

# EE312 Macroeconomics, 1/2020 (Sec. 046401/ Sicha)

## Chapter 5. Balance of Payments and Foreign Exchange Rate Market

### 1. Balance of Payments :

- Balance of Payment Account [Current Account (CA), Capital Account (KA), International Reserve Account (IR)]
- Balance of Payments (position) = CA + KA =  $X(Y^f, e) - M(Y, e) + F(r, r^f)$

### 2. Real Exchange Rate VS. Nominal Exchange Rate : Real Exchange Rate = $\frac{eP^*}{P}$

REER = the price of foreign goods in terms of domestic goods.

$e$  = the price of foreign currency in terms of domestic currency.

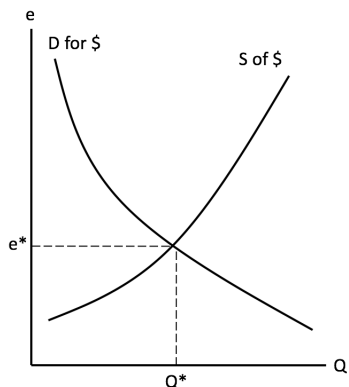
### 3. Long Run Theory : no arbitrage condition, law of one price

- Purchasing Power Parity (PPP) :  $P = eP^*$  ,  $e = \frac{P}{P^*}$

### 4. Short-Run Theory : Demand and Supply

	Demand for FX	Supply of FX
Source	Capital ..... $(1+r) \dots \frac{(1+r^f)e_{t+1}}{e_t}$	Capital ..... $(1+r) \dots \frac{(1+r^f)e_{t+1}}{e_t}$
$e$		
FX Intervention		

### 5. Exchange Rate Market Equilibrium



- Flexible Exchange rate regime
  - At Equilibrium, BP = 0
  - Above E. BP ..... 0
  - Below E. BP ..... 0
- Fixed Exchange rate regime
  - Central Bank intervention

### 6. Intervention Fixed Exchange Rate Regime

- $e^f < e^* \Rightarrow$  Central Bank .....\$ ( $\Rightarrow$  ..... \$  $\uparrow$ )  
 $\Rightarrow$  Baht flow ..... the market  $\Rightarrow$  Money Supply .....  $\Rightarrow$  LM shifts to the .....
- $e^f > e^* \Rightarrow$  Central Bank .....\$ ( $\Rightarrow$  ..... \$  $\uparrow$ )  
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