

THE MACROECONOMICS OF SANCTIONS: SANCTIONS FROM THE STANDPOINT OF
TRADE POLICY AND FINANCIAL FLOW CONTROLS

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The purpose of this paper is to examine the short-run effects of economic sanctions taking the form of restrictions on international trade in goods and services, as well as brakes on international financial flows. A Keynesian disequilibrium, demand driven macroeconomic paradigm is postulated. The target country is envisaged to be part of the global South, the sender country is viewed to be located in the global North, and the sanctions are general rather than targeted at specific firms and sectors. The trade sanctions can take two forms: a diminution of exports to the target country and a reduction in exports from the target nation. Both type of sanctions damage the target country's economy on impact: the first by lowering aggregate supply in the target country, the latter by worsening its terms of trade. From the viewpoint of the sender country, its economy may benefit from the demand generated by the rent from export restrictions to the targeted economy. Financial sanctions are more unequivocal and deep in their damage to the target economy, they lower the supply of funds or capital in the target nation with adverse consequences for the supply of credit, investment finance, as well as reduced options on how to finance government expenditure.

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