

Balance of Payment

Components of Balance of Payment: → cash inflow (credit)

✓ (dollars enter the domestic market)

→ cash outflow (debit)

✗ (you are spending dollars)

BOP credits are transactions that either increase domestic liabilities or revenues or decrease assets and capital



BOP debit → outflow of cash.

Suppose if a US resident buys an Australian bond, a BOP credit will result from the liability to pay for the bond

and a BOP debit will result from the increase of foreign securities

BOP credits	BOP debits
① Increase in a) domestic liabilities b) Revenue.	① Decrease in a) Domestic liabilities b) Revenue.
② Decrease in a) Assets b) Expenses	② Increase in a) Assets b) Expenses.

b) Expenses

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① Current Account

CATKA = 0.

- a) Merchandise trade \rightarrow raw materials, manufactured goods bought, sold or given away.
② ✓ goods
- b) Services \rightarrow travel, tourism, labour, transportation, business services such as law, management consultation, fees from patents, copyrights on software, books, movies etc.
③ ✓
- c) Income receipts \rightarrow income from ownership of assets such as stock dividends and bond interest.
④ ✓
- d) Unilateral transfers \rightarrow worker remittances from abroad, direct foreign aid.

Balance of trade
 \therefore ISBOT = goods and services exported - imported.

Capital Account :

① Capital transfers :

- a) debt forgiveness
b) migrant's transfer (goods & financial assets accompanying migrants as they leave or enter the country)
c) funds linked to purchase and sale of country)

- c) funds linked to purchase and sale of ^{country} fixed assets.
- d) gift and inheritance taxes.
- e) death duties.
- f) uninsured damage to fixed assets
- g) legacies.

(2)

Acquisitions and disposal of real or intangible assets:

ex: a) transactions of real assets, such as rights to natural resources

b) intangible assets such as trademarks, franchises and leases.

relative PPP