CONCEPT: NET EXPORTS EQUAL NET FOREIGN INVESTMENT

● When you spend more money than you make, you have to borrow money

- □ The same logic works on an macroeconomic scale:
  - > Countries that import more than they export must finance the extra purchases
  - > The financing can come from selling assets, such as land or factories, to foreigners
  - > The financing can come from borrowing from foreigners
- □ ***Foreign direct investment*** – the purchase of physical capital by a domestic citizen in a foreign country
  - > Example: Pizza Hut builds a restaurant in Romania
- □ ***Foreign portfolio investment*** – the purchase of financial assets by a domestic citizen in a foreign country
  - > Example: Johnny America buys stock in Telmex, a Mexican telecommunications corporation
- □ ***Net Capital Outflow*** or ***Net Foreign Investment*** is the difference between:
  - > Foreign assets bought by US citizens
  - > US assets bought by foreign citizens

$$Net\ Exports = Net\ Foreign\ Investment$$

EXAMPLE: Marco Salt-Life, a US citizen, shapes surfboards. He sells a surfboard to a consumer in Japan for 10,000 yen.

The sale of the surfboard ______________ net exports   The yen Marco gets _____________ net foreign investment

Note: Marco acquired a foreign asset (yen). He is using his income to invest in yen.

> Suppose, Marco Salt-Life decides to use his 10,000 yen to purchase a Japanese bond investment

The result is still the same. The sale of the surfboard ___________ NX, while the purchase of the bond ___________ NFI

> Instead, Marco Salt-Life decides to use his 10,000 yen to purchase the latest Nintendo system

Now, the sale of the surfboard ______________ NX and the purchase of the Nintendo ______________ NX

In all cases, net exports, equals net foreign investment