CONCEPT: SAVINGS EQUAL INVESTMENT

● ***Savings*** – current consumption is ____________ current output

● ***Investment*** – current resources are devoted to ____________ future output

□ The term ***investment*** is different in economics from the definition you are used to:

Financial Investments are made by ________________	Economic Investments are made by ________________

● Time to do some algebra! Recall that we used the ______________ approach to calculate GDP (Y)

> The total ________________ must equal the total _______________ for an economy

$$Y = \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_$$

An ***open economy*** trades with other countries, leading to the ***net exports (NX)*** variable.

A ***closed economy*** ____________ trade with other countries, thus ***net exports (NX)*** would be equal to __________.

$$Y = \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_$$

In a closed economy, all output sold is either ____________, _____________ or ____________ by government.

We can rewrite the equation to solve for Investment (I).

$$\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ = Investment\ (I)$$

National Savings – the total income remaining after paying for consumption and government purchases

$$National\ Savings\ (S) = \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_$$

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● National Savings can be broken up into: ***private savings*** and ***public savings***

□ ***Private Savings*** – The amount of income that households have left after paying for consumption and ________

□ ***Public Savings*** – The amount of ________ revenue the government has left after paying for its spending

$$National\ Savings\ (S) = \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_$$

If we add the effect of taxes:

$$National\ Savings\ (S) = (\_\_\_\_\_\_\_\_\_\_\_\_\_\_) + (\_\_\_\_\_\_\_\_\_\_\_\_\_\_)$$

$$National\ Savings\ (S) = Private\ Savings + Public\ Savings$$

□ ***Budget Surplus*** – When the government's tax revenue ______________ its spending

□ ***Budget Deficit*** – When the government's tax revenue ______________ its spending

● In an open economy, the effect of international trade must be included in the Savings = Investment identity:

□ Money borrowed is repaid with ______________

> ***Net Capital Inflow*** – Investment spending financed by funds borrowed from foreigners

> Investment spending financed by foreign money comes at a *national cost*

$$Net\ Capital\ Inflow\ (NCI) = \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_$$

In an open economy:

$$Investment\ in\ an\ Open\ Economy = National\ Savings + \_\_\_\_\_\_\_\_\_\_$$