11.1 Policies to correct disequilibrium in the balance of payments

Name: ______________ Class: __________ Date: ____________ **Total: 24 marks**

KEY WORDS expenditure-switching 支出转换 • marshall–lerner condition 马歇尔勒纳条件 • expenditure-reducing 支出减少 • j-curve effect J 曲线效应 • current account 经常账户

Objective

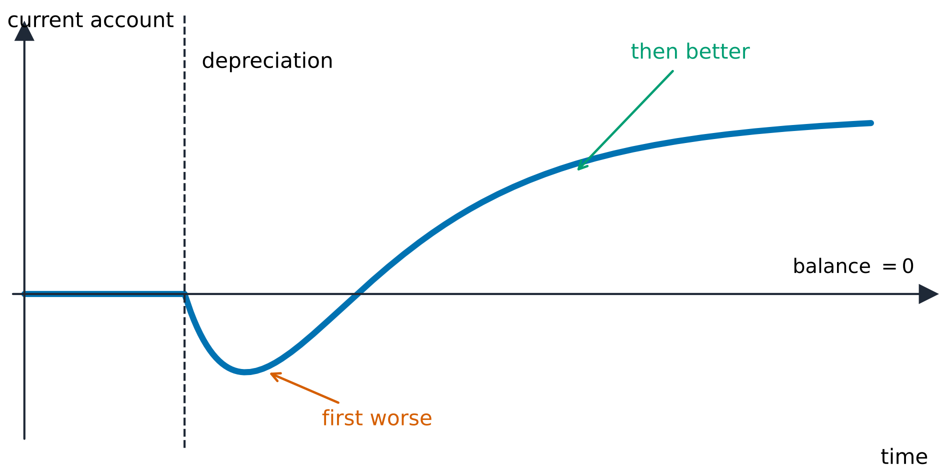
Build the skills to answer exam questions on **policies to correct a balance of payments disequilibrium** 纠正国际收支失衡 — **expenditure-reducing and expenditure-switching** 支出减少与支出转换 policies, the **Marshall–Lerner condition** 马歇尔勒纳条件, and the **J-curve** J 曲线.

You must be able to:

- describe expenditure-reducing and expenditure-switching policies
- state the Marshall–Lerner condition
- explain the J-curve effect

1 Worked examples

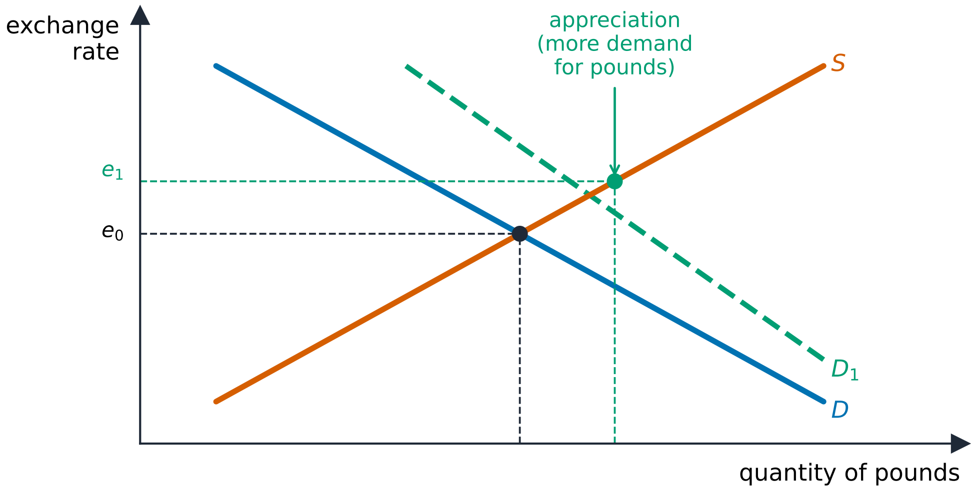
Why a depreciation takes time to work



J-curve: after depreciation, CA first worse then better

Imports cost more at once, but trade volumes adjust only slowly

- **Expenditure-reducing 支出减少:** higher taxes/interest rates cut imports — but slow growth.
- **Expenditure-switching 支出转换:** a lower exchange rate (**depreciation 贬值** / **devaluation 法定贬值**) makes exports cheaper, imports dearer.
- **Marshall–Lerner:** a lower rate helps only if $PED_{\text{exports}} + PED_{\text{imports}} > 1$.



floating: D and S set e · $D\uparrow \Rightarrow$ appreciate

Expenditure-switching works through the exchange rate — a lower rate makes exports cheaper

- **J-curve:** the current account first **worsens**, then improves as volumes adjust.

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

2 Practice

2.1 Define the term *expenditure-switching policy.* [2]

2.2 State the Marshall–Lerner condition. [2]

2.3 State what the J-curve shows happens just after a depreciation. [1]

3 Exam-style questions

3.1 A depreciation will improve the current account only if: [1]

A	B
C	D

A the sum of the price elasticities of demand for exports and imports is less than 1

B the sum of the price elasticities of demand for exports and imports is greater than 1

C demand for both is perfectly inelastic

D the exchange rate is fixed

3.2 Explain the J-curve effect of a depreciation on the current account. [6]

3.3 Discuss whether a depreciation of the currency is the best way to correct a current account deficit. [12]