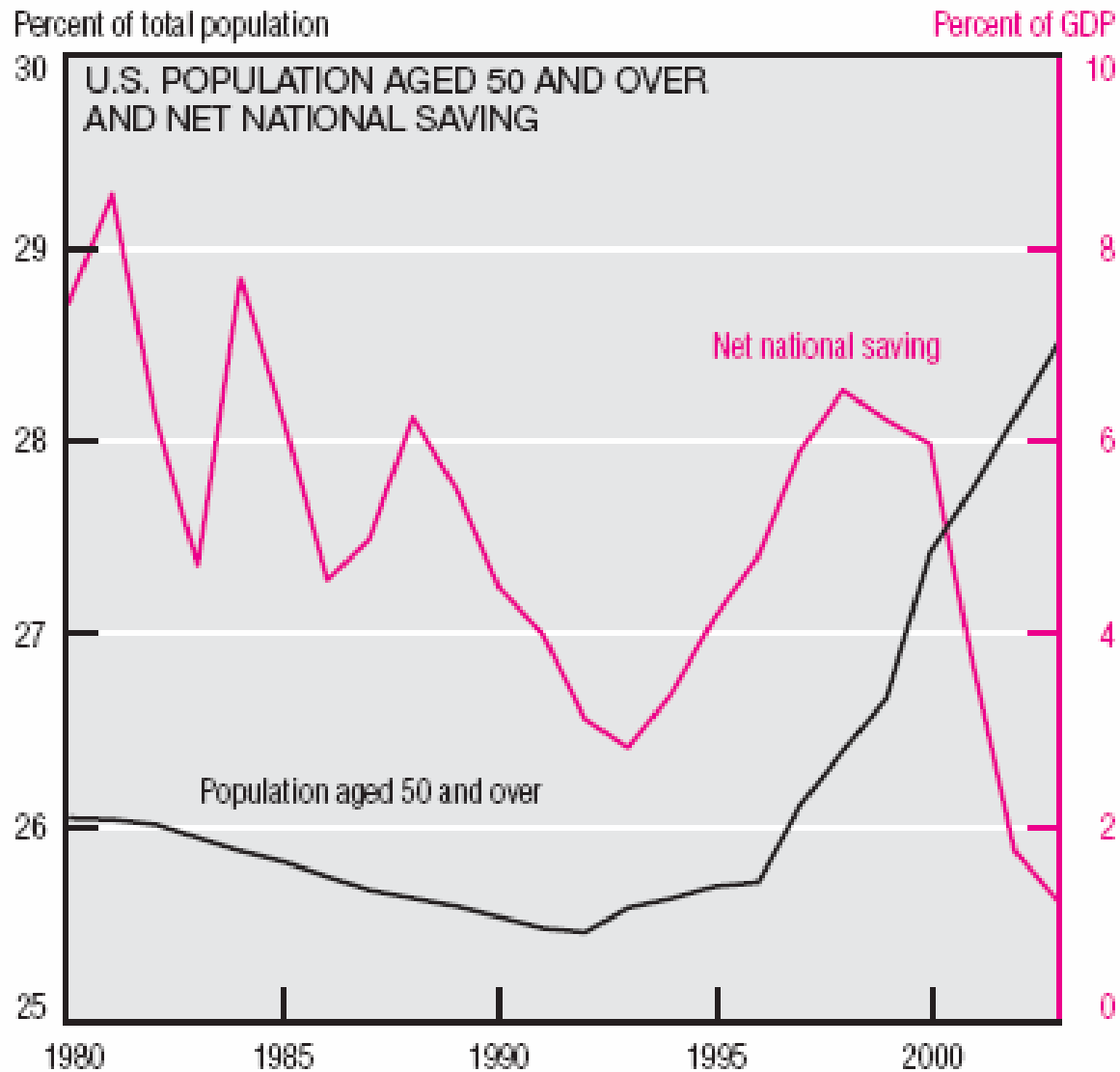
# US Savings and Investment, 1980-2004



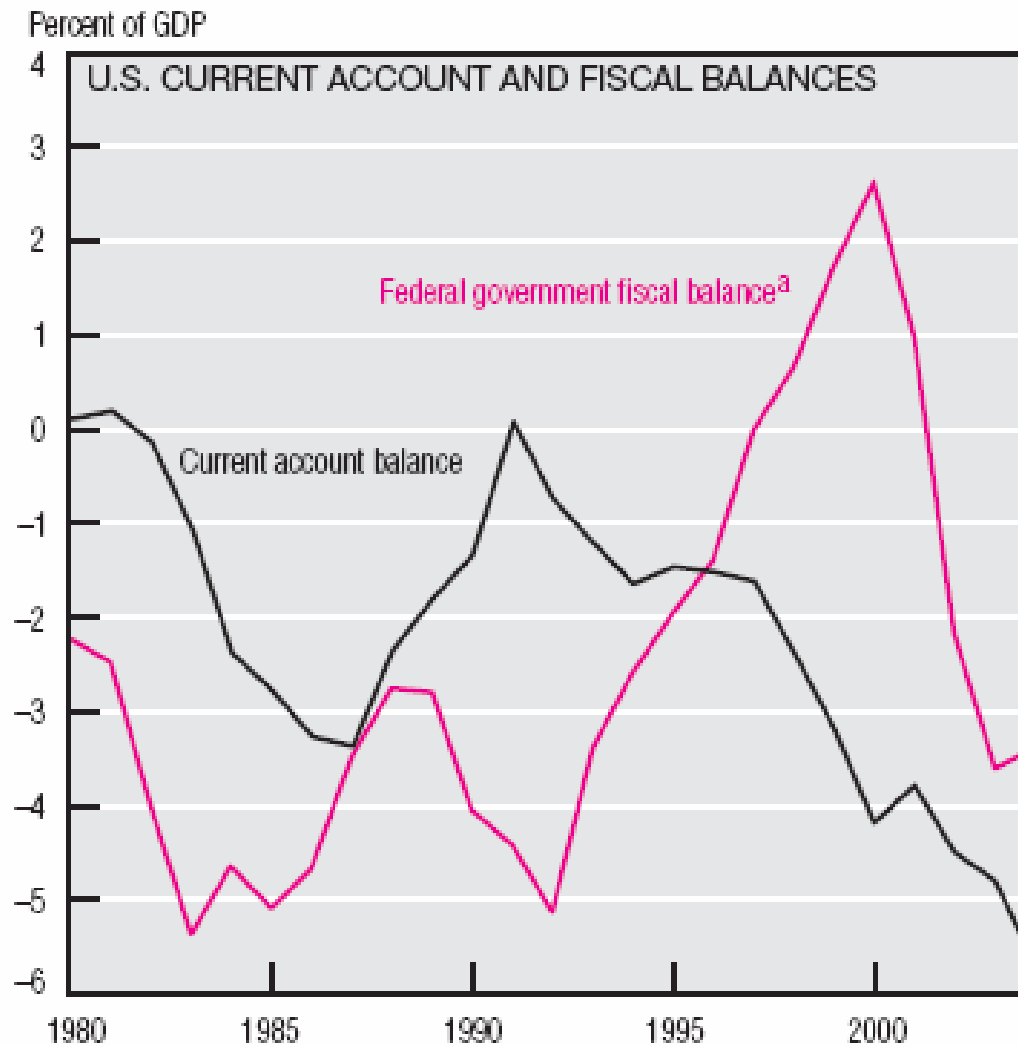
# US Current Account Balance and Savings - Investment



# US Net Savings and Demography



# US Current Account and the Fiscal Balance



# Real Exchange Rate and the Current Account

