

## Quadrant II – Transcript and Related Materials

**Programme:** Bachelor of Commerce (Second Year)

**Subject:** Economics

**Paper Code:** GE 4

**Paper Title:** Macroeconomics

**Unit:** III – Open Economy

**Module Name:** An open economy: introduction and features

**Module No:** 18

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### Notes

#### **An open economy: introduction and features**

- An open economy is one that interacts freely with other economies around the world.
- It is an economy which participates in international trade.
- In case of open economy, the trade and business is not only done within its own country, rather it involves with other nations worldwide.
- An open economy interacts with other countries in two ways. –
  - It buys and sells goods and services in world product markets.
  - It buys and sells capital assets in world financial markets.
- As opposed to a closed economy, A closed economy is one that does not interact with other economies in the world.
- There are no exports, no imports, and no capital flows.

In recent times, all economies in the world are open economies. These economies are interdependent with each other.

They import and export raw materials, labour, technology capital etc.

No country in the world can be entirely self dependent, in reality all countries rely on each other for exports and imports.

As time passes by, the degree of openness of the economies is increasing due to the increasing globalisation of the world.

### **Features of an open economy**

1. Economic relations - An open economy has good economic relations with the rest of the world. In order to carry out trade, the relationships should be well maintained.
2. International trade – An open economy imports and exports goods and services from the rest of the world.
3. Financial relations – An open economy borrows from other countries and also lends to other countries in the world. Depending on the financial situation of the country, it will either lend or borrow from the external sector.
4. Foreign aid – An open economy takes foreign aid from other countries and also gives aid to foreign countries. For example – during times of natural disasters, open economies may seek (or provide) help to other nations.
5. Movement of labour – Labour can move from one open economy to other countries for the purpose of employment. At the same time, foreigners are also allowed to work in the domestic territory of the open economy.
6. Remittances – Gifts and remittances can be sent from the home country to a foreign country. The home country may also receive remittances from foreign nations.