ERRATA IN THE ECS2602 STUDY GUIDE (2018)

Page 121: The demand for domestic goods

Replace the paragraph starting with "The difference … includes imports and excludes exports" at the near bottom of the page with the following paragraph:

In a **closed** economy there is no difference between the *domestic demand for goods* and the *demand for domestic goods:* It consists of C + I + G.

In an **open** economy there is a difference between the *domestic demand for goods* and the *demand for domestic goods* since some domestic demand falls on foreign / imported goods and some of the demand for domestic goods comes from foreigners (that represents the exports of goods in this case).

The three central domestic expenditure items C, I and G do not distinguish between goods produced locally or internationally. Imports are the part of domestic demand that falls on foreign goods (goods produced in other countries, for example German cars or Japanese TVs) while exports are the part of foreign demand that falls on domestic goods (goods produced in South Africa).

Therefore, in an open economy the domestic demand for goods / GDE = C + I + G (imports are included since some of the domestic demand for goods falls on foreign goods). See pages 7 & 8 of the study guide to see how GDE and expenditure on GDP are calculated in South Africa).

Thus in an open economy, the demand for domestic goods / expenditure on GDP = C + I + G – IM + X because imports must be subtracted while exports must be added.

Note that the model is specified in real term and, therefore, in equation 19.1 in the textbook the demand for domestic goods, imports are expressed in terms of the price of domestic goods (IM/ε).