A-LEVEL ECONOMICS • HOLIDAY HOMEWORK 假期作业

6 International trade – Part 2

Name: ____________ Class: ________ Date: __________

Vocabulary 词汇

Write each word three times. 把每个单词抄写三遍。

English	中文	Write it 3 times (English)		
balance of payments	国际收支			
current account	经常账户			
current account deficit	经常账户赤字			
exchange rate	汇率			
floating exchange rate	浮动汇率			
fixed exchange rate	固定汇率			
appreciation	升值			
depreciation	贬值			

Recall

In **Part 1** you met why countries trade (absolute and comparative advantage) and protectionism. Part 2 looks at the **record** of a country's trade (the balance of payments) and the **price** of its currency (the exchange rate).

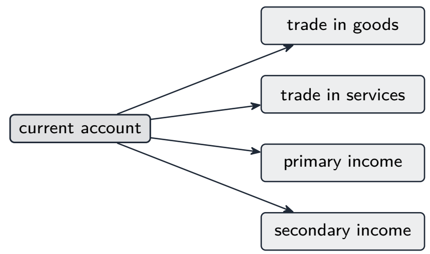
New ideas

1 The balance of payments

The **balance of payments** 国际收支 is a record of all money flows between a country and the rest of the world. Its most-studied part is the **current account** 经常账户, which has four parts:

- **trade in goods** — exports and imports of physical goods;
- **trade in services** — services like tourism and banking;
- **primary income** — income from work and investment abroad;
- **secondary income** — transfers like foreign aid.

A **current account deficit** 经常账户赤字 means a country buys more from abroad than it sells.



Micro-check. What does a current account **deficit** mean? [1]

2 Exchange rates

An **exchange rate** 汇率 is the price of one currency in terms of another. Two main systems:

- a **floating exchange rate** 浮动汇率 is set freely by the **demand for** and **supply of** the currency;
- a **fixed exchange rate** 固定汇率 is held at a set value by the central bank.

Micro-check. Under a **floating** system, what sets the exchange rate? [1]

3 Appreciation and depreciation

Under a floating rate:

- **appreciation** 升值 is a **rise** in the currency's value → exports become dearer for foreigners, imports become cheaper;
- **depreciation** 贬值 is a **fall** in the currency's value → exports become cheaper,

imports become dearer.

A depreciation can therefore raise export sales and cut imports (helping the current account), but it can also raise inflation, because imports cost more.

appreciation (value ↑) → exports dearer, imports cheaper

depreciation (value ↓) → exports cheaper, imports dearer

Micro-check. After a **depreciation**, do exports become cheaper or dearer for foreigners? [1]

Watch out: a current account *deficit* = buy more from abroad than you sell. Appreciation (currency rises) → exports *dearer*, imports *cheaper*; depreciation (falls) → exports *cheaper*, imports *dearer*. A depreciation can help the current account but raise inflation.

Practice

6.1 Name the **four** parts of the **current account**. [4]

6.2 State what a **current account deficit** means. [1]

6.3 Define an **exchange rate**. [1]

6.4 State one difference between a **floating** and a **fixed** exchange rate. [2]

6.5 A country's currency **depreciates**. State the effect on (a) its exports and (b) its imports. [2]

6.6 Challenge. A country with a large current account deficit sees its currency depreciate. Explain how the depreciation could help reduce the deficit. [2]