$$Y \equiv C_D + I_D + G_D + EX$$

$$C \equiv C_D + C_F$$

$$I \equiv I_D + I_F$$

$$G \equiv G_D + G_F$$

$$Y \equiv C - C_F + I - I_F + G - G_F + EX$$

$$\equiv C + I + G + EX - (C_F + I_F + G_F) \quad (IM)$$

$$\equiv C + I + G + EX - IM$$

$$CA \equiv PX \cdot EX - PM \cdot IM \qquad \text{Real: } EX - IM = CA'$$

$$CA_{US} + CA_{SA} + CA_{GE} + \cdots \equiv 0$$

$$NW \equiv A - L$$

$$NW \equiv NW_{-1} + CA$$

$$S \equiv Y - C - G$$

$$Y \equiv C + I^a + G + EX - IM$$

$$Y - C - G \equiv I^a + EX - IM$$

$$S - I^a \equiv EX - IM$$

$$C = bY$$

$$IM = mY$$

$$Y = C + I + G + EX - IM$$

$$Y = bY - mY + (I + G + EX)$$

$$Y = \frac{1}{1 - b + m}(I + G + EX)$$

$b = .75$, $m = .2$, $\frac{1}{1-b+m} = \frac{1}{.25+.2} = 2.22$

TWIN DEFICITS

$$C = b(Y - T)$$

$$Y = C + I + G + EX - IM$$

$$IM = m(Y - T)$$

$$D \equiv G - T$$

$$CA' \equiv EX - IM$$

Say $G\uparrow$ (no T change)

then 1) $D\uparrow$

2) $Y\uparrow \rightarrow IM\uparrow \rightarrow CA'\downarrow$

IM : same as C

P vs. P_M $\left(\frac{P}{P_M}\uparrow \Rightarrow IM\uparrow\right)$

EX: Same as IM, but different country

TRADE FEEDBACK EFFECT

$G\uparrow \Rightarrow Y\uparrow \Rightarrow IM\uparrow \equiv EX^*\uparrow \Rightarrow Y^*\uparrow \Rightarrow IM^*\uparrow \equiv EX\uparrow \Rightarrow Y\uparrow$

—— PRICE FEEDBACK EFFECT

$P\uparrow \Rightarrow PX\uparrow \equiv PM^*\uparrow \Rightarrow P^*\uparrow \Rightarrow PX^*\uparrow \equiv PM\uparrow \Rightarrow P\uparrow$

fixed e