103: LIST OF VARIABLES

(foreign variables carry an asterisk, superscript e denotes the expected value of a variable or change)

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1. Stock variables

K Capital stock
W Net wealth of a country (net claims on the future output of the rest of the world)
M Domestic nominal money supply
M* Foreign nominal money supply
B Domestic (government) bonds

2. Flow variables

Y^{GDP} Income (Output)—Gross National Product, the income generated by domestic factors of production anywhere in the world during a year. Y^{GDP} roughly equals national income.
C Consumption of private households
G,T G: Government spending, T: Taxes
I Investment, I=ΔK (increase of capital stock)
EX Exports (value; volume X: EX = P*X)
IM Imports (value; volume M: IM = P* M)
CA Current account balance, mostly assumed to be CA = EX – IM (net exports).
S Savings, S = I + CA = ΔK + ΔW. In an open economy, national savings are applied to domestic investment and foreign lending.

Y^{GDP}\text{Output—Gross Domestic Product, the production of goods and services within domestic borders during a year. Domestic wealth invested abroad yields interest income for domestic residents: } R*·W. So, national income is Y^{GDP} = R*·W + Y^{GDP} and the precise current account balance is CA = R*·W + EX – IM.

3. Prices

E Nominal (spot) exchange rate (denominated in [USD/units of foreign currency]). A nominal appreciation is a decrease of E.
E^{e} Expected future nominal exchange rate.
F Forward nominal exchange rate (denominated in [USD/units of foreign currency] tomorrow)
P Domestic price level (price of domestic consumption basket). Individual prices: p_i. So, P = a_1 p_1 + … + a_i p_i + … + a_N p_N
P* Foreign price level (price of foreign basket)
q Real exchange rate, defined as (denominated in quantities: [1]). It denotes the relative price of a unit of the foreign consumption basket (numerator) in terms of the domestic consumption basket (denominator). A real appreciation is equivalent to a reduction of q.
R Nominal interest rate; long-term: R^{LT}
\pi^{e} (Expected) inflation rate,
r^{e} (Expected) real interest rate;