

Financial Wealth and International Trade

by

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Abstract

The study examines the link between the current account deficit and an increase in asset prices of various categories of goods from 2000 to 2021. The study examines international transaction and the increase in the stock prices, commercial real estate prices, and home prices in correlation to the current account deficit.

Introduction

In today's world, asset wealth such as stock and commercial real are used to stimulate the economy. When real estate prices rise, wealth increases, so individuals and businesses are more likely to borrow and spend. This increase could cause the current account deficit to increase.

Empirics

- Data from Bureau of Economic Analysis (BEA) and Federal Reserve Board of Governors (FRB).
- All variables are available beginning in the first quarter of 2000

Vector Autoregression Model

- Three lags VAR (3) is used with the capital goods trade balance, noncapital goods trade balance, and other variables all as a percent of GDP.
- Log real GDP to control for changes in total economic output.
- The Doornik-Hansen χ^2 -statistic for the normality of the residuals is insignificant.
- Cholesky ordering for the IRFs and FEVDs is ranked from most exogenous to least exogenous.

Impulse Responses

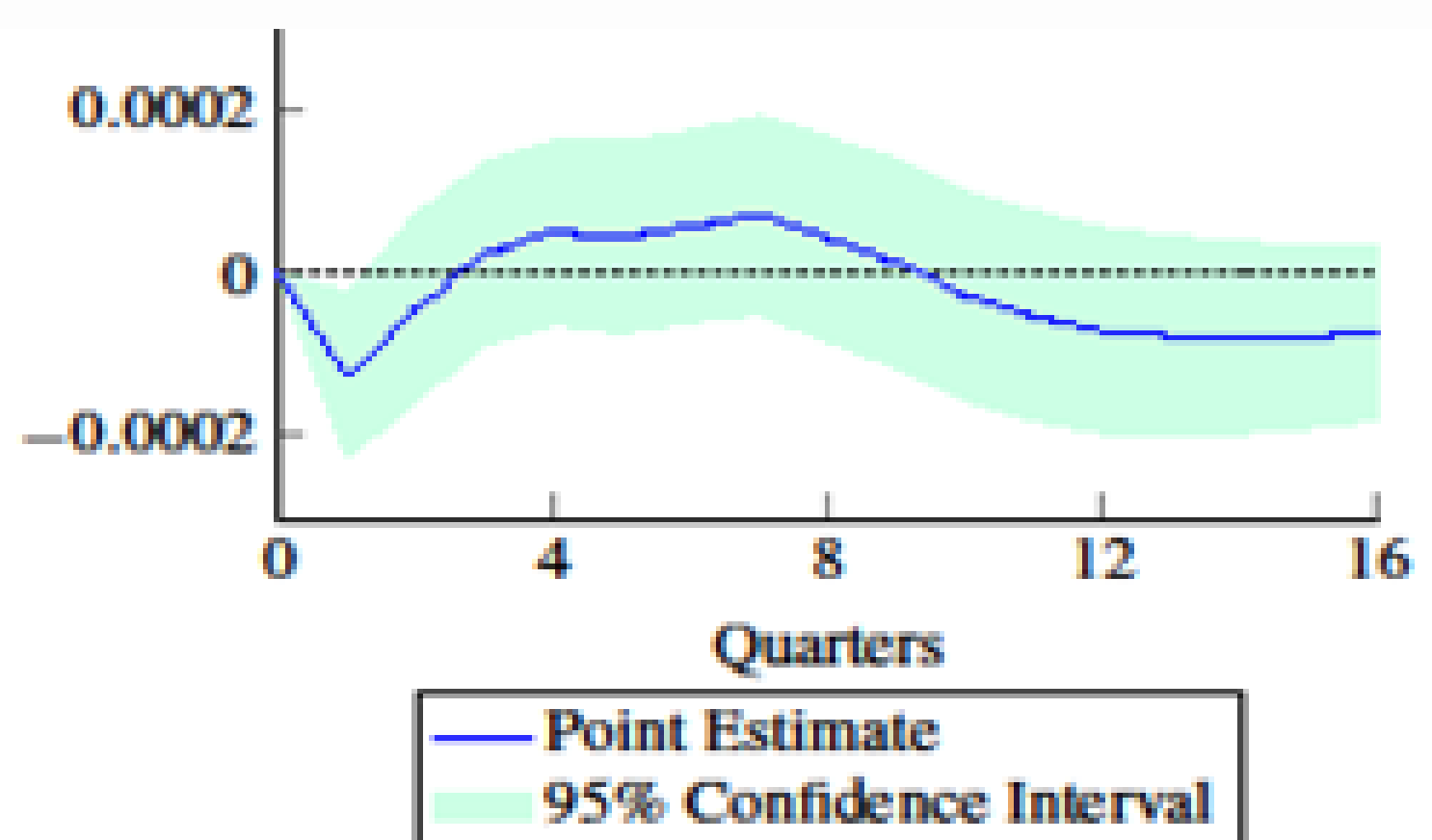


Figure 1: Response of Capital Goods Trade Balance to Direct Investment Balance

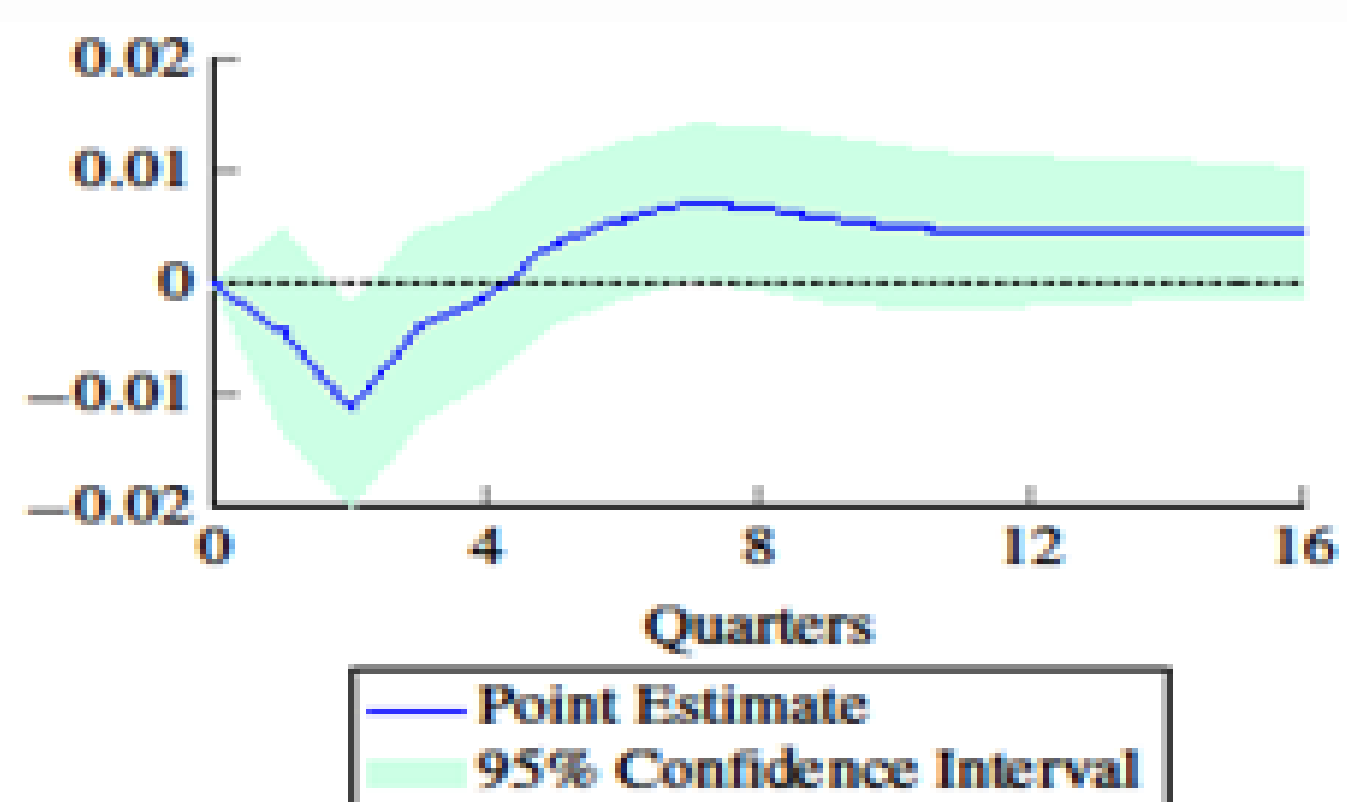


Figure 2: Response of Capital Goods Trade Balance to GDP

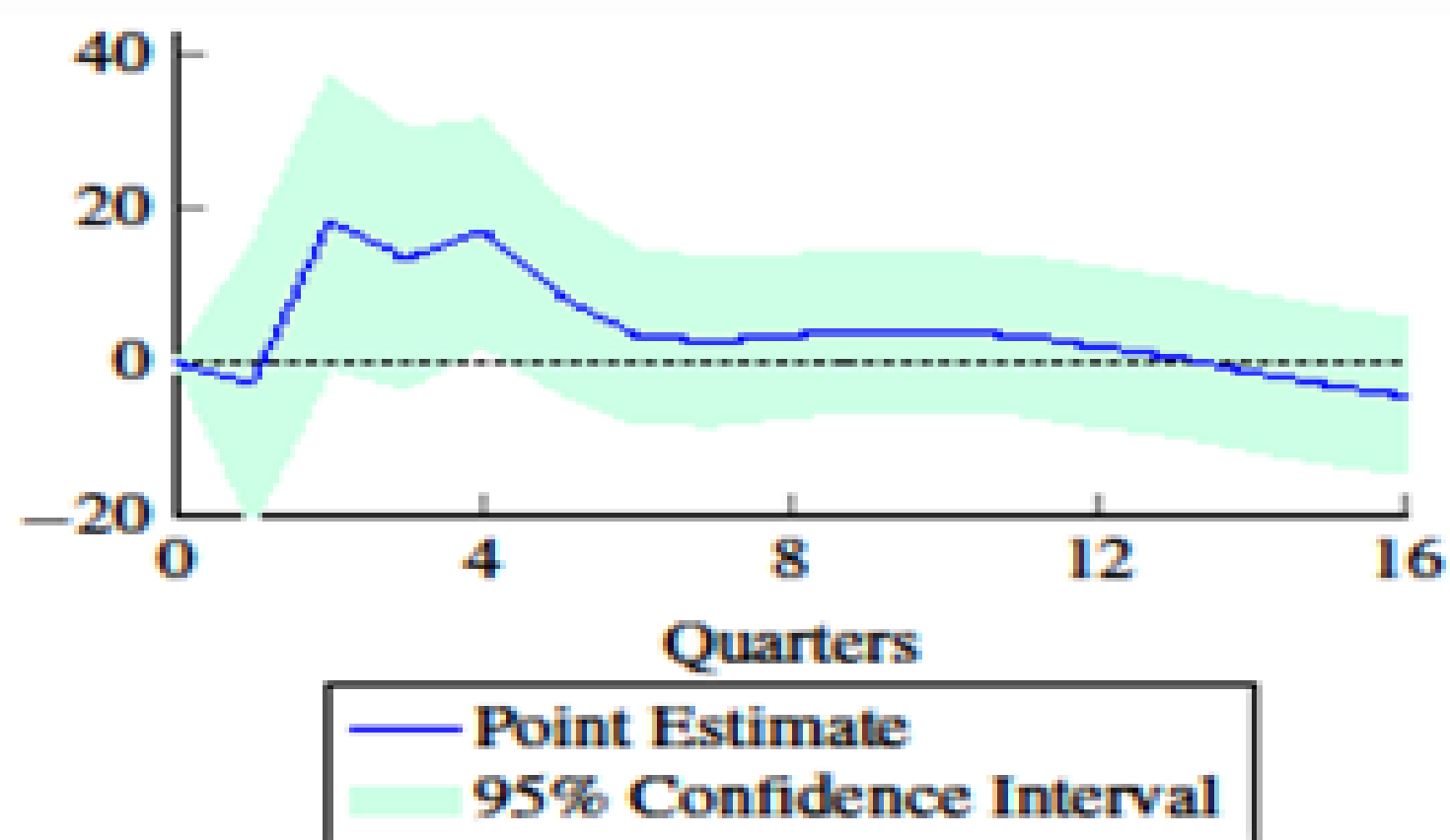


Figure 3: Response of Direct Investment Balance to Government Saving

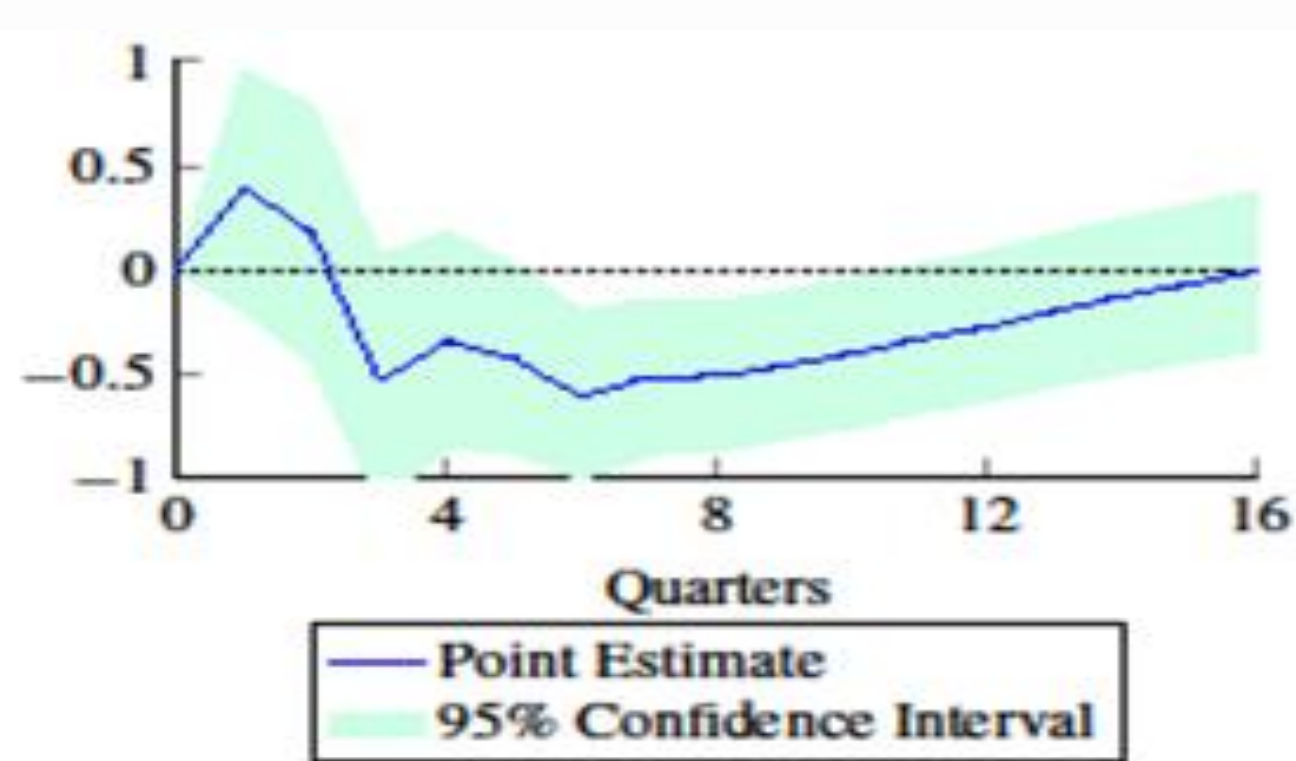


Figure 4: Response of Nonproductive Payments to Private Saving

Conclusion

- Increases in either of these trade balances imply production or acquisition of capacity for future production.
- For any positive (negative) impulse response, a decrease (increase) in the impulse variable will have the opposite effect.
- Trade deficit or trade surplus could occur from such responses.