In 1992, George Soros made nearly $1 billion in a single day for the investment funds he managed. Most people need several weeks to make a billion dollars, or even a month. Soros made his billion on a single day in October by making a huge bet on the future value of the British pound relative to other currencies. He was right, making him arguably the most famous "currency speculator" ever.

How did he do it? In 1992, Britain was part of the European Exchange Rate Mechanism, or ERM. This agreement was designed to manage large fluctuations in the exchange rates between European nations. Firms found it more difficult to do business across the continent when they could not predict what the future exchange rates would likely be among Europe's multiple currencies. (A single currency, the euro, would come roughly a decade later.) The ERM created targets for the exchange rates among the participating countries. Each government was obligated to pursue policies that kept its currency trading on international currency markets within a narrow band around this target. For example, the British pound was pegged to 2.95 German marks and could not fall below a floor of 2.778 marks.
Britain was in the midst of a recession, and its currency was falling in value as international investors sold the pound and looked for more profitable opportunities elsewhere in the world. Currencies are no different than any other good; the exchange rate, or the "price" of one currency relative to another, is determined by supply and demand. As the demand for pounds fell, so did the value of the pound on currency markets. The British government vowed that it would "defend the pound" to keep it from falling below its designated value in the ERM. Soros did not believe it—and that was what motivated his big bet.

The British government had two tools for propping up the value of the pound in the face of market pressure pushing it down: (1) The government could use its reserves of other foreign currencies to buy pounds—directly boosting demand for the currency; or (2) the government could use monetary policy to raise real interest rates, which, all else equal, makes British bonds (and the pounds necessary to buy them) more lucrative to global investors and attracts capital (or keeps it from leaving).

But the Brits had problems. The government had already spent huge sums of money buying pounds; the Bank of England (the British central bank) risked squandering additional foreign currency reserves to no better effect. Raising interest rates was not an attractive option either. "The British economy was in bad shape; raising interest rates during a recession slows the economy even further, which makes for bad economics and even worse politics," explained Soros in a post-mortem of the Soros saga. "As Britain and Italy (with similar problems) struggled to make their currencies attractive, they were forced to maintain higher interest rates to attract foreign investment, making their economies even worse. This compounded the problem of the soaring interest rates during a recession, which deflates the economy even further. Raising interest rates, however, was not an attractive option, and the government had already spent huge sums of money buying pounds. The Bank of England (the British central bank) risked squandering additional foreign currency reserves in an effort to prop up the value of the pound.

Soros had borrowed a huge sum in British pounds and immediately placed them on the market for dollars. The British government had already spent huge sums of money buying pounds; the Bank of England (the British central bank) risked squandering additional foreign currency reserves to no better effect. Raising interest rates was not an attractive option either. "The British economy was in bad shape; raising interest rates during a recession slows the economy even further, which makes for bad economics and even worse politics," explained Soros in a post-mortem of the Soros saga. "As Britain and Italy (with similar problems) struggled to make their currencies attractive, they were forced to maintain higher interest rates to attract foreign investment, making their economies even worse. This compounded the problem of the soaring interest rates during a recession, which deflates the economy even further. Raising interest rates, however, was not an attractive option, and the government had already spent huge sums of money buying pounds. The Bank of England (the British central bank) risked squandering additional foreign currency reserves in an effort to prop up the value of the pound.

Nonetheless, Prime Minister John Major declared emphatically that his "over-riding objective was to defend the pound's target value in the ERM."

Soros's "financial economist" was in the midst of a recession, and its currency was falling. But this campaign had entirely to undermine their investment dollars. But this campaign had entirely to undermine their investment dollars. But this campaign had entirely to undermine their investment dollars. But this campaign had entirely to undermine their investment dollars. But this campaign had entirely to undermine their investment dollars. But this campaign had entirely to undermine their investment dollars. But this campaign had entirely to undermine their investment dollars. But this campaign had entirely to undermine their investment dollars. But this campaign had entirely to undermine their investment dollars. But this campaign had entirely to undermine their investment dollars. But this campaign had entirely to undermine their investment dollars. But this campaign had entirely to undermine their investment dollars. But this campaign had entirely to undermine their investment dollars. But this campaign had entirely to undermine their investment dollars. But this campaign had entirely to undermine their investment dollars. But this campaign had entirely to undermine their investment dollars. But this campaign had entirely to undermine their investment dollars. But this campaign had entirely to undermine their investment dollars.
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Cheapest Way to 'Renew' Capital That Is Necessary to Make Important Investments or to Pay the Bills.

Everything I've just described could be Illinois and Indiana, rather than China and the United States. However, international transactions have an added layer of complexity. Different countries have different currencies, they also have different institutions for creating and managing those currencies. The Fed can create American dollars; it can't do much with Mexican pesos.

You buy your Toyota in dollars. Toyota must pay its Japanese workers and executives in yen. And that is where things begin to get interesting.

The American dollar is just a piece of paper. It is not backed by gold, or rice, or tennis rackets, or anything else with intrinsic value. The Japanese yen is exactly the same. So are the euro, the peso, the ruble, and every other modern currency. When individuals and firms begin trading across national borders, currencies must be exchanged at some rate. If the American dollar is just a piece of paper, and the Japanese yen is the same, then how much American paper should we swap for Japanese paper?

The rate at which one currency can be exchanged for another is the exchange rate. It is the logical starting point for evaluating the relative value of different currencies. A Japanese yen has value because it can be used to purchase things; a dollar has value for the same reason. So, in theory, you should be willing to exchange $1 for however many yen or pesos or rubles would purchase roughly the same amount of stuff in the relevant country.

For example, assume that a bundle of everyday goods costs $25 in the United States and a comparable bundle of goods costs 750 rubles in Russia. We might expect $25 to be worth roughly 750 rubles in Russia, since we would expect the relative purchasing powers of the two currencies to be comparable.

However, the value of the ruble is losing 10 percent of its purchasing power within Russia every year while the U.S. dollar is holding its value. We would expect the ruble to lose value relative to the U.S. dollar (or depreciate) at the same rate. This isn't advanced macroeconomics; it's the daily reality.

We swap for Japanese paper? We can swap for Japanese paper, but not just any Japanese paper. You need a piece of paper that is a piece of paper, and the Japanese yen is exactly the same. So we can exchange American dollars for Japanese yen. The good news: if we're saving to buy toys or anything else with intrinsic value, the exchange rate is perfectly fair. We have a good starting point for evaluating the exchange rate. The real news: if we're saving to buy toys or anything else with intrinsic value, the exchange rate is perfectly fair. We have a good starting point for evaluating the exchange rate.
We can see how purchasing power parity (PPP) works in practice. Consider the following example. When the World Bank gathers data on GDP per capita in other countries and converts that figure into dollars, they often use PPP, as it presents the most accurate snapshot of a nation's standard of living.

If someone earns 10,000 Jordanian dinars a year, how many dollars would they need to achieve a comparable standard of living in the United States?

In the long run, basic economic logic suggests that exchange rates should roughly align with PPP. If $100 can buy significantly more in Mexico than in the United States, then the peso should be overvalued, or the dollar should be undervalued. But if $100 can buy the same things in both countries, then PPP is the most accurate mechanism for comparing PPP is the most accurate mechanism for comparing incomes across countries. It tells us that if we could exchange goods and services at PPP, a person's income would represent the same standard of living in both countries.

However, official exchange rates—those at which you can actually trade currency—often differ from PPP. This is because PPP is calculated based on the prices of tradable goods, whereas official exchange rates also consider the prices of nontradable goods. In practice, official exchange rates tend to be higher than PPP, as nontradable goods are often more expensive in developed countries. This discrepancy is known as the official exchange rate premium.

PPP is a useful tool for comparing incomes across countries, as it adjusts for differences in the cost of living. However, it is important to remember that PPP is not perfect and that other factors, such as differences in the quality of goods and services, can affect income comparisons.

In the end, the choice of which currency to use for income comparisons is a matter of preference. Some economists prefer to use PPP, while others prefer to use official exchange rates. Ultimately, the choice will depend on the specific needs of the comparison.
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The Sanie in America as elsewhere. Comparing these with official exchange rates signals if a currency is under- or overvalued.

In July 2009, a Big Mac cost an average of $3.57 in the United States and 12.5 renminbi in China, suggesting that 3.57 should be worth roughly 12.5 renminbi (and $1 with 3.5 renminbi). But that was not even close to the official exchange rate. At the bank, $1 bought 6.83 renminbi—making the renminbi massively undervalued relative to what “burgernomics” would predict. (Conversely, the dollar is overvalued by the same measure.) This is not a freak occurrence; the Chinese government has promoted economic policies that rely heavily on a “cheap” currency. Of late, the value of the renminbi relative to the dollar has been a significant source of tension between the United States and China—a topic we’ll come back to later in this chapter.

Exchange rates also deviate quite sharply from what PPP would predict. That invites two additional questions: Why? And so what?

Let’s deal with the second question first. Imagine checking into your favorite hotel in Paris, only to discover that the rooms are nearly twice as expensive as they were when you last visited. When you protest, he replies that the room rates have not changed in several years. And he’s telling the truth. What has changed is the exchange rate between the euro and the dollar. The dollar has “weakened” or “depreciated” against the euro, meaning that each of your dollars buys fewer euros than it did the last time you were in France. (The euro, on the other hand, has “appreciated.”) To you, that makes the hotel more expensive. To someone visiting Paris from elsewhere, the hotel is the same price as it has always been. A change in the exchange rate makes foreign goods cheaper or more expensive, depending on the direction of the change in the exchange rate. The exchange rate reflects how much one country’s goods cost in terms of another country’s goods. In France, the price is in euros; let’s say the price is a hundred euros. A change in the exchange rate makes the euros cheaper or more expensive.

In general, a weak currency is good for exporters and punishing for importers. In 1992, when the U.S. dollar was relatively weak, a New York Times story began, “The declining dollar has runned the world’s wealthiest economy into the ‘tramp line of industrial countries.’” A strong dollar has the opposite effect. In 2001, when the dollar was strong, a compete中国制造的 car was cheaper for Parisian car buyers—but Ford still brings home $25,000! This is the best of all worlds for American exporters: cheaper prices but not lower profits! The good news for Ford does not end there. A weak dollar makes imports more expensive for Americans. A car priced at 25,000 euros used to cost $25,000 in the United States; now it costs $37,000—because the price of the car has gone up, but your exchange rate has gone down. In 2001, when the dollar was strong, your American goods were cheaper for Europeans, making Toyota and Mercedes cheaper by comparison and Ford—and American—goods more expensive for Europeans. A car priced at 25,000 euros now costs $17,500—because the price of your dollar has gone down, but your exchange rate has gone up. With the euro-

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the same rime, a cheap currency raises the ease of import, which is bad for consumers. (Ironically, a weak currency can also harm exporters by making any imported inputs more expensive.) A government deliberately keeps its currency undervalued is essentially Coxing consumers of imports and subsidizing producers of exports. An overvalued currency does the opposite—making imports artificially cheap and exports less competitive with the rest of the world. Currency manipulation is like any other kind of government intervention: It may serve some conceivable economic purpose—or it may divert an economy's resources from their most efficient use. Would you support a tax that collected a significant fee on every imported good you bought and used the revenue to mail checks to firms that produce exports?

How do governments affect the strength of their currencies? At the bottom, currency markets are like any other market. The exchange rate is a function of the demand for some currency relative to the supply. The most important factors affecting the relative demand for currencies are global economic forces. A country with a booming economy will often have a currency that is appreciating. Strong growth presents investment opportunities that attract capital from around the world (e.g., to build a manufacturing plant in Costa Rica or buy Russian stocks). To acquire these local investments, foreign investors must buy the local currency first. The opposite happens when an economy is flagging. Investors will trade capital somewhere else; they will sell local currency at its way out.

When an economy is flagging, investors look for their capital somewhere else; they will sell local currency at its way out. At the end of the day, the L,5 currency is whoever holds it. If an investor in London buys an L,5 bond, the pound holder will be whoever bought it. A country's central bank sets the relative demand for its currency by the actions of its government. For example, when the British government defends the pound from falling, it is essentially selling pounds on the foreign exchange market in an effort to weaken the currency. In the short run, this can be done, but the long run is another matter. If the British government wants the pound to appreciate, it can do so by buying pounds on the foreign exchange market and selling dollars or euros. The opposite is true when the government wants the pound to appreciate; it can do so by selling pounds on the foreign exchange market and buying dollars or euros. The British government has used this technique to defend the pound from falling. However, the government cannot control the long-term value of the pound. The British pounds would cause the pound to appreciate in the short run, but the increased demand for British pounds would cause the pound to depreciate in the long run. The government cannot control the long-term value of the pound. The government can control the short-term value of the pound, but it cannot control the long-term value.

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With floating exchange rates, governments have no obligation

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when the parties are willing to voluntarily make one for the other—just like the

parties are willing to voluntarily make one for the other—just like the

meme most question at the beginning of the chapter: How many yen should a
dollar be worth? Or rubles? Or krona? There are a lot or possible answers to

that question, depending in large part on the exchange rate mechanism that a

particular country adopts. An array of mechanisms can be used to value

currencies against one another:

The gold standard. The simplest system to get your mind around is the gold

standard. No modern industrialized country uses gold any longer

(other than for overpriced commemorative coins), but in the decades

following World War II the gold standard provided a straightforward

mechanism for coordinating exchange rates. Countries pegged their

currencies to a fixed quantity of gold and therefore, indirectly, to each other.

It's like one of those grade-school math problems: If an ounce of gold is

worth $35 in America and 350 francs in France, what is the exchange rate

between the dollar and the franc?

One advantage of the gold standard is that it provides predictable

exchange rates. It also protects against inflation; a government cannot

print new money unless it has sufficient gold reserves to back the new

money. Moreover, it supports fixed exchange rates. If we produce a gold

exchange fund, its exchange rates are consistent and

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in the economy. In contrast, Brazil’s currency, the real, fell more than 
25 percent. Further, Brazilian exporters and importers had to 
place stakes in foreign exchange, and the Brazilian government 
struggled to maintain a certain value of its currency, much like 
under the gold standard. The primary drawback of this system is that 
exchange rate volatility. So far, exchange rate volatility has been a 
drawback of floating rates, though not a fatal flaw. International 
companies can use the financial markets to hedge their currency risk. 
For example, an American firm doing business in Europe could 
enter into a futures contract that locks in some euro-dollar exchange 
rate at a specified future date—just as Southwest Airlines might lock 
in future fuel prices or Starbucks might use the futures market to protect 
against an unexpected surge in the price of coffee beans.

Fixed exchange rates (or currency bands). Fixed or “pegged” currency 
are similar to the gold standard, except that there is no gold. (This 
may seem like a problem—and it often is.) Countries pledge to 
keep their exchange rates fixed within a certain range. The 
European Exchange Rate Mechanism described at the beginning of 
this chapter was such a system.

The primary problem with a “peg” is that countries can’t cred 
ibly commit to defending their currencies. When a currency begins 
to look weak, as the pound did, then speculators pounce, buying 
and selling to make millions (or billions) if the currency is devalued. 
Otherwise, when speculators (and others concerned about devaluation) 
aggressively sell the local currency—as Soros did—then devaluation becomes 
more likely.

Borrowing someone else’s strength. At the end of 1990, inflation in 
Argentina was more than 1,000 percent a year, to no one’s great 
surprise given the country’s history of hyperinflation. Is that a currency 
you want to own? Argentina had long been the world’s inflation 
headache—like the monetary equivalent of someone who stands you up 
date a cup of coffee. In 1991, Argentina declared that it was relinquishing control over its 
own monetary policy. No more printing money. Instead, the government 
created a currency board with some rules to ensure that henceforth every Argentine peso would be worth one U.S. dollar. To 
makes that possible, the currency board would be allowed to print 
new pesos only if it had new dollars in its vaults to back them. 
In effect, Argentina created a gold standard with the U.S. dollar substituting for the gold.

This worked for a while. Inflation plummeted to double digits and 
enslaved to single digits. Alas, there was a huge cost. Remember all those 
evocative things the Fed can do with interest rates? The Argentine government could not do any of them. It had 
abdicated control over the money supply in the name of fighting inflation. Not 
only that, but it had ceded control over the rates of interest, the very rates that 
are supposed to control inflation. But it didn’t work. Argentina tried 
other creative schemes to keep its currency rising against the dollar, 
even with the peg. Then in 1995, the peso was fixed again against the dollar. If 
the dollar was wrong, the peso was strong. If the dollar was weak, the peso 
was strong. If the dollar was weak, the peso was weak. The peso was 
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weak. The peso was weak when the dollar was weak.

This lack of control over the money supply and exchange rate 
ultimately took a toll. Beginning in the late 1990s, Argentina 
slipped into a deep recession. Authorities did not have the 
usual tools to fight it. To make matters worse, the peso was 
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weak when the dollar was weak.
To the rest of the world, Brazil had thrown a giant half-price sale and Argentina could do nothing but stand by and watch. As the Argentine economy limped along, economists debated the wisdom of the currency board. The proponents argued that it was an important source of macroeconomic stability; the skeptics said that it would cause more harm than good.

In 1995, Maurice Obstfeld and Kenneth Rogoff, economists at UC Berkeley and Princeton, respectively, led a paper warning that most attempts to maintain a fixed exchange rate, such as the Argentine currency board, were likely to end in failure. Time proved the skeptics right. In December 2001, the long-suffering Argentine economy unraveled completely. Street protests burned violent, the president resigned, and the government announced that it could no longer pay its debts, creating the largest sovereign default in history. (Ironically, Ken Rogoff had by then made his way from Princeton University to the International Monetary Fund, where, as chief economist, he had to deal with the economic wreckage that he had warned against years earlier.) The Argentine government scrapped its currency board and ended the guaranteed one-for-one exchange between the peso and the dollar. The peso immediately plunged some 30 percent in value relative to the dollar.

Some currencies have no international value at all. In 1989, I crossed through the Berlin Wall into East Berlin, behind the Iron Curtain. When we crossed into East Germany at "Checkpoint Charlie," we were required to change a certain amount of "hard currency" (dollars or West German marks) for a certain amount of East German currency. How was the exchange rate determined? Make believe. The East German mark was a "soft" currency, meaning that it had no speculative points of the commodity world and therefore had no intrinsic value outside of the GDR. "Chips" were required to change a certain amount of "hard currency" to East German currency. I was then at the beginning of a three-act drama in which Germany reunified. First, the East German currency was exchanged at a seemingly arbitrary, though I'm fairly certain that the purchasing power of what we gave was worth less than the purchasing power of what we gave up. People queued around the block to line up at certain banks. The government then guaranteed the exchange rate at the official rate, and the government announced that the government would buy and sell foreign exchange at that rate. The Germans were required to change a certain amount of "hard currency" to East German currency. They then sold their East German marks to the government at the official rate, and the government then sold those East German marks to the Germans at the guaranteed rate of exchange, which was lower than the official rate.

In fact, the Argentina-type currency meltdown is surprisingly frequent. Let's revisit a passage from a few pages ago: "In acripers' take their capital somewhere else, selling the local currency on their way out. Only now, let's dress that statement up to more closely approximate reality: "Investors panic, weeping and screaming as they sell assets and dump the local currency—exactly as possible, for whatever reason. We're already in a crisis where currency values and the local economy are inextricably linked. Without reform, these poor, weak, and the poor government that backs them, and the poor country that suffers from it."

At that time, I sold off almost all my East German currency. In 1990, I moved to the United States to work at Princeton University in the International Monetary Fund, where I continued to study the economics of the German reunification.

That all sounds so orderly, except for the riots in the streets in Argentina. In fact, the Argentina-type currency meltdown is surprisingly frequent. Let's revisit a passage from a few pages ago: "In acripers' take their capital somewhere else, selling the local currency on their way out. Only now, let's dress that statement up to more closely approximate reality: "Investors panic, weeping and screaming as they sell assets and dump the local currency—exactly as possible, for whatever reason. We're already in a crisis where currency values and the local economy are inextricably linked. Without reform, these poor, weak, and the poor government that backs them, and the poor country that suffers from it."

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Foreign investors are likely to move their capital somewhere else—preferably before everyone else does. As asset prices fall (as foreigners sell), the currency plunges. Each of these things makes the underlying economic problems worse, which causes asset prices and the currency to plunge further. The country pleads with the rest of the world to help stop the downward economic spiral.

To get a sense of how this plays out, let's look at the most recent victim: Iceland. Iceland is not a poor, developing economy. In fact, Iceland was at the top of the UN Human Development Index rankings in 2008. Here are Iceland’s three acts, as best I can figure them out:

Act I. In the first decade of the twenty-first century, Iceland’s currency, the Icelandic krona, was extremely strong, and real interest rates were high by global standards. Iceland’s relatively unregulated banks were attracting capital from all over the world as investors sought high real returns. At the peak, Iceland’s banks had assets 10 times the size of the country’s GDP. Meanwhile, the high domestic interest rates induced Icelanders to borrow in other currencies, even for relatively small purchases. An economist at the University of Iceland told CNN Money, “When you bought a car, you'd be asked, ‘How do you want to pay for it?’ Half in yen and half in euros.”

Act II. The global financial crisis was bad for the world and disastrous for Iceland. Iceland’s banks suffered huge losses from bad investments and nonperforming loans. By the fall of 2008, the country’s three major banks were defunct; the central bank, which had taken control of the largest private banks, was technically in default as well. The New York Times reported a story in November 2008 that began, “People go broke in Iceland all the time. Companies go bankrupt. But countries?”

As the krona plummeted, the cost of all those consumer loans the krona continues to pay skyrockets. An economist at the University of Iceland told CNN Money, “Worse, you can’t pay in euros.”

The Icelandic krona lost half its value relative to the euro. The stock market fell by 90 percent, GDP fell 20 percent; unemployment hit a forty-year high. People were angry—just like in Argentina. One woman told The Economist, “If I met a banker, I’d kick his ass so hard my shop would be snickered inside.”

The effects of the financial crisis were catastrophic. McDonald’s restaurants closed after becoming victims of the financial crisis. McDonald’s required that its Iceland franchise buy its food and packaging from Germany. Because the krona had plummeted in value relative to the euro and because the government had imposed high import tariffs on foreign food, the cost of these inputs from Germany roughly doubled. The owner of the Iceland franchises said that to make a “decent profit,” the 13 Big Mac would have had to sell for the equivalent of more than six dollars—higher than anywhere else in the world. People were angry at the krona’s collapse—just like in Argentina. But unlike Argentina, Iceland was a small country, and real interest rates were high. The economic wreckage that results time after time as investors flee a country suggests an obvious fix: Maybe it should be harder to flee.

Some countries have experimented with capital controls, which place various kinds of limits on the flow of capital. Like many obvious fixes, this one has less obvious problems. If foreign investors can’t leave a country, they are less likely to show up in the first place. In the end, these kinds of things are more of a cure for what ails a country than a cure for the underlying economic problems. The country pleads with the rest of the world to help stop the downward economic spiral. The country pays the rest of the world to help stop the downward economic spiral. It’s a lot like crying to improve revenues at a department store by promising higher returns. A group of economists studied fifty-two poor countries between 1980 and 2007 to examine the relationship between financial liberalization (making it easier to move capital in and out of the country) and economic performance. As the krona continued to fall, the cost of all those consumer loans

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Of course, they impose some kind of capital controls, as you know...
Now chat income will go en bUr trading partrter instead. We're buying cars now by giving u~ fumce income. `1"hat's not our only choice. We can k>uy our merchandise on credit. We can ask some willing party in die global financial wmmunity m

Ivan ns $50 million. In that case, we "p.iy for" our 510 million in Japanese cars with $50 million in planes and $50 million in borrowed capita(. That, too, has obvious future costs. We have to pay back the loans with interest. Again, we are payuig for current consumption by borrowing against the future—literally in this case. Why is the linitecl States running chronic current account defi-
cits? It has virtually nothing to do with the quality of our goods and services or the competitiveness of our labor force, as conventional wisdom would have it. (To my earlier point, do you think Algeria and Equatorial Guinea are sunning current account surpluses because they are producing better stuff with more productive workers?)

The connection between the current account balance and a

country's saving rate is crucial. Any country that is consuming more

goods and services for the extra stuff that you're getting from the rest

of the world because you've consumed beyond what you produce

certainly makes this stuff must come from somewhere else in the world

(1) the stuff you're consuming beyond what you produce

must come from somewhere else in the world and (2) you can't trade

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We have to pay back the loans with interest. Again, we are payuig for current consumption by borrowing against the future—literally in this case.

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New Zealand finds itself in a difficult position. Its economy was growing, but its terms of trade were falling. The New Zealand dollar was also depreciating, which made New Zealand's exports more competitive and imports more expensive. For example, if the New Zealand dollar fell relative to the yen, then Toys would become cheaper in New Zealand while New Zealand's kiwis would look more expensive in Japan. Meanwhile, a stronger New Zealand dollar would reduce the current account deficit.

China's situation is different. The Chinese government has been trying to keep the renminbi undervalued to support its export-oriented development strategy. This has led to a large trade surplus and a current account surplus, which the Chinese government has been using to accumulate foreign exchange reserves. The Chinese government has invested these reserves in U.S. Treasury bonds, which have provided a source of funding for the Chinese government's economic policies. However, this has also created a large U.S. trade deficit and a large U.S. current account deficit.

The situation is unsustainable in the long run. The Chinese economy is growing rapidly, but it is not growing at the same rate as the U.S. economy. The Chinese government is not able to continue to accumulate foreign exchange reserves indefinitely. The U.S. government is also not able to continue to finance its trade deficit indefinitely. The Chinese government is also not able to continue to finance its investment in the U.S. economy indefinitely. The Chinese government is also not able to continue to finance its investment in the U.S. economy indefinitely.

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In 1945, the Bretton Woods Conference was convened to address the challenges of the post-war world. They created two international institutions, the International Monetary Fund (IMF) and the World Bank, to promote economic development and global economic cooperation.

The IMF was established to provide assistance to member countries facing balance of payments problems. It also administers the World Bank's concessional lending facilities. The World Bank is focused on long-term capital projects, such as roads, hospitals, and schools, to promote economic growth and poverty reduction.

In recent years, both institutions have faced criticism for their role in promoting neoliberal economic policies and for their limited focus on issues such as climate change and social justice. However, they remain critical components of the global economic architecture and continue to play a significant role in shaping the global economic order.

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