CONTENTS

1.	INTRO	ODUCTIO	N		1
2.	EXTE	RNAL DE	BT AND THE	BALANCE ON CURRENT ACCOUNT	6
	2.1.	The Ex	ternal Deb	ot Position of a Single Country	6
	2.2.			e Imported Raw Material and ount Balance	9
	2.3.	Between		ount Balance as the Difference te Saving and nvestment	14
3.			NANTS OF I	EXTERNAL DEBT - THE BASIC N ECONOMY	23
	3.1.	The St	ructure of	f the Model	25
	3.2.		inants of isposable	the Present Value of Wealth	39
		3.2.1.	Changes i	in the Raw Material Price	39
		3.2.2.	A Change Interest	in the Level of the World Rate	42
		3.2.3.	Influence	es of Government Activity	43
	3.3.	Factor	s Determin	ning External Debt	43
		3.3.1.	Changes	in the Raw Material Price	44
		3.3.2.	A Change Interest	in the Level of the World Rate	53
		3.3.3.		ctors that Influence the Account Balance	56
		3.3.4.	Governmen	nt Activity and External Debt	57
			3.3.4.1.	Constant Total Government Activity	58
			3.3.4.2.	Changes in Total Government Activity	60
			3.3.4.3.	The Level of Government Expenditure and Consumer Satisfaction	63
	3.4.	Errone	ous Expect	tations	66
	2 5	Summar	v of the l	Regults of the Regic Model	72

4.	NON-7	TRADED GOODS AND THE BALANCE ON CURRENT ACCOUNT	74	
	4.1.	The Structure of the Model	75	
	4.2.	Determinants of the External Debt	83	
		4.2.1. Change in the Present Value of Available Real Wealth	83	
		4.2.2. Determinants of the Current Account Balance	83	
		4.2.3. Determinants of Supply and Demand in the Market for Non-Traded Goods	87	
	4.3.	Direct and Indirect Effects of a Change in the Raw Material Price on the Current Account Balance	91	
		4.3.1. Temporary Rise in the Raw Material Price	91	
		4.3.2. Expected Future Rise in the Raw Material Price	93	
		4.3.3. Permanent Rise in the Raw Material Price	95	
		4.3.4. The Non-Traded Good as a Pure Investment Good	97	
	4.4.	Government Activity and the Balance on Current Account	100	
		4.4.1. Constant Total Government Activity	101	
	•	4.4.2. Increase in Total Government Activity	103	
	4.5.	Labor Mobility in Period 2	104	
	4.6.	Summary of the Results	109	
5.	EXTE	RNAL DEBT IN GENERAL EQUILIBRIUM MODELS	111	
	5.1.	A Raw Material Exporting Country and a Raw Material Importing Country		
		5.1.1. The Structure of the Model	112	
		5.1.2. Wealth Changes in the Raw Material Exporting Country	116	
		5.1.3. Determinants of the Level of the World Interest Rate	119	
		5.1.4. The Structure of External Debt	124	
		5.1.5. Government Activity	129	
	5.2.	Three Country Relationships	130	
		5.2.1. The Structure of the Model	131	
		5.2.2. Changes in Wealth	138	

		5.2.3.		etermining the Balance on	
				ccount in the Raw Material Countries	142
		5.2.4.	Factors t Goods Mar	hat Influence World kets	149
			5.2.4.1.	The Market for Good 1 in Period 1	149
			5.2.4.2.	The Market for Good 2 in Period 1	155
			5.2.4.3.	The Market for Good 1 in Period 2	158
		5.2.5.		d Indirect Factors that External Debt	161
			5.2.5.1.	Temporary Raw Material Price Rise	162
			5.2.5.2.	Expected Future Raw Material Price Rise	173
			5.2.5.3.	Permanent Raw Material Price Rise	177
		5.2.6.		nt Activity and the Inter- Structure of External Debt	178
			5.2.6.1.	Temporary Increase in Government Demand for Good 1 in Country 1	179
			5.2.6.2.	Temporary Increase in Government Demand for Good 2 in Country 1	185
			5.2.6.3.	Permanent Increase in Govern- ment Demand for Good 1 in Country 1	187
				In country 1	101
	5.3.	Summar	y of the I	Results	189
6.	AN EX	KTENDED	PLANNING	HORIZON	192
	6.1.	The St	ructure of	f the Three Period Model	193
	6.2.	Intere		Material Prices and Real within an Extended n	198
	6.3.			expected Rises in	205
			terial Pri		205
				Raw Material Price Rise	205
			_	ed Raw Material Price Rise	209
		0.3.3.		Losses from Unexpected rial Price Rises	214

	6.4. Inflexible Real Wages, Welfare and Tariffs on Imports	218
	6.4.1. Inflexible Real Wages with Unexpected Raw Material Price Rises	218
	6.4.2. Tariff and Subsidy Prices with Imported Raw Materials	221
	6.5. Summary of the Results	226
•	CONCLUSION	228
	APPENDICES	237
	Appendix to Chapter 3	237
	Appendix to Chapter 4	242
	Appendix to Chapter 5	250
	Appendix to Chapter 6	255
	PIDI TOCDADUV	250

7