Y = C+ I + G+ X - M -----> open economy national income equilibrium. ... (1)
Y = C + I + G+ NX .....(1)
NX = NET EXPORT = X - M

OR, Y - C - G = I + NX .....(2)

Y-C-G IS National savings = S
S=(Y-T-C)+(T-G)
S = Y - C - G ..... (3)

Now we put the value of S in equation 2,
S = I + NX .....(4)
S - I = NX .....(5)
S - I IS net capital inflow into the country.
NX = X - M = TRADE BALANCE

IS CURVE EQUATION in closed economy

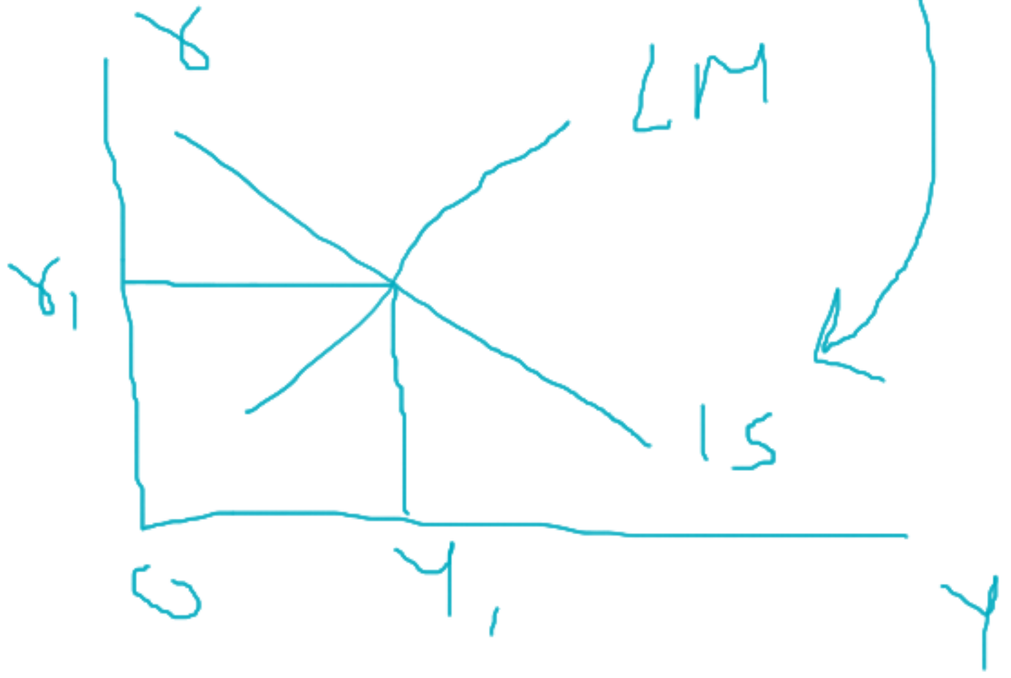
$Y = C(Y-T) + I(r) + G$

OPen economy

$Y = C(Y-T) + I(r) + G + NX(E)$ ..... (6)

E = Exchange rate

NX depends on exchange rate (E) and also income of home country and foreign country.



$NX = X - M = X(Yf, R) - M(Y, R)$

$NX = NX(Yf, Y, R)$ ..... (7)

R = E x Pf/P Real exchange rate.

LM curve equation is

$(M/P) = L(Y, r)$ .....(8)

if Yf increases