

## 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:** Flow of goods in a small and large open economy

**Module No:** 19

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### Transcript

#### Flow of goods in a small and large open economy

- Flow of goods can be of two kinds –
  - **Exports** – These refers to goods and services produced domestically within the country and are sold abroad.
  - **Imports** – These refers to goods and services that are produced abroad, and are sold domestically.

#### Net exports (NX) –

- Net exports are the value of a nation's exports minus the value of its imports.
- Net exports are also called the trade balance.

$$\text{Net exports} = \text{Exports} - \text{Imports}$$

Or

$$NX = X - M$$

There can be three situations possible for a nation at a given time,

**a. Trade deficit –**

- A trade deficit is a situation in which net exports (NX) are negative.
- This takes place when imports are greater than exports.
- Imports > Exports

**b. Trade surplus –**

- A trade surplus is a situation in which net exports (NX) are positive.
- This takes place when exports are greater than imports.
- Exports > Imports

**c. Balanced trade –**

- Balanced trade refers to a situation where net exports are zero.
- This takes place when exports are equal to imports.
- exports = imports

**Table - India's Trade Balance from 2010 to 2020 (in billion US Dollars)**

Year	Trade balance
2020	-95.69
2019	-161.72
2018	-189.69
2017	-150.68
2016	-97.11
2015	-126.18
2014	-140.22
2013	-150.55
2012	-192.87
2011	-161.56
2010	-123.88

**Source -** <https://www.statista.com/statistics/263633/trade-balance-of-india/>

India has been facing a trade deficit according to the table. However, the deficit has been reducing in recent years.

### **Small and large economy**

#### **Small economy–**

- The economy is a small part of the world market.
- By itself it has a negligible impact on the world.
- For instance, changes in its interest rate will not have an impact on the world's interest rate.

#### **Large economy –**

- A country is strong enough to influence the world financial markets.
- The economy is large enough to impact world interest rates.

### **Open economy**

- An open economy interacts with other countries, there is no restrictions.
- There is movement of capital and goods and services from one country to the other.