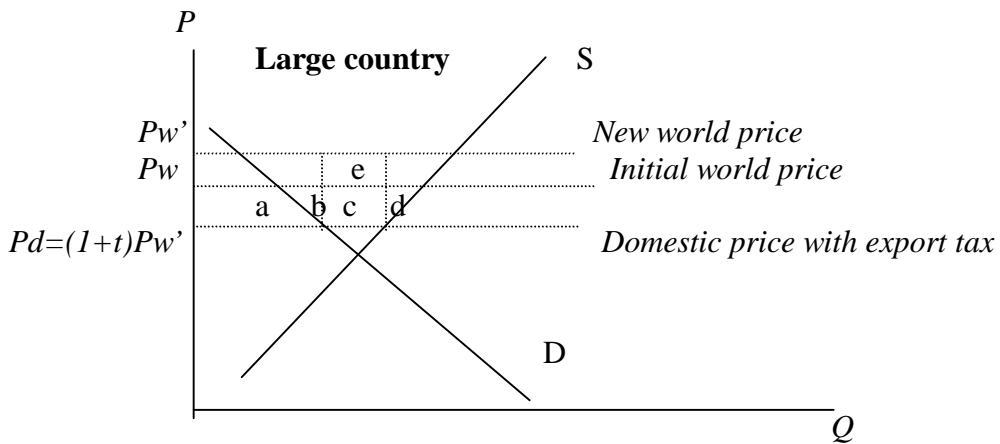
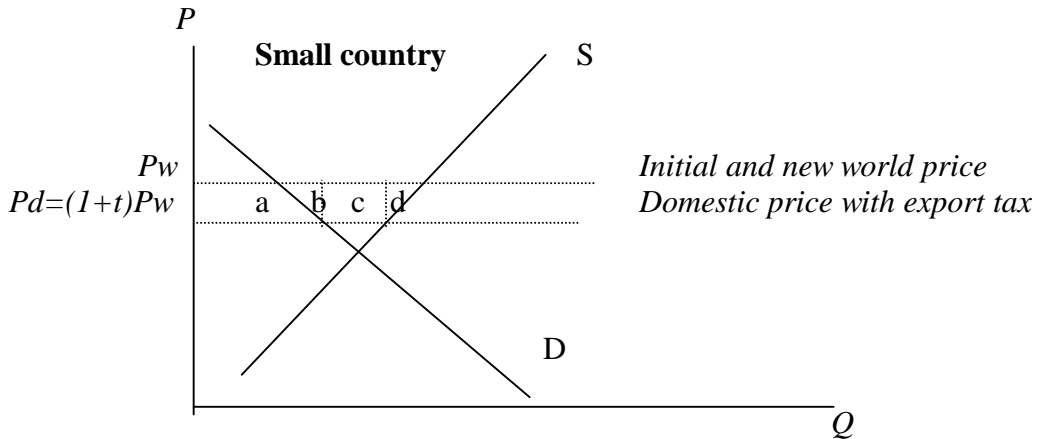


SECTION 5
February 13, 2003

• **Export tax**



Welfare change = ?

Domestic agent	Welfare change (Small)	Welfare change (Large)
1. Consumer	+a	+a
2. Producer	-a-b-c-d	-a-b-c-d
3. Government	+c	+c+e
Net	-b-d	e-b-d

A large country can gain from imposing export tax. The tax rate t that maximizes “e-b-d” is called “optimal” export tax. (Recall “optimal” import tariff.)

- **National Income Accounting and the Balance of Payments**

1. Current Account records flows of goods and services.

Definition: $CA = X - M$

Identities: $Y = C + I + G + X - M$

$$CA = Y - I - C - G = S - I = (S^p + S^g) - I$$

2. Financial Account records flows of assets.

Assets: money, bond, stock, factory, building, bank deposits, etc.

Definition: $FA = \text{Export of domestic assets} - \text{Import of foreign assets}$

3. Capital Account records flows of non-market wealth transfer.

Definition: $KA = \text{incoming wealth transfer} - \text{outgoing wealth transfer}$

Balance of Payment

$BoP = CA + FA + KA$

Debtor: $CA < 0; FA > 0$

Creditor: $CA > 0; FA < 0$

$CA = \text{Net foreign asset change}$

How do we record BoP?

ANS: Double-entry bookkeeping.

Imports or buying → debit (-)

Exports or selling → credit (+)

(1) Current transactions

flows of goods or services → current account

flows of payments → financial account

(2) Financial transactions

flows of assets → financial account

flows of payments → financial account

(3) Non-market wealth transfers

flows of assets → capital account

Example

1. An American buys a share of German stock, paying by writing a check on an account with a Swiss bank.
 - a. Buying of German stocks (Import of German assets) → debit in financial account
 - b. Selling of Swiss bank deposits (Export of U.S. assets held in Switzerland to Germany) → credit in financial account
2. An American buys a share of German stock, paying by writing a check on an American bank.
 - a. Buying of German stocks (Import of German assets) → debit in financial account
 - b. Selling of American bank deposits (Export of U.S. assets to Germany) → credit in financial account