SAVINGS AND INVESTMENT IDENTITY IN CLOSED AND OPEN ECONOMIES

Closed Economy

1. GDP = C + I + G
2. GDP = C + S + T
3. I + G = S + T
4. I = S + (T − G)
   Investment = Private Savings + Public Saving

Open Economy

1. GDP = C + I + G + (X − M)
2. GDP = C + S + T
3. I + G + (X − M) = S + T
4. I = S + (T − G) + (M − X)
   since (M − X) = KI because the current account deficit equals the capital account surplus
   Investment = Private Savings + Public Saving + Capital Inflows

Where:
C = consumption
I = investment
G = government spending
S = private savings
T = taxes
X = exports
M = imports
KI = capital inflows from abroad