

- A country's balance of payments accounts are a summary of all of the country's transactions with other countries.
- There are two important accounts within the balance of payments: the *current account* and the *financial account* (formerly known as the *capital account*). The current account records a country's exports and imports of goods and services, net investment income, and net transfers. The financial account records the difference between a country's sale of assets to foreigners and its purchase of assets from foreigners.
- The current account includes the country's trade balance (net exports).
- The financial account measures capital inflows in the form of foreign savings that finance domestic investment and government borrowing.
- The current account and the financial account must sum to zero.
- Capital flows between countries occur when the loanable funds markets in the two countries establish different equilibrium real interest rates. Financial capital will flow into the country where the real interest rate is higher.
- Trade barriers such as tariffs and quotas limit the gains from trade. These barriers generally protect domestic sellers at the expense of domestic buyers.
- To trade, nations must exchange currencies.
- An exchange rate is the price of one currency in terms of another. Foreign exchange markets use supply and demand to set exchange rates.
- Appreciation is an increase in the value of a nation's currency in foreign exchange markets. Appreciation of a nation's currency decreases exports and increases imports.
- Depreciation is a decrease in the value of a nation's currency in foreign exchange markets. Depreciation of a nation's currency increases exports and decreases imports.
- Monetary and fiscal policies can affect exchange rates, the international balance of trade, and the balance of payments.
- Domestic economic policies affect international trade, and international trade affects the domestic economy. The international sector influences unemployment, inflation, and economic growth.