

# **AP Macroeconomics Series: Using Stories and News Event to Animate Your Balance of Payments Lessons**

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# Intro

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## About me....

- married 25+ years, two sons, two dogs
- 25 years at Mounds View High School
- *Beat Boredom* (2018)
- NeverBore consulting, blog (MarthaRush.org)
- AP reader since 2007 (Macro & Micro) and consultant since 2016
- CEE contributor (HS Econ, EconEdLink)
- National Econ Challenge coach
- Hobbies: Travel, reading, tennis, swimming, craft beer



**Topic:** Balance of Payments (Macro 6.1)

Post your questions to the Jamboard

## **Focus:** What are the Balance of Payments Accounts?

**EU:** Foreign trade accounting measures the flow of goods, services, and financial capital between countries.

**LOs:**

**Define** the current account (CA), the capital and financial account (CFA), and the balance of payments (BOP).

**Explain how** changes in the components of the CA and CFA affect a country's BOP.

**Calculate** the CA, the CFA and the BOP

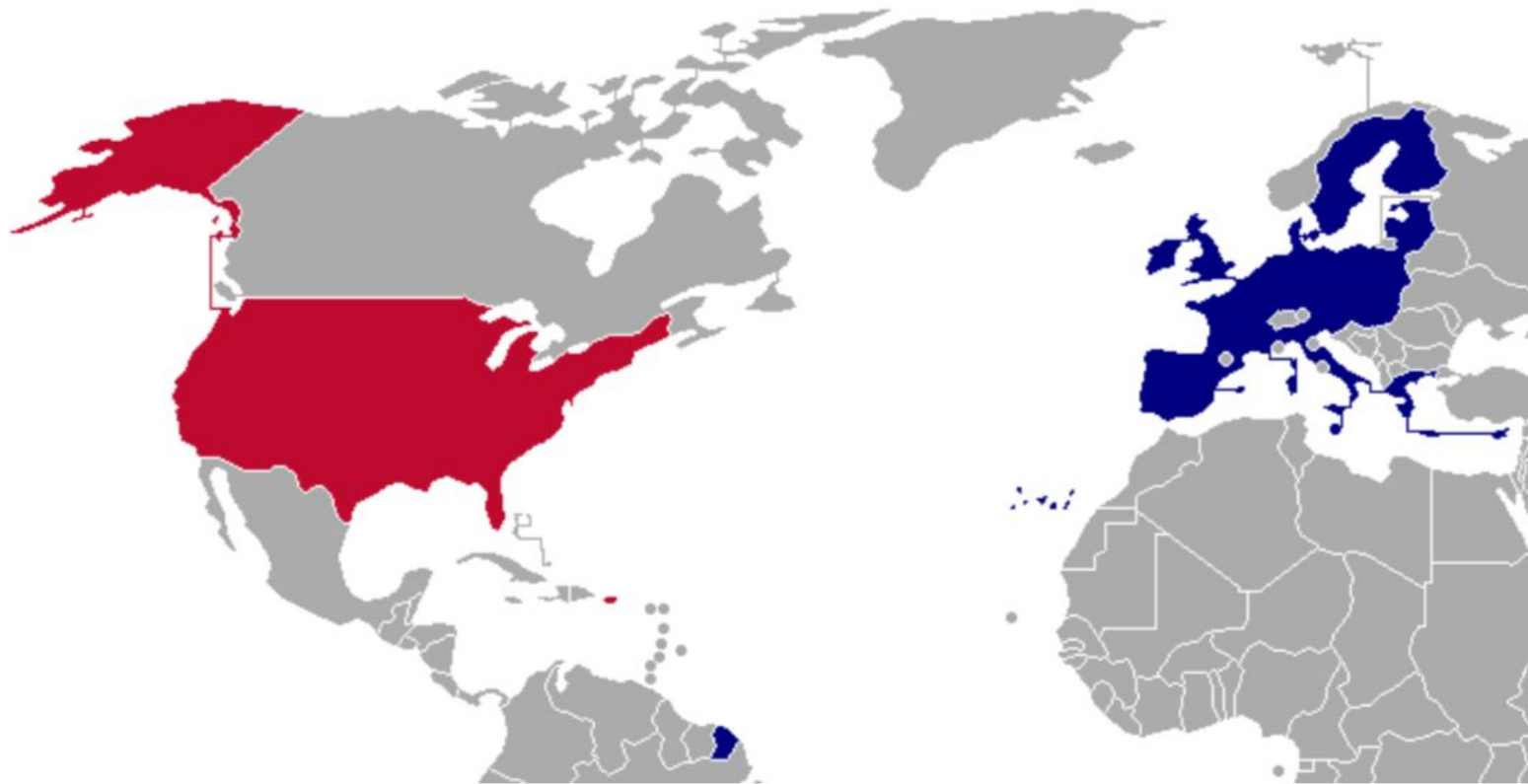


The **flow of goods and services** is exports/imports (or  $X_n$ )

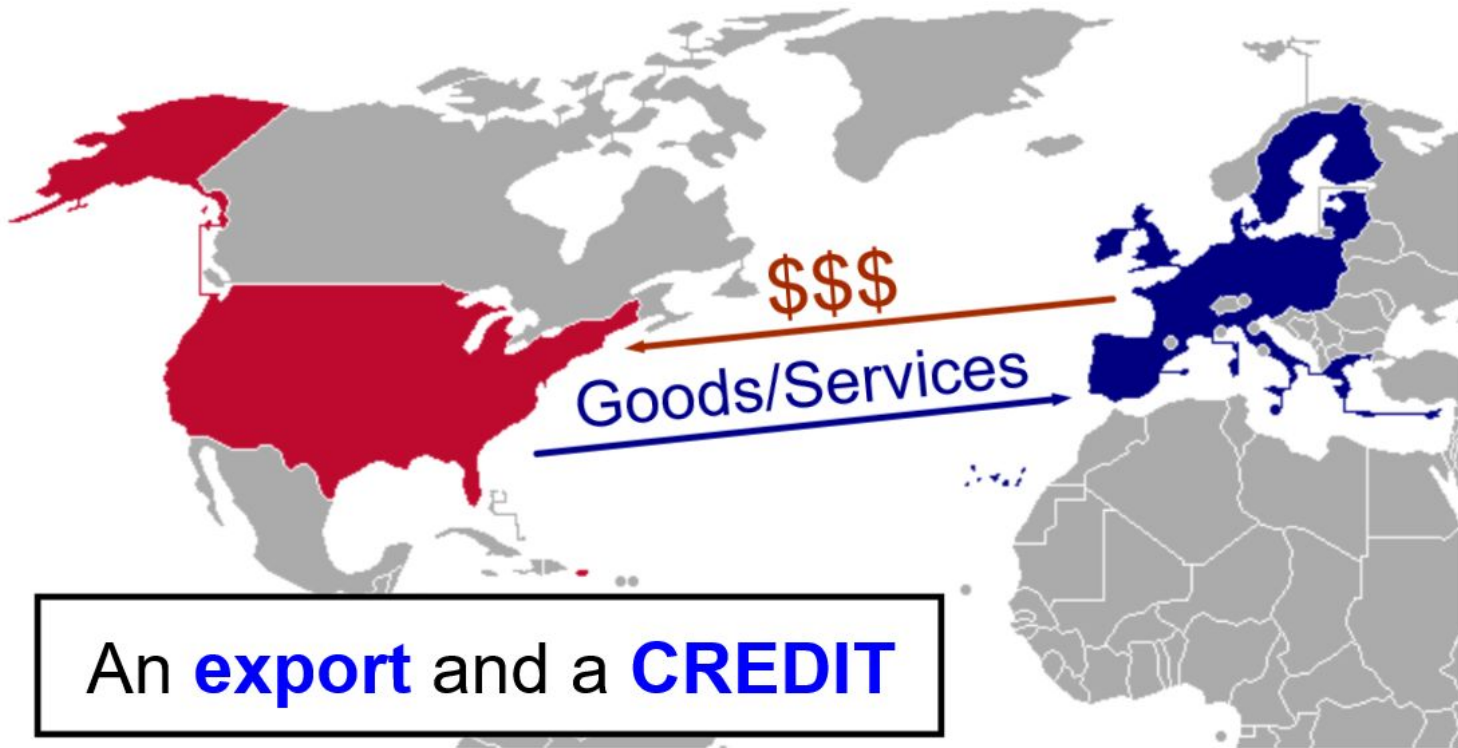
But what are "**international capital flows**"?

- We are talking about **money** - not **capital goods**\*\*
- When Americans buy imported goods, like German cars, capital (money) flows toward Germany.
- When Germans buy imported goods, like American wheat capital (money) flows toward the U.S.

# International Capital Flows

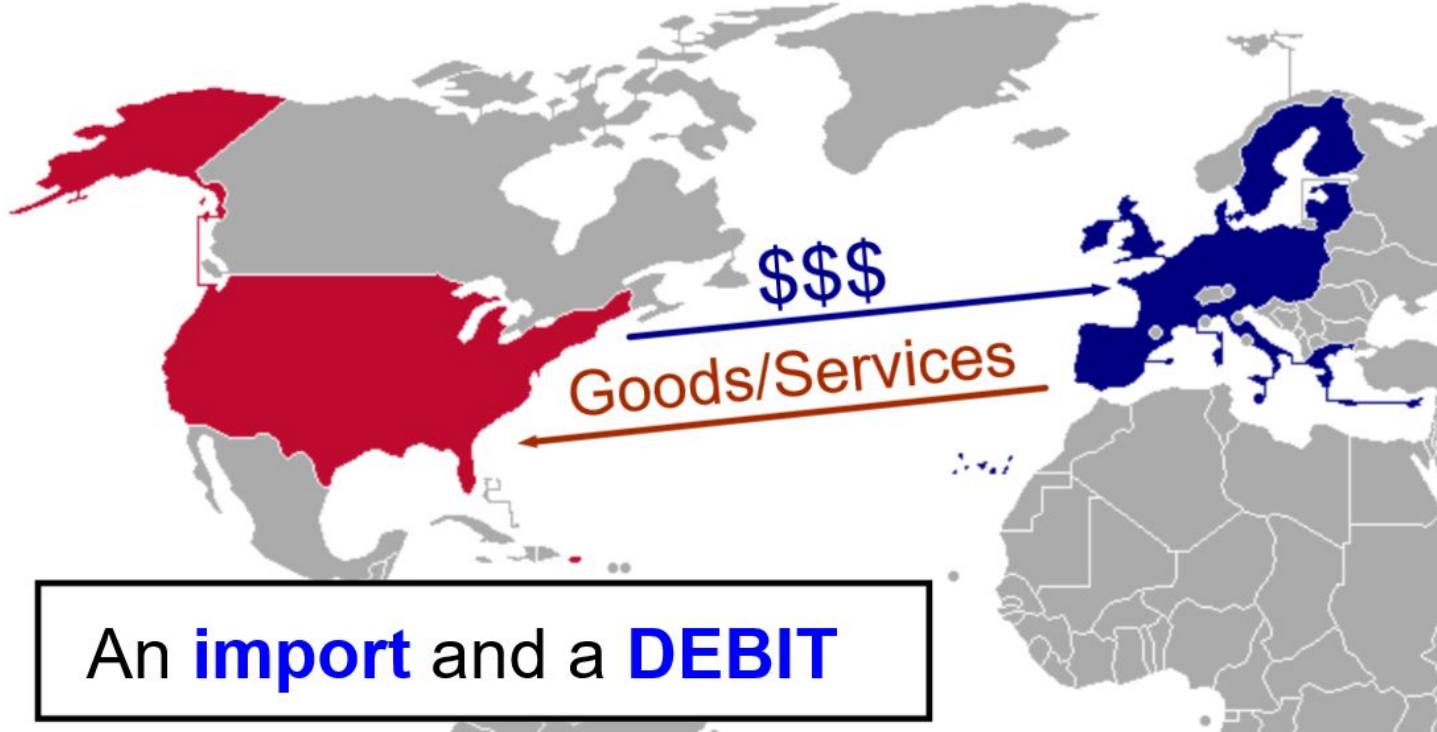


# Capital Inflow



\*Credits > Debits creates a **surplus**

# Capital Outflow



\*Debits > Credits creates a **deficit**



# **Socratic Activity**

Sorting Credits and Debits

[www.socratic.com](http://www.socratic.com)

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## Current v. CFA

All transactions (credits and debits) are sorted in **current** and **CFA** accounts.

The examples on the previous page -- **goods and services** -- were **current account transactions**.

# Current Account

Transactions that **do not** create liabilities.

For example, Farmer John sells wheat to a food processor in China; the food processor pays him.

End of story (and CREDIT)

# Financial Account

Transactions that **do** create liabilities.  
For example, GE sells a bond to  
an investor in Japan.

GE will have to pay interest and repay  
principal in the future.

This is a longer-term relationship.  
(also a CREDIT)

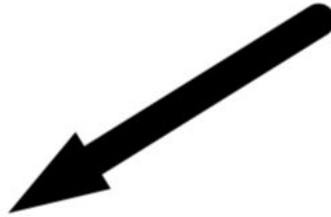
# Balance of Payments

## Current Account

- Imports
- Exports
- Tourism
- Net transfer payments
- Net income on foreign investments

## Financial Account

- Purchases of real assets abroad (hotels, factories)
- Purchases of financial assets abroad (stocks, bonds)



# Jamboard: Sorting Activity

## CEE Workbook, Activity 7-1

Current Account		CFA Account	
Credit	Debit	Credit	Debit
	<p>Harley Davidson USA purchases \$25 million in production machinery from a Japanese company.</p>		
<p>Andre Francon, U.S. entrepreneur, invests \$30 million to develop a theme park in Malaysia.</p>	<p>A Chinese company sells \$1 million worth of berets to the U.S. Army.</p>	<p>BMW pays \$1 million to a U.S. shipper for transporting cars from Germany to the United States.</p>	<p>Each month, Ima Greel, who recently arrived in the United States, sends half her paycheck to her sister in Ireland.</p>
	<p>Bank of America pays \$5 million in interest to French depositors.</p>	<p>Senor Ramos from Spain buys a shopping center in Florida.</p>	<p>A Brazilian investor buys five \$10,000 U.S. Treasury bonds.</p>
		<p>German tourists spend \$3 million in the United States; U.S. tourists spend \$6 million in Germany.</p>	<p>Brit-Diaz, a London record store, spends \$10,000 on CDs by the Generic Curfs, a U.S. kiddy-pop group.</p>
			<p>Sam Boney, U.S. ice-cream magnate, buys stock in a Chilean ice-cream chain.</p>

# Balancing the accounts

Why does a current account **deficit** create a CFA **surplus**?

Why do the two accounts add to 0?

Why does the money have to "come back"?

# A story of 2 "Trade Deficits"

U.S.

1980s

Japan



\$\$\$

cars, electronics, toys  
current account debits

How did the USDs make their way back to the US?



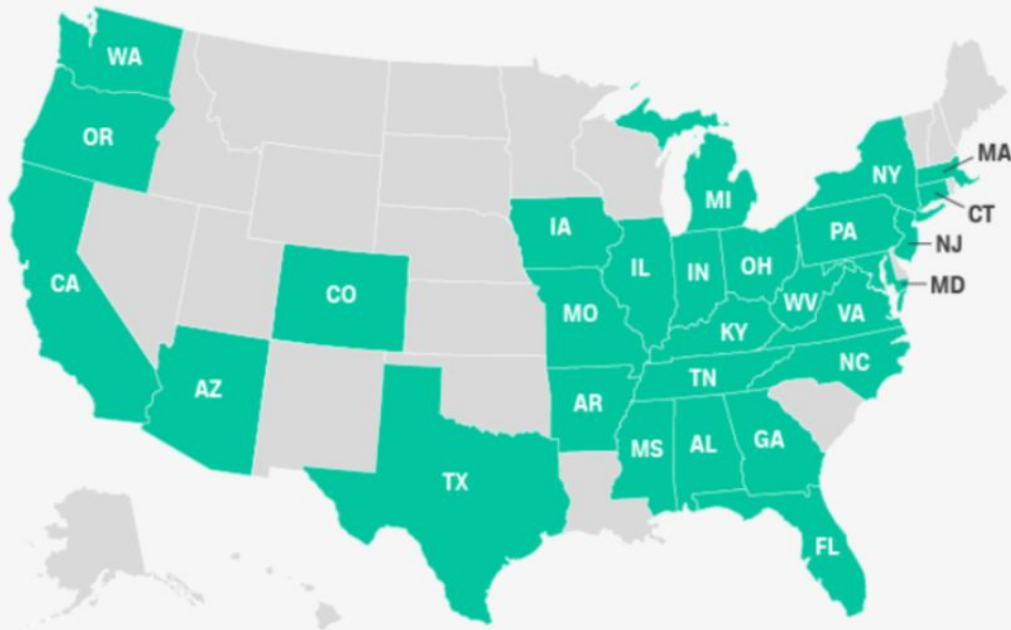


"Suddenly, the U.S. seems to have become a country for sale, a huge shopping mart in which foreigners are energetically filling up their carts. Result: foreign ownership in the U.S., including everything from real estate to securities, rose to a remarkable \$1.33 trillion in 1986, up 25% from the previous year.

- Sept. 14, 1987

# Where Japanese automakers have invested

In 2018, Japanese automakers were operating manufacturing plants, R&D facilities and distribution centers in 28 states.



## The Japanese auto companies include:

Honda	Nissan
Isuzu	Toyota
Mazda	Suzuki
Mitsubishi	Subaru

Source: Japan Automobile Manufacturers Association, Inc (JAMA)

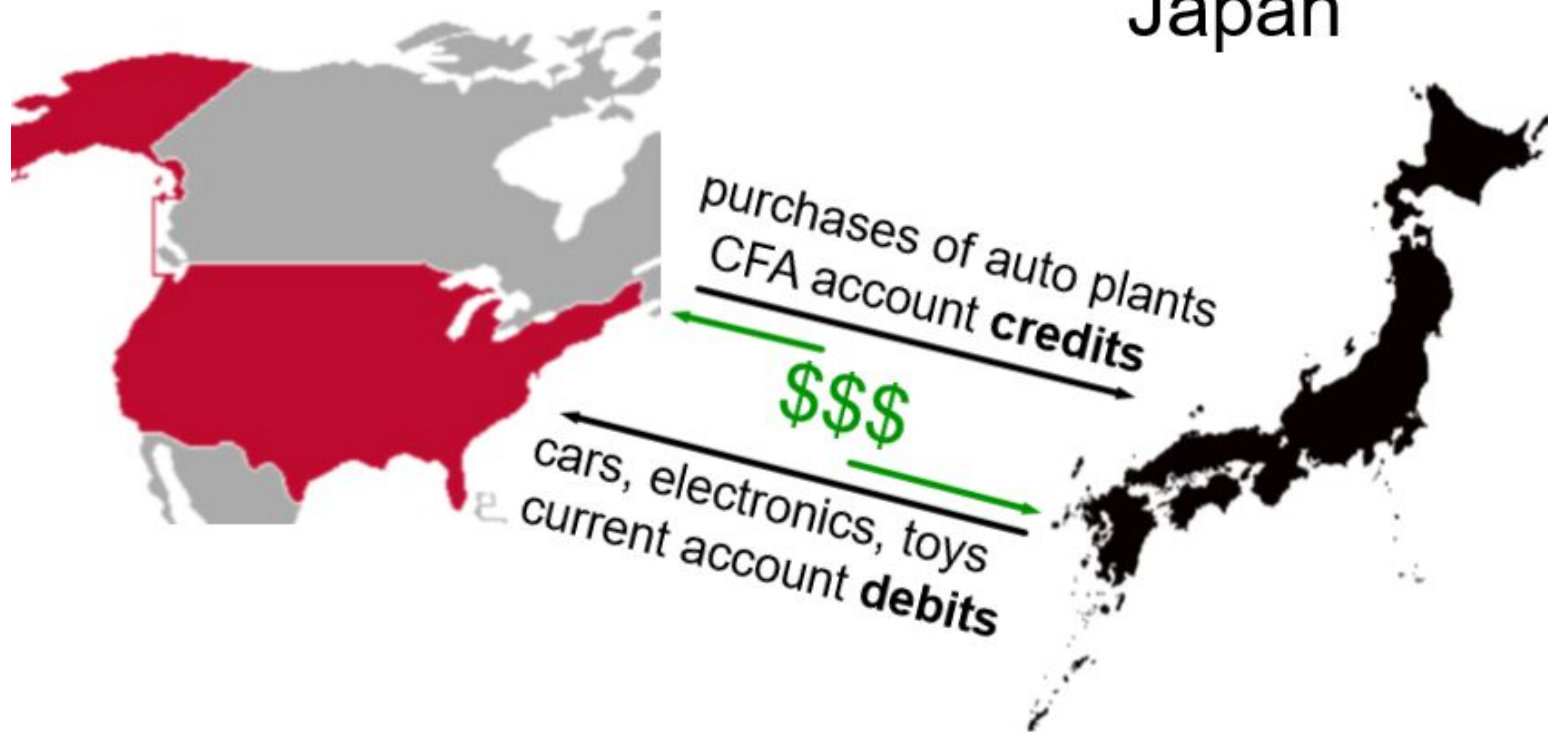
Graphic: Natalie Leung, CNN

**2019 report:** Japanese automakers say they have created almost 94,000 manufacturing jobs at their U.S. plants and more than 1.6 million indirect jobs, like at dealerships and suppliers in the U.S.

U.S.

1980s

Japan



\*additional graphics on syllabus

# Story #2: Today

U.S.



China



\$\$\$

electronics, clothing, toys  
current account debits  
***aka "trade deficit"***

How do the USDs make  
their way back to the US?

THE INDICATOR FROM PLANET MONEY

# China's slice of the US debt pie

August 23, 2022 · 7:21 PM ET

PADDY HIRSCH



DARIAN WOODS



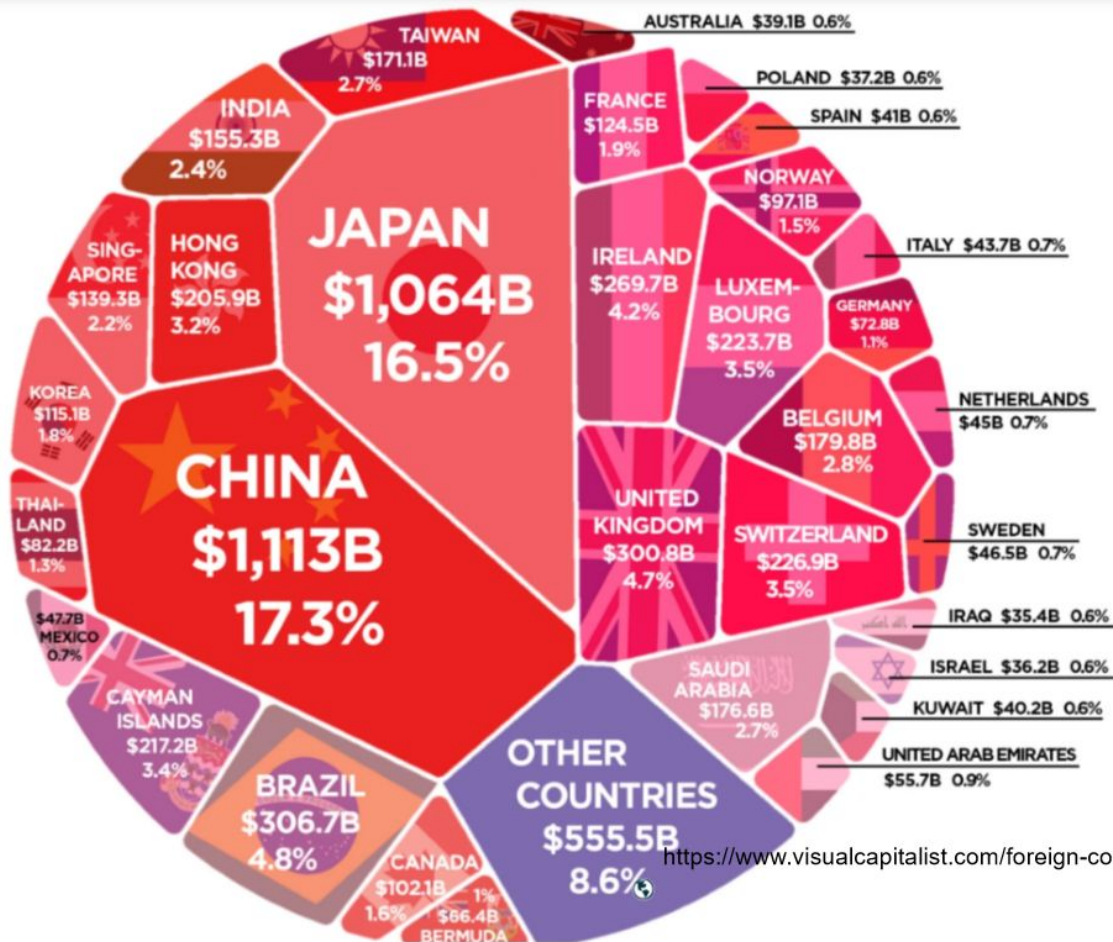
9-Minute Listen

+ PLAYLIST





## Which Countries Own the Most U.S. Debt?



# Reflection

How are the USDs returning to the US?

Why?

What preconceptions do students have?

What questions could you ask to facilitate a discussion about this with students?

How do you address the question of whether this is "good" or "bad"?

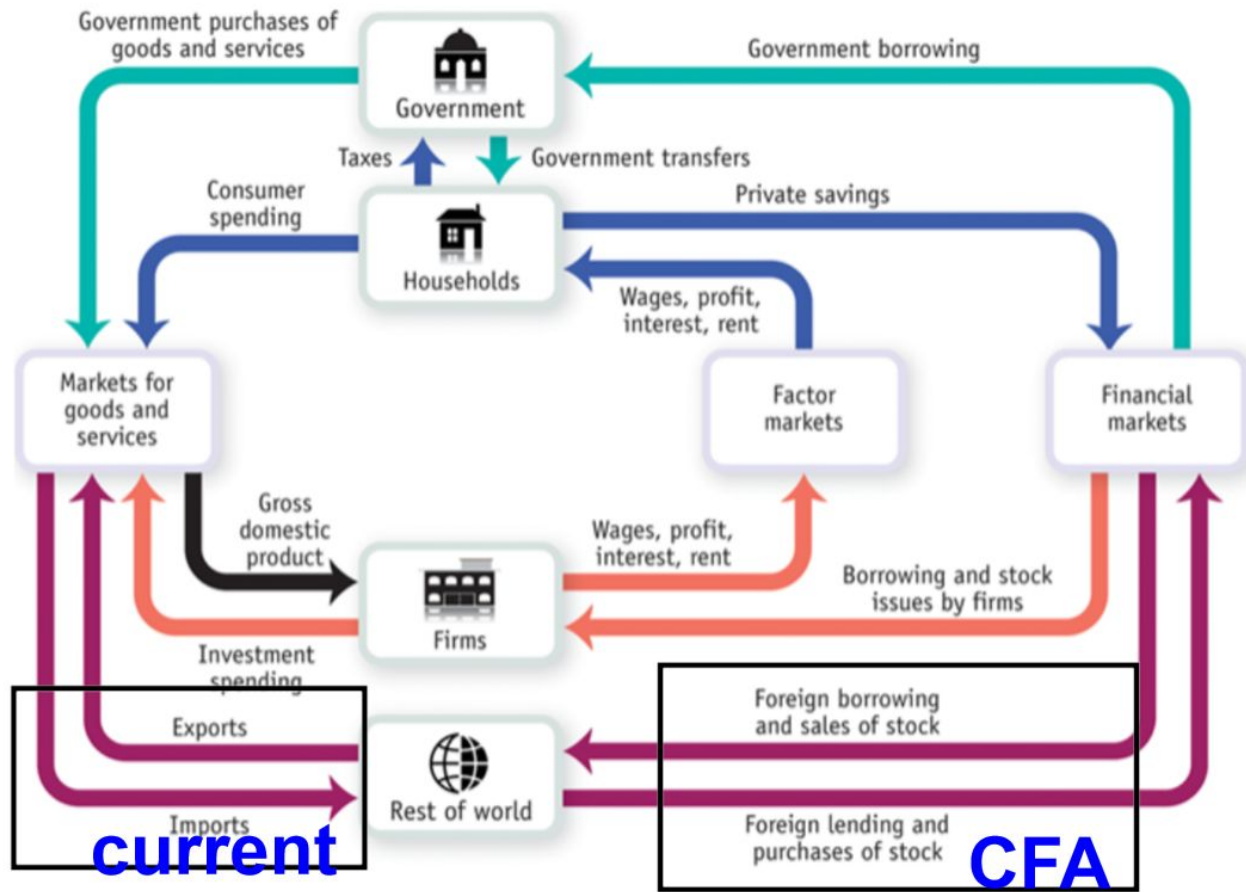
# **Socratic Activity**

Sample AP MCQs

[www.socratic.com](http://www.socratic.com)

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**Figure 7.1** An Expanded Circular-Flow Diagram: The Flows of Money Through the Economy  
 Krugman and Wells: Macroeconomics, Third Edition  
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# AP FRQs

The European Union and the United States are trading partners.

(a) If the current account balance is zero, will an increase in United States real income result in a current account surplus, deficit, or no change? Explain.

(b) Draw a correctly labeled graph of the foreign exchange market for the euro. On your graph, show the effect of the increase in United States real income on the value of the euro relative to the United States dollar.

(c) Now assume interest rates increase in the United States.

(i) What is the effect of the increase in interest rates on the demand for the United States dollar?

(ii) Based on your answer to part (c)(i), what is the effect on the value of the United States dollar relative to the euro?

Suppose that Mexico decreases its tariff rates on all of its imports of automobiles from abroad.

a. Will each of the following groups benefit from the decrease in the tariff rate?

i. Mexican consumers

ii. Mexican automobile manufacturers. Explain.

b. How would the decrease in the tariff rates affect each of the following in Mexico?

i. Current account balance. Explain.

ii. Capital account balance

c. Given the change in Mexico's current account in part (b)(i), what will happen to the aggregate demand in Mexico?

Review **Jamboard Questions**

Next Week: **FOR-EX markets!**