

6.3 Current account of the balance of payments

Name: _____ Class: _____ Date: _____

Total: 24 marks

KEY WORDS current account

• current account deficit

• deficit

• balance of payments

• primary income

Objective

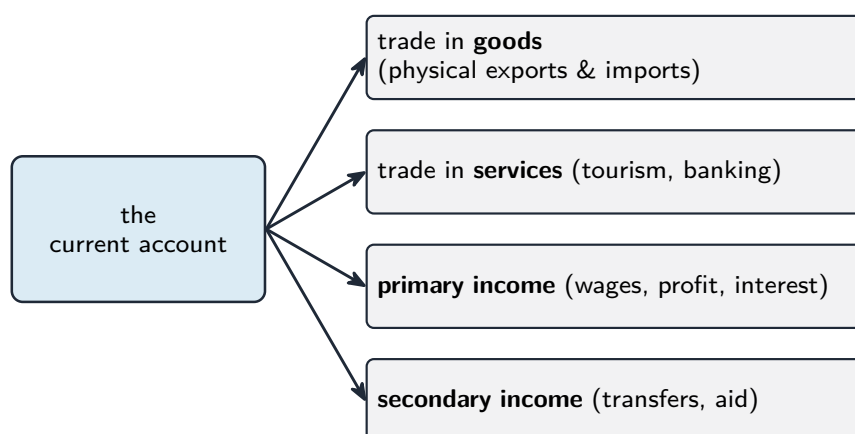
Build the skills to answer exam questions on the **current account of the balance of payments** – its four parts, and the meaning of a **deficit** and a **surplus**

You must be able to:

- state the four parts of the current account
- explain a current account deficit and surplus
- analyse the causes and consequences of a current account deficit

1 Key knowledge and worked examples

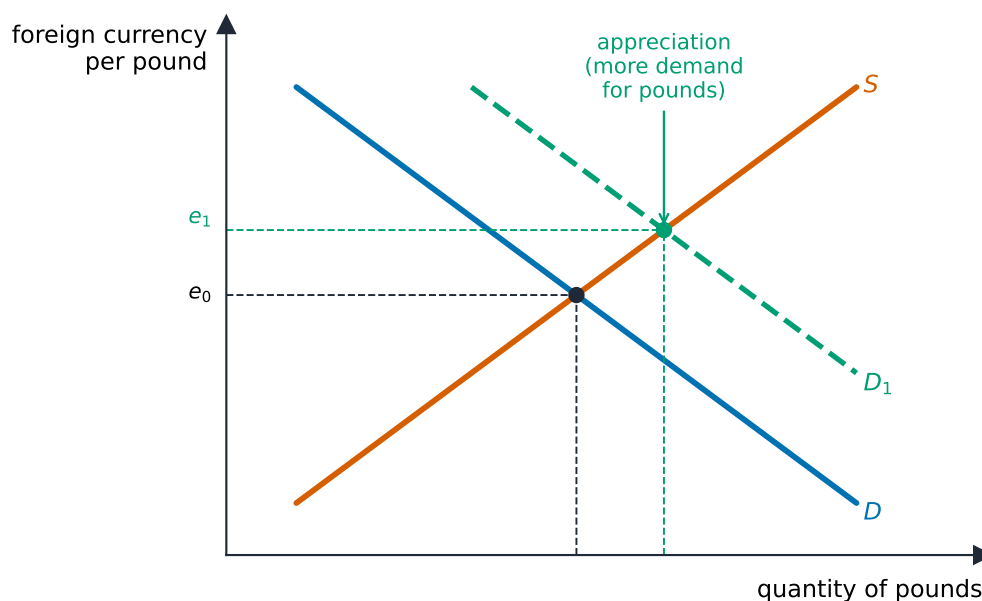
■ The current account



Trade in goods + trade in services + primary income + secondary income

- **Trade in goods** and **trade in services** (exports – imports of each).

- **Primary income** : income from work and investment abroad. **Secondary income** : transfers (e.g. aid).
- **Deficit** : a country buys more from abroad than it sells. **Surplus** : the opposite.
- A long deficit can mean rising debt to other countries.



A current-account deficit puts downward pressure on a floating exchange rate

Answer shapes: AO1 + AO2 + AO3 (analysis) + AO4 (a supported judgement *in context*).

2 Practice

2.1 State the four parts of the current account.

[2]

2.2 Define the term *current account deficit*.

[2]

2.3 State one cause of a current account deficit.

[1]

3 Exam-style questions

3.1 Which is part of the **current account**?

[1]

- ☐ **A** the sale of government bonds to foreigners
B trade in services
C foreign direct investment
D changes in foreign currency reserves

3.2 Explain two reasons why a country might run a current account deficit.

[6]

3.3 Discuss whether a current account deficit is always a problem for an economy. [12]