

CONCEPT: BALANCE OF PAYMENTS – FINANCIAL ACCOUNT AND CAPITAL ACCOUNT

- **Balance of Payments** – a record of a country's transactions with other countries throughout the year

□ **Financial Account** – records _____ flows of funds into and out of the country

Financial Account		
Change in foreign holding of US assets	1,031	
Change in US holding of foreign assets	-792	
Balance on Financial Account		239
Balance on Capital Account		0
(Statistical Discrepancy)		(-150)
Balance of Payments		0

Source: U.S. Bureau of Economic Analysis

- The assets in the *financial account* include long-term investments and financial assets
 - > Long-term investments may include building a factory or buying equipment
 - > Financial assets include the purchase of stocks and bonds
- *Change in foreign holdings of US assets*
 - > Foreigners spend money to buy US assets (as defined above)
 - > Example: European citizen buys shares of Microsoft Corporation
 - > Example: Toyota builds a manufacturing plant in the United States
- *Change in US holdings of foreign assets*
 - > US Citizens spend money to buy foreign assets (as defined above)
 - > Example: US citizen buys a vacation home in Barcelona
 - > Example: AT&T builds a customer service call center in India
- **Capital Account** – records trivial items that are beyond the scope of this class
 - > Migrant transfers, value of intangible assets, debt forgiveness
- Since the capital account is essentially zero, the current account is the _____ of the financial account
 - > The balance of payments must always equal _____
 - > A net inflow in the current account is matched by an equal net outflow in the financial account