Week 26

A-Level Economics

Homework bundle for this week

本周作业合集

exercises.lol

Contents 目录

A-Level Economics Name: ______________ Score: ______

1. A country can make 10 units of wheat OR 5 units of cloth with the same resources. What is the opportunity cost of 1 unit of cloth (in wheat)?

   ____

2. A tariff is:
   - ☐ a tax on imports
   - ☐ a limit on the quantity imported
   - ☐ a payment to domestic firms
   - ☐ a ban on exports

3. Exports total 500 and imports total 600. What is the trade balance (exports − imports)?

   ____

4. If 1 pound = 1.30 dollars, how many dollars do you get for 200 pounds?

   ____

5. Which is an expenditure-switching policy to reduce a current account deficit?
   - ☐ currency depreciation
   - ☐ raising income tax
   - ☐ cutting government spending
   - ☐ raising interest rates

6. Comparative advantage is based on which country has the lower:
   - ☐ opportunity cost
   - ☐ population
   - ☐ tax rate
   - ☐ exchange rate

7. The ”infant industry” argument says protection should be used to:
   - ☐ let a new industry grow until it can compete
   - ☐ protect a dominant monopoly
   - ☐ raise consumer prices permanently
   - ☐ ban all imports

8. Which is part of the current account?

☐ trade in goods and services

☐ the government budget

☐ the money supply

☐ interest rates

9. A country can have a comparative advantage in a good even if another country has an absolute advantage in everything.

☐ True ☐ False

10. Protectionism tends to raise prices for domestic consumers.

☐ True ☐ False

A-Level Economics

1. **2**

   10 wheat $\div$ 5 cloth $=$ 2 wheat per cloth.

2. **a tax on imports**

   A tariff is an import tax; a quota is a quantity limit; a subsidy pays home firms.

3. **-100**

   $500 - 600 = -100$, a trade deficit of 100.

4. **260**

   $200 \times 1.30 = 260$ dollars.

5. **currency depreciation**

   Depreciation switches spending toward home goods; the others reduce total expenditure.

6. **opportunity cost**

   Comparative advantage compares opportunity costs, not absolute resource use.

7. **let a new industry grow until it can compete**

   Temporary protection while a young industry achieves economies of scale.

8. **trade in goods and services**

   The current account records trade in goods/services, primary and secondary income.

9. **True**

   Comparative advantage depends on relative opportunity cost, so trade still benefits both.

10. **True**

    Tariffs and quotas reduce competition and raise prices.

A-LEVEL ECONOMICS • EXERCISE SHEET

6.1 The reasons for international trade

Name: ______________ Class: __________ Date: ____________ **Total: 23 marks**

KEY WORDS comparative advantage 比较优势 • terms of trade 贸易条件 • international trade 国际贸易 • absolute and comparative advantage 绝对优势与比较优势 • opportunity cost 机会成本

Objective

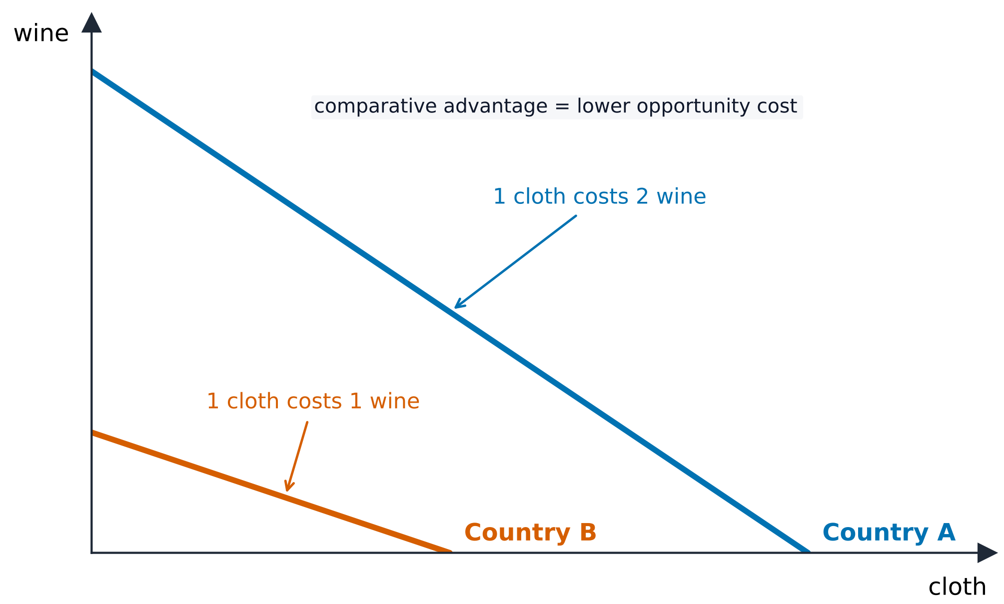
Build the skills to answer exam questions on **the reasons for international trade 国际贸易的原因** — **absolute and comparative advantage 绝对优势与比较优势**, the **terms of trade 贸易条件**, and the limits of the theory.

You must be able to:

- define absolute and comparative advantage
- work out comparative advantage from opportunity-cost data
- analyse the gains from trade and the theory's limits

1 Worked examples

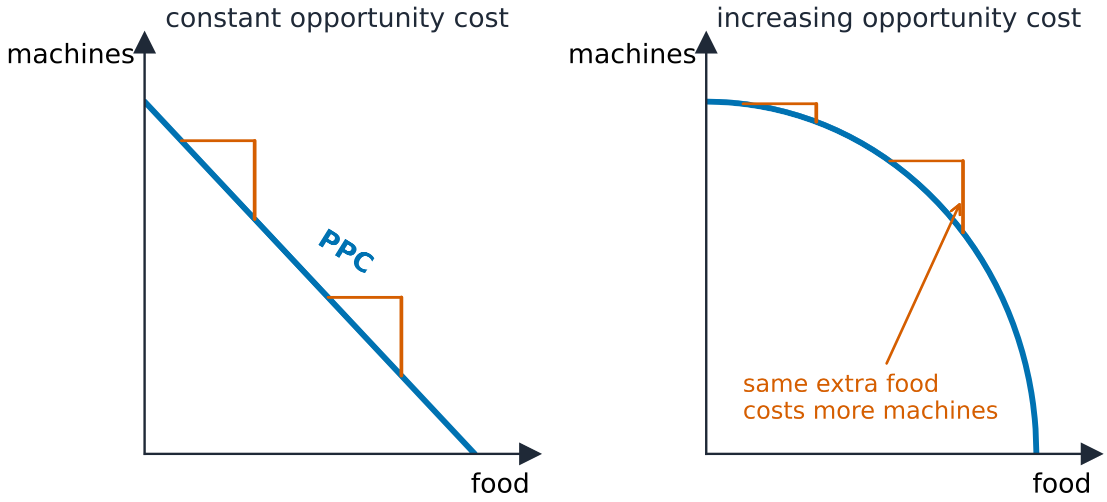
■ Comparative advantage



A country should make the good it gives up ***least*** *to produce*

With the same resources: A makes 20 wine **or** 10 cloth; B makes 5 wine **or** 5 cloth.

- In A, 1 cloth costs 2 wine; in B, 1 cloth costs 1 wine → **B has the comparative advantage in cloth**.
- A specialises in wine, B in cloth, they trade → **both** can consume more.



opportunity cost = goods forgone · bowed-out PPC ⇒ increasing opportunity cost

Gains from trade: specialisation lets each country consume beyond its own PPC

- **Terms of trade** 贸易条件: the price of exports relative to imports.

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

2 Practice

2.1 Define the term *comparative advantage*. [2]

2.2 A country can make 30 units of food **or** 10 units of cloth. State the opportunity cost of 1 unit of cloth. [1]

2.3 State one limitation of the theory of comparative advantage. [1]

3 Exam-style questions

3.1 A country has a **comparative** advantage in a good if it can produce it at a: [1]

- **A** higher money price than other countries
- **B** lower opportunity cost than other countries
- **C** larger total quantity than other countries
- **D** higher quality than other countries

3.2 Explain how specialisation according to comparative advantage can raise total world output. [6]

3.3 Discuss whether a country should always specialise in the goods in which it has a comparative advantage. [12]

Solutions

Economics answers are marked by **level of response** against the assessment objectives: award **AO1** knowledge, **AO2** application, **AO3** analysis and **AO4** evaluation.

2.1 the ability to produce a good at a lower opportunity cost than another country (2 for a clear definition; 1 for a partial idea).

2.2 1 unit of cloth costs 3 units of food ($30 \div 10 = 3$) (1).

2.3 any one of: ignores transport costs; ignores trade barriers; assumes constant costs; specialising is risky if the price falls (1).

3.1 B. Comparative advantage means a lower opportunity cost.

3.2 *[6]* AO1 1 + AO3 up to 5 — if each country makes the good it gives up least to produce and trades for the rest, resources are used where they are most productive → total output of both goods rises → trade lets both countries consume beyond their own PPC.

3.3 *[12]* AO1/AO2/AO3 up to 8 + AO4 up to 4. **For:** specialisation raises efficiency, output and living standards. **Against:** over-reliance on one good is risky if its world price falls; it can cause structural unemployment and the loss of strategic industries; the theory ignores transport costs and barriers. Judgement: specialising on comparative advantage usually raises welfare, but some diversification reduces risk — it depends on the good's price stability and the country's flexibility.

28 What is **not** a limitation of the theory of comparative advantage?

- **A** the movement of factors of production between countries
- **B** governments' imposition of trade restrictions
- **C** one country being more efficient in the production of all goods
- **D** transport costs outweighing any comparative advantage

A-Level Economics: **w25 12**

26 A country with a floating exchange rate has a large deficit on the current account of the balance of payments.

What is most likely to decrease as a consequence of this deficit?

- **A** competitiveness of the country's products
- **B** level of employment in the country
- **C** prices of exports from the country
- **D** rate of inflation in the country

27 What will definitely lead to an improvement in the terms of trade?

- **A** Export prices fall whilst import prices rise.
- **B** Export prices rise by the same amount as import prices.
- **C** Export prices rise slower than import prices.
- **D** Export prices rise whilst import prices stay the same.

A-Level Economics: **w25 13**

28 What is meant by comparative advantage?

- **A** One country can produce a product at a lower opportunity cost than another country.
- **B** One country can produce more of a product than another country, using a given level of resources.
- **C** One country has lower barriers to trade than another country.
- **D** One country is making more efficient use of factors of production than another country.

27 The table shows the terms of trade for an economy expressed as an index number for the period 2019 to 2021.

year	terms of trade index (2018 = 100)
2019	101
2020	104
2021	109

What can be concluded from the table?

A The quantity of imports rose relative to the quantity of exports.

B The price of exports rose relative to the price of imports.

C The price of imports rose relative to the price of exports.

D The value of exports rose relative to the value of imports.

28 Which explanation for a country choosing to engage in international trade is **not** valid?

A Engaging in international trade enables the country to achieve a higher average standard of living.

B Other countries are more efficient at producing some goods.

C There are some products that the country cannot produce.

D The country has a comparative advantage in the production of all of its goods compared to other countries.

A-Level Economics: **s25 12**

28 Which formula is used to calculate the terms of trade?

A the average price of exports divided by the average price of imports

B the average price of imports divided by the average price of exports

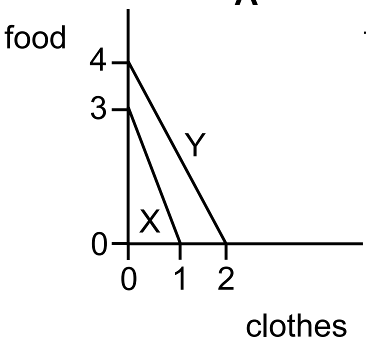
C the value of exports divided by the value of imports

D the value of imports divided by the value of exports

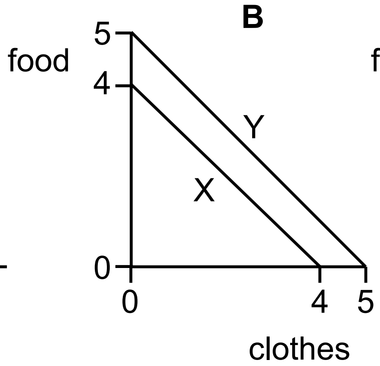
27 Each diagram shows the production possibility curves (PPCs) of two economies, X and Y, which produce food and clothes.

In which diagram would both economies benefit by specialising in the good in which they have comparative advantage and trading at an exchange rate of 1 unit of clothes to 1.5 units of food?

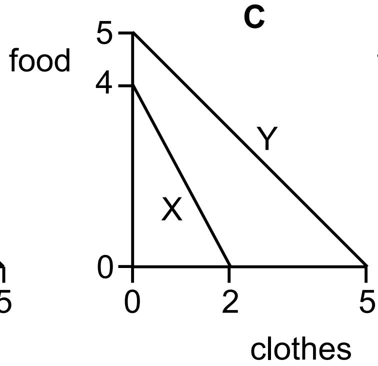
A



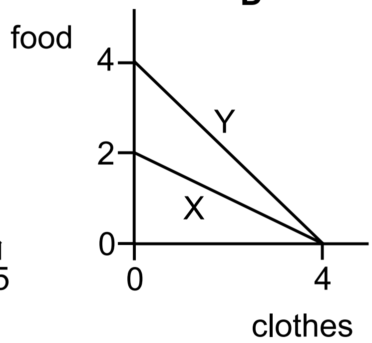
B



C



D



A-LEVEL ECONOMICS • EXERCISE SHEET

6.2 Protectionism

Name: ______________ Class: _________ Date: ____________ **Total: 26 marks**

KEY WORDS tariff 关税 • protectionism 贸易保护主义 • quota 配额 • embargo 禁运 • subsidy 补贴

Objective

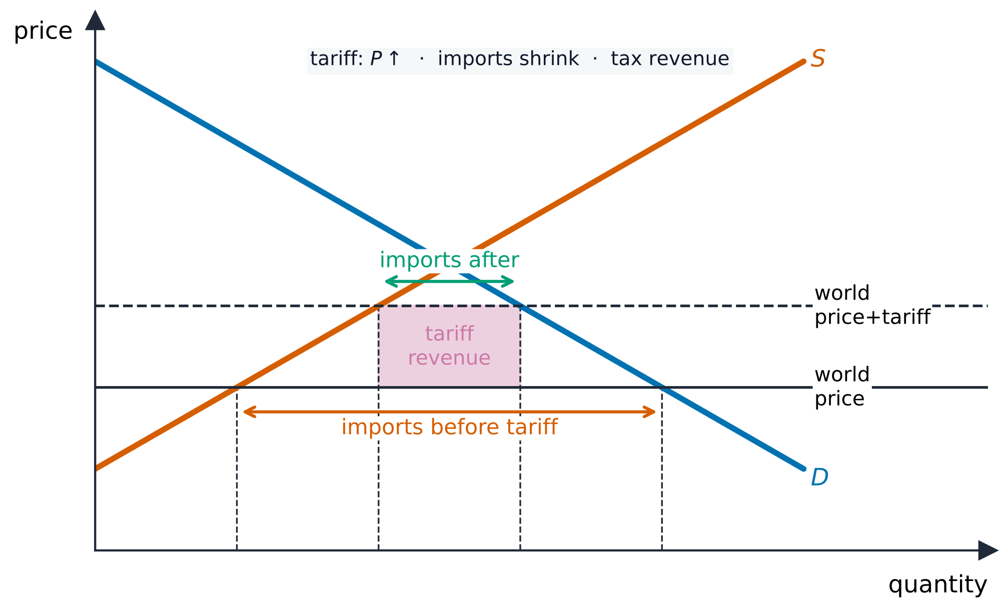
Build the skills to answer exam questions on **protectionism** 贸易保护主义 — the tools (**tariff, quota, subsidy, embargo** 关税、配额、补贴、禁运), the arguments **for and against**, and the effects on **stakeholders** 利益相关者.

You must be able to:

- define the main protectionist tools and draw a tariff diagram
- explain the arguments for and against protection
- analyse the effect of a tariff on different stakeholders

1 Worked examples

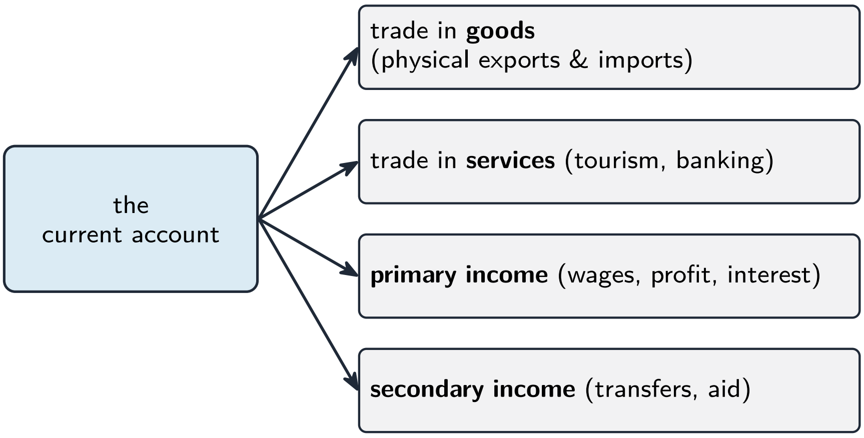
■ A tariff



Domestic supply rises, demand falls, imports shrink; the box is tariff revenue

- **Tariff** 关税: a tax on imports (raises their price). **Quota** 配额: a legal limit on import quantity.

- **Arguments for:** protect an **infant industry** 幼稚产业, save jobs, stop **dumping** 倾销.
- **Arguments against:** higher prices, protects inefficiency, risks **retaliation** 报复.
- **Stakeholders of a tariff:** home producers gain, government gains revenue, **consumers lose**, foreign producers lose.



Protection is often aimed at the current account — the balance a tariff tries to improve

Answer shapes: an **Explain** [**up to 8**] answer may use a tariff diagram (AO3); **Discuss** [**12**] adds a judgement (AO4).

2 Practice

2.1 Define the term *tariff*. [2]

2.2 State the difference between a *tariff* and a *quota*. [2]

2.3 State one argument in favour of protectionism. [1]

3 Exam-style questions

3.1 A **quota** is best described as: [1]

- **A** a tax on imports
- **B** a legal limit on the quantity of imports
- **C** a payment to domestic producers
- **D** a complete ban on trade

3.2 Using a tariff diagram, explain how a tariff affects domestic producers and consumers. [8]

3.3 Discuss whether a government should use protectionism to support its domestic industries. [12]

Solutions

Economics answers are marked by **level of response** against the assessment objectives: award **AO1** knowledge, **AO2** application, **AO3** analysis and **AO4** evaluation.

2.1 a tax on imports, which raises their price (2 for a clear definition; 1 for a partial idea).

2.2 a tariff is a tax that raises the price of imports; a quota is a legal limit on the quantity of imports (2 for a clear difference; 1 for a partial idea).

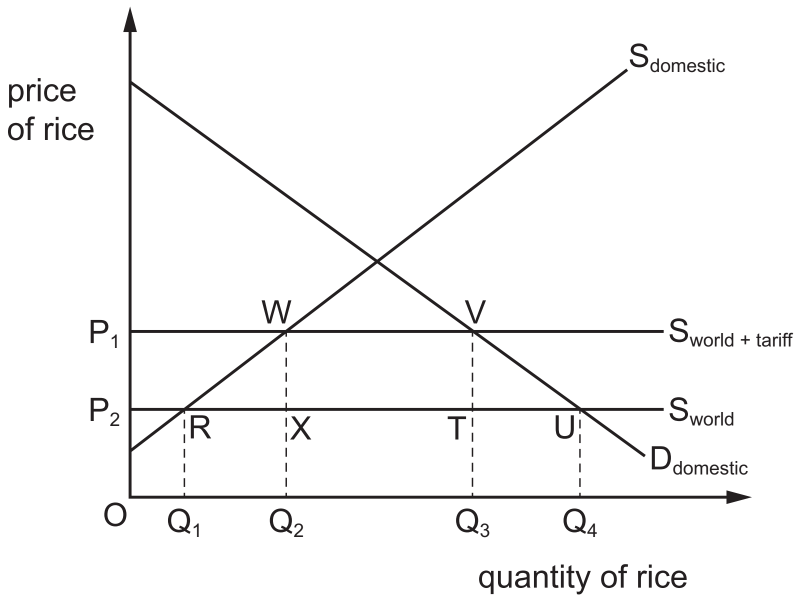
2.3 any one of: protect an infant industry; save jobs; prevent dumping; raise government revenue (1).

3.1 B. A quota limits the quantity of imports.

3.2 *[8]* AO1 1 + **AO3 diagram up to 4** (domestic S and D, world price, world price + tariff, imports shrink, revenue box) + AO2/AO3 up to 3 — the tariff raises the price → domestic producers supply more and gain, but consumers pay more and buy less, so consumer surplus falls; the government collects tariff revenue.

3.3 *[12]* AO1/AO2/AO3 up to 8 + AO4 up to 4. **For:** protects infant industries and jobs, prevents dumping, raises revenue. **Against:** higher prices for consumers, protects inefficient firms, risks retaliation and a trade war that harms exporters. Judgement: limited, temporary protection of a genuine infant industry can be justified, but broad long-term protection usually lowers welfare — it depends on the industry and the risk of retaliation.

30 The diagram shows the effect of a government removing the tariff on imports of rice into its country.



How would the removal of this tariff affect the consumer surplus and the government's revenue?

	consumer surplus	government revenue
A	increases by VUT	decreases by WVTX
B	increases by VUT	decreases by WVQ_3Q_2
C	increases by P_1VUP_2	decreases by WVTX
D	increases by P_1VUP_2	decreases by WVQ_3Q_2

3 A government wants to move its economy away from central planning towards a market economy.

Which policy would be consistent with this aim?

A introduce tariffs on imported goods

B privatise the ownership of electricity generation

C provide free education for primary school pupils

D reduce prices of foods such as wheat and rice

23 What is an example of a supply-side policy?

A an import quota to restrict the supply of goods

B a rise in interest rates to encourage the supply of savings

C a specific tax on the supply of goods to raise revenue

D a subsidy to businesses to promote the supply of training courses

26 For which government measure would both the outcomes shown be likely to benefit its economy?

	government measure	outcome 1	outcome 2
A	embargoes	protect against import of harmful materials	encourage illegal trade and corruption
B	export subsidies	give home producers a cost advantage	are a drain on government expenditure
C	import quotas	restrict volume of expensive imports	reduce balance of payments deficit
D	tariffs	protect some jobs by raising import prices	cause unemployment due to rising costs of imported raw materials

A-Level Economics: **w25 21**

5 **(a)** Explain **two** tools of protection used by a country when trading internationally **and** consider whether one is likely to have more of an impact on the country's economy than the other. [8]

(b) Assess whether all consumers, all producers and the government in a country will benefit equally from protectionism. [12]

A-Level Economics: **s25 11**

21 What is **not** an example of monetary policy?

A a rise in import tariffs on manufactured goods

B a rise in interest rates by the central bank

C a rise in credit regulations

D a rise in the money supply

27 Which statement correctly describes a tariff?

A It is a complete ban on imports.

B It is a minimum price for domestic producers.

C It is a payment to exporters.

D It is a tax imposed on imports.

26 Which statement is **not** a valid reason why a country may impose protectionist measures?

A to allow a newly developed domestic industry to grow to a viable size

B to enable a country to retain control of an industry it regards as being of strategic importance

C to give consumers a wider choice of goods and services

D to give time for workers in a declining domestic industry to find alternative employment

A-Level Economics: **Specimen 1**

29 A small trading country decides on a policy of import substitution by producing more goods and services itself rather than purchasing them from other countries.

What is the most likely reason for this policy?

A to follow the principle of absolute advantage

B to influence world prices in international markets

C to protect local industries from foreign competition

D to substitute imported technology for local labour

A-LEVEL ECONOMICS • EXERCISE SHEET

6.3 Current account of the balance of payments

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

KEY WORDS current account 经常账户 • deficit 赤字 • balance of payments 国际收支 • current account deficit 经常
• primary income 初次收入

Objective

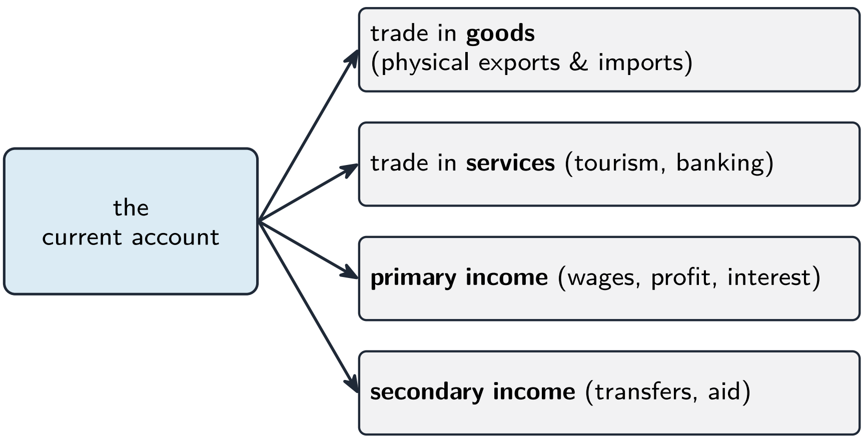
Build the skills to answer exam questions on the **current account of the balance of payments** 经常账户 — its four parts, and the meaning of a **deficit** 赤字 and a **surplus** 盈余.

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 Worked examples

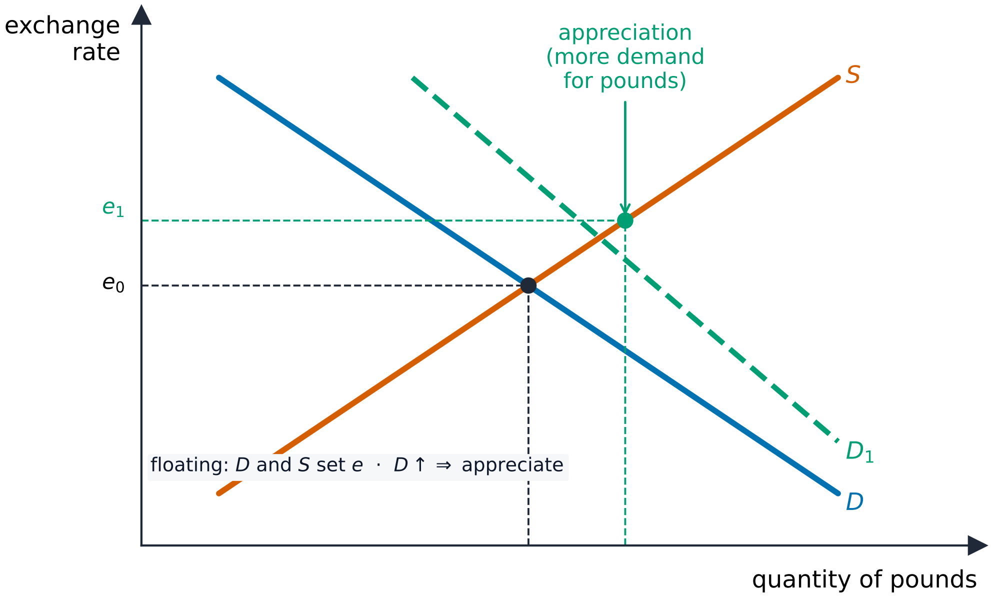
■ The current account



$$\textit{Trade in goods} + \textit{trade in services} + \textit{primary income} + \textit{secondary income}$$

- **Trade in goods** 货物贸易 and **trade in services** 服务贸易 (exports − imports of each).
- **Primary income** 初次收入: income from work and investment abroad. **Secondary income** 二次收入: transfers (e.g. aid).

- **Deficit** 赤字: a country buys more from abroad than it sells. **Surplus** 盈余: 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]

Solutions

Economics answers are marked by **level of response** against the assessment objectives: award **AO1** knowledge, **AO2** application, **AO3** analysis and **AO4** evaluation.

2.1 trade in goods; trade in services; primary income; secondary income (2 for all four; 1 for two or three).

2.2 when the money leaving a country for imports and other current-account outflows exceeds the money entering from exports and inflows (2 for a clear definition; 1 for a partial idea).

2.3 any one of: a strong currency making exports dear; high domestic demand pulling in imports; low competitiveness; high inflation (1).

3.1 B. Trade in services is part of the current account.

3.2 *[6]* For **each** of two reasons: AO1 1 + AO3 up to 2 — e.g. *strong currency*: a high exchange rate makes exports dear and imports cheap → more imports, fewer exports → deficit. *High domestic demand*: rising incomes raise spending on imports → the import bill grows → deficit. Maximum 3 each.

3.3 *[12]* AO1/AO2/AO3 up to 8 + AO4 up to 4. **A problem if:** it is large and persistent, financed by rising debt, and signals poor competitiveness. **Not always:** a deficit caused by importing capital goods can raise future capacity, and a country with strong investment inflows can sustain it. Judgement: a small, temporary deficit from investment is not a worry, but a large, persistent one financed by borrowing is — it depends on the cause and how it is financed.

29 What would **not** be included in the current account of the balance of payments?

A income earned outside the country that is transferred into the country

B value of food and raw materials produced and consumed within the country

C value of food and raw materials that are exported

D value of telecommunications services that are imported

A-Level Economics: **w25 12**

29 What is the effect of a cut in a country‘s income tax rates on its exports and imports?

	exports	imports
A	fall	fall
B	fall	unchanged
C	unchanged	fall
D	unchanged	rise

A-Level Economics: **w25 13**

30 The main export of country X is oil. The world demand for oil is price inelastic. The world supply of oil is reduced by the major oil producing countries, including country X. Imports into country X are unchanged.

What are the effects of this action by the major oil producing countries on the terms of trade and the current account of the balance of payments in country X?

	terms of trade	current account
A	increases	increases
B	increases	decreases
C	decreases	increases
D	decreases	decreases

18 An open economy with a government is in equilibrium at a national income of $900 million.

Households spend $700 million and save $50 million.

Firms spend $100 million on investment.

The government spends $150 million and has a balanced budget.

How much is spent on exports and imports?

	export spending ($ million)	import spending ($ million)
A	100	100
B	100	50
C	50	100
D	50	50

20 When calculating national income by the income method, what would **not** be included?

A income from abroad

B profits of private sector businesses

C rent from the ownership of land

D transfer payments

A-Level Economics: **w25 22**

4 **(a)** Explain **three** components of the current account of the balance of payments **and** consider the extent to which a depreciation in the exchange rate will always lead to a surplus on the current account. [8]

(b) Assess the extent to which the use of supply-side policy would be the best way to reduce a deficit on the current account of the balance of payments. [12]

OR

A-Level Economics: **w25 23**

5 **(a)** Explain **two** reasons why an economy may have a deficit on the current account of its balance of payments **and** consider whether its government is likely to be concerned about this deficit. [8]

(b) Assess whether it is better to use protectionist policies or contractionary policies to reduce a deficit on the current account of the balance of payments. [12]

29 Primary income and secondary income are components of the current account of the balance of payments.

Which option correctly identifies an example of primary income and secondary income?

	primary income	secondary income
A	government transfers	income from profits earned abroad
B	income from profits earned abroad	dividends earned on foreign shares
C	income from profits earned abroad	government transfers
D	workers' remittances	income from profits earned abroad

21 A government succeeds in changing a current account deficit into a current account surplus.

Why might this current account surplus increase the country's inflation rate?

A It raises Aggregate Demand.

B It raises production costs.

C It reduces the exchange rate.

D It reduces the money supply.

6.4 Exchange rates

Name: ______________ Class: __________ Date: ____________ **Total: 27 marks**

KEY WORDS exchange rate 汇率 • floating 浮动汇率 • depreciation 贬值 • fixed 固定汇率 • appreciation 升值

Objective

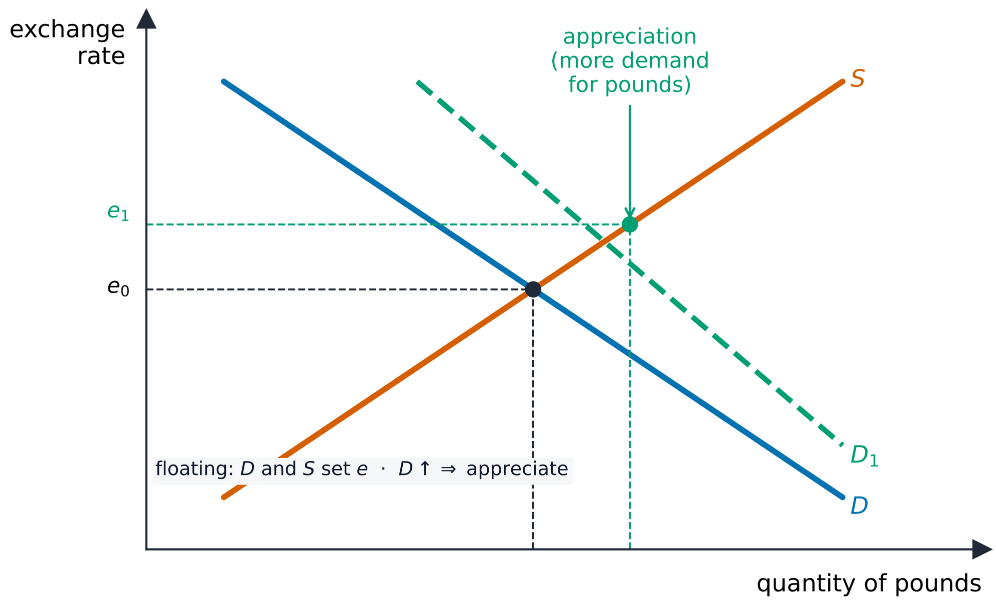
Build the skills to answer exam questions on **exchange rates 汇率 — floating, fixed and managed 浮动、固定、管理浮动** systems, and **appreciation and depreciation 升值与贬值** and their effects.

You must be able to:

- define the three exchange-rate systems
- explain how demand and supply set a floating rate
- analyse the effects of a depreciation on trade and inflation

1 Worked examples

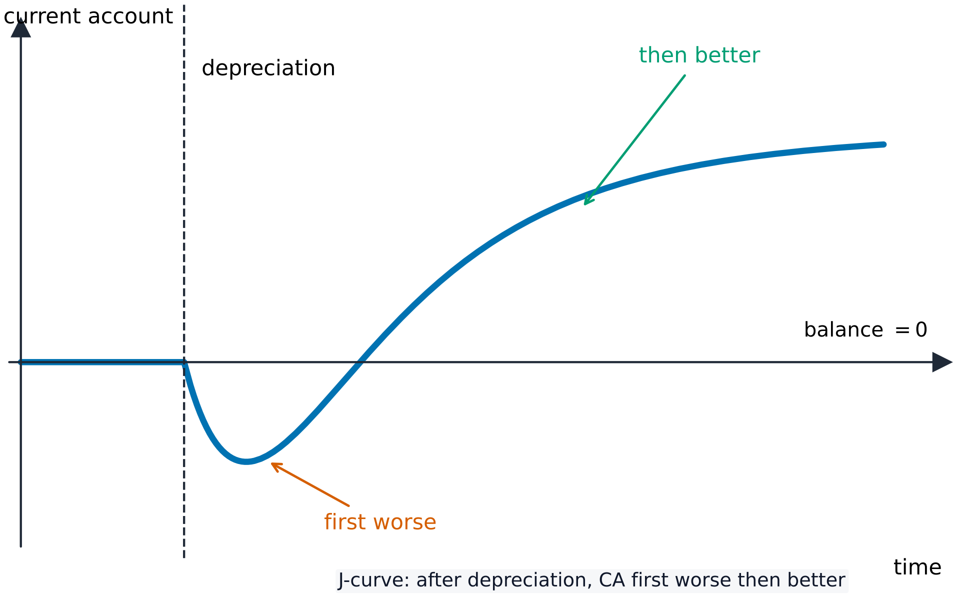
■ A floating exchange rate



A floating rate is set where demand for the currency meets supply

- **Floating 浮动汇率**: set by demand and supply. **Fixed 固定汇率**: held by the central bank. **Managed 管理浮动**: mostly floats, occasional intervention.

- **Appreciation 升值**: the currency rises → exports dearer, imports cheaper.
- **Depreciation 贬值**: the currency falls → exports cheaper, imports dearer → can help the current account but raise inflation.



The J-curve: a depreciation worsens the trade balance before it improves (volumes adjust slowly)

Answer shapes: an **Explain** [**up to 8**] answer may use a currency demand–supply diagram (AO3); **Discuss** [**12**] adds a judgement (AO4).

2 Practice

2.1 Define the term *exchange rate*. [2]

2.2 State the effect of a **depreciation** on the price of exports and imports. [2]

2.3 State the difference between a *floating* and a *fixed* exchange rate. [2]

3 Exam-style questions

3.1 A depreciation of a country's currency will make its: [1]

- **A** exports dearer and imports cheaper
- **B** exports cheaper and imports dearer
- **C** exports and imports both cheaper
- **D** exports and imports both dearer

3.2 Using a currency demand and supply diagram, explain how a rise in demand for a country's exports affects its exchange rate. [8]

3.3 Discuss whether a depreciation of the currency is good for an economy. [12]

Solutions

Economics answers are marked by **level of response** against the assessment objectives: award **AO1** knowledge, **AO2** application, **AO3** analysis and **AO4** evaluation.

2.1 the price of one currency in terms of another (2 for a clear definition; 1 for a partial idea).

2.2 exports become cheaper (to foreigners) and imports become dearer (2 for both; 1 for one).

2.3 a floating rate is set freely by demand and supply; a fixed rate is held at a set value by the central bank (2 for a clear difference; 1 for a partial idea).

3.1 B. A depreciation makes exports cheaper and imports dearer.

3.2 *[8]* AO1 1 + **AO3 diagram up to 4** (demand for the currency shifts right, rate rises) + AO2/AO3 up to 3 — foreigners buying more exports must buy the currency → demand for it rises → with supply unchanged, the exchange rate rises (an appreciation).

3.3 *[12]* AO1/AO2/AO3 up to 8 + AO4 up to 4. **Good:** cheaper exports and dearer imports can raise net exports, improving the current account and supporting jobs. **Bad:** dearer imports raise costs and can cause cost-push inflation; the benefit depends on the **Marshall–Lerner condition** (elastic demand) and may be slow (the J-curve). Judgement: a depreciation helps if export and import demand are elastic, but it risks inflation — its effect depends on elasticities and the cause of the fall.

20 The aggregate demand (AD) curve in an economy shifts to the left.

What is most likely to cause this shift?

A a decrease in the exchange rate

B a decrease in the interest rate

C an increase in the budget deficit

D an increase in the current account deficit

30 A country has a current account deficit on its balance of payments. The government also has a budget deficit.

Which measure to reduce the current account deficit will increase the budget deficit?

A depreciating the exchange rate

B introducing quotas on imports

C raising tariffs on imports

D subsidising exports

A-Level Economics: **w25 13**

20 What might be a consequence of a fall in the domestic price level?

A imports become more competitive

B interest rates increase

C the purchasing power of savings falls

D the real value of incomes increases

30 Both the US and the EU operate in floating exchange rate markets.

The rate of exchange fluctuated greatly during the period shown.

year	US dollar–euro rate of exchange
2000	0.84 dollars per euro
2008	1.59 dollars per euro
2022	1.00 dollar per euro

What would explain the changes in the US dollar–euro rate of exchange?

A changes in the supply and demand for dollars and euros in the foreign exchange market

B continuous appreciation of the US dollar throughout the period

C continuous depreciation of the US dollar throughout the period

D restraints placed by trade agreements on the rate of exchange

A-Level Economics: **s25 11**

30 The table shows the change in the value of UK sterling over a three-month period.

June	Sept
£1 = \$1.38	£1 = \$1.32

What is likely to be the short-term impact of the change in the value of UK sterling on the UK economy?

A increased disinflation

B increase in cost-push inflation

C more purchasing power of money

D reduced demand-pull inflation

A-Level Economics: **Specimen 1**

25 There is a rise in the exchange rate of the US\$.

Which would cause the greatest increase in the US current account deficit?

A a high level of domestic unemployment

B a high price elasticity of demand for imports

C a low price elasticity of demand for exports

D a low rate of domestic inflation

30 The monetary authorities of a country, whose currency is floating freely, raise the market rates of interest.

Other things being equal, the exchange rate of the currency is most likely to

A fall, as domestic fixed capital formation declines in response to higher rates of interest.

B fall, because the quantity of money must be reduced to cause rates of interest to rise.

C rise, as foreigners buy the domestic currency in order to hold assets with a higher yield.

D rise, as exporters increase the volume of exports to hold foreign currency.

A-LEVEL ECONOMICS • EXERCISE SHEET

6.5 Policies to correct imbalances in the current account

Name: ______________ Class: __________ Date: ____________ **Total: 23 marks**

KEY WORDS expenditure-switching 支出转换 • expenditure-reducing 支出减少 • supply-side 供给侧 • competitiveness 竞争力 • current account 经常账户

Objective

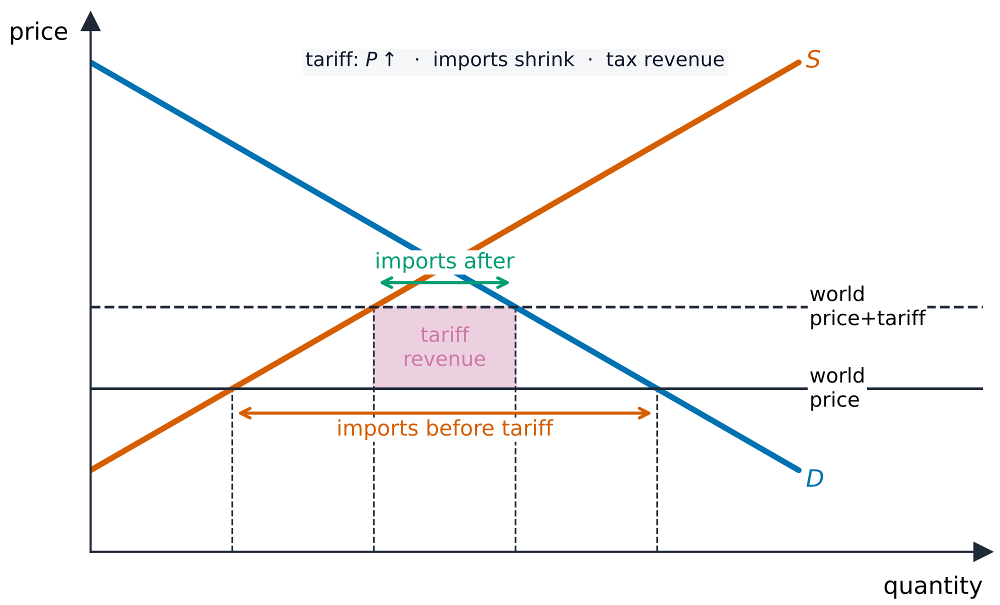
Build the skills to answer exam questions on **policies to correct a current account imbalance** 纠正经常账户失衡的政策 — **expenditure-reducing, expenditure-switching and supply-side** 支出减少、支出转换、供给侧 policies.

You must be able to:

- describe the three types of policy to correct a deficit
- explain how each one works and its side effects
- analyse and evaluate the best policy for a deficit

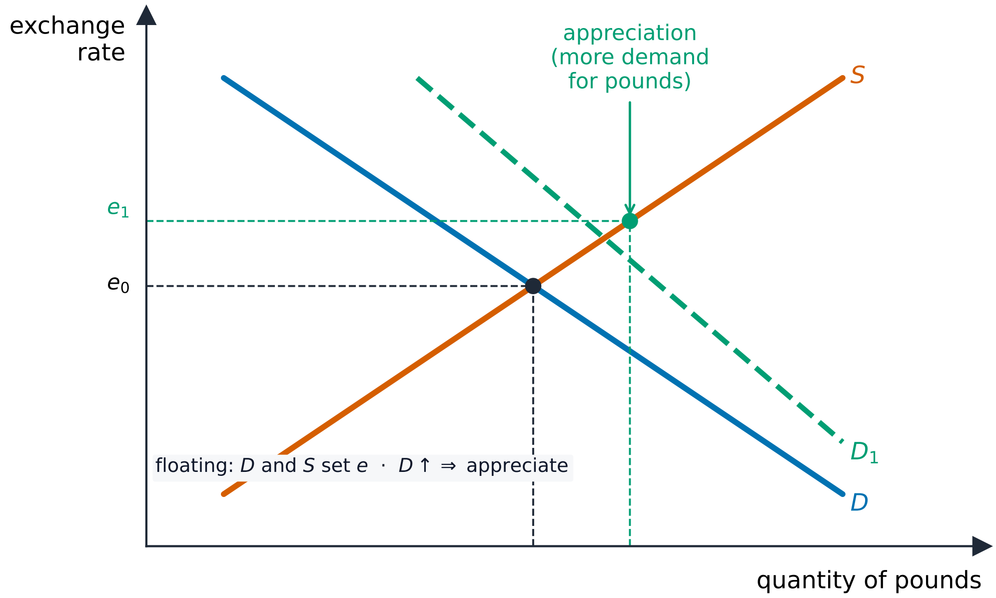
1 Worked examples

■ Correcting a deficit



Three routes to a smaller deficit, each with side effects

- **Expenditure-reducing** 支出减少: higher taxes/interest rates lower demand → fewer imports — **but** slows growth, raises unemployment.
- **Expenditure-switching** 支出转换: a tariff or lower exchange rate moves spending to home goods — **but** risks retaliation or inflation.



A lower exchange rate is the main expenditure-switching policy for a deficit

- **Supply-side** 供给侧: raise **competitiveness** 竞争力 (skills, technology) so exports rise — best long-run, but slow.

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 one expenditure-reducing policy. [1]

2.3 State one drawback of using expenditure-reducing policy to cut a deficit. [1]

3 Exam-style questions

3.1 A **depreciation** of the currency to reduce a current account deficit is an example of: [1]

- **A** an expenditure-reducing policy
- **B** an expenditure-switching policy
- **C** a supply-side policy
- **D** a contractionary monetary policy

3.2 Explain how an expenditure-switching policy could reduce a current account deficit. [6]

3.3 Discuss the best way for a government to reduce a large current account deficit. [12]

Solutions

Economics answers are marked by **level of response** against the assessment objectives: award **AO1** knowledge, **AO2** application, **AO3** analysis and **AO4** evaluation.

2.1 a policy that moves spending away from imports towards domestically produced goods, e.g. a tariff or a lower exchange rate (2 for a clear definition; 1 for a partial idea).

2.2 any one of: higher taxes; higher interest rates (1).

2.3 any one of: slower economic growth; higher unemployment (1).

3.1 B. A depreciation switches spending to home goods, so it is expenditure-switching.

3.2 *[6]* AO1 1 + AO3 up to 5 — a depreciation (or tariff) makes imports dearer and exports cheaper → consumers switch from imports to home goods and foreigners buy more exports → imports fall and exports rise → the deficit narrows (if demand is elastic enough).

3.3 *[12]* AO1/AO2/AO3 up to 8 + AO4 up to 4. **Expenditure-reducing:** cuts imports fast but harms growth and jobs. **Expenditure-switching:** a depreciation or tariff helps if demand is elastic but risks inflation/retaliation. **Supply-side:** raises competitiveness for a lasting fix but is slow and costly. Judgement: the best mix depends on the cause and size of the deficit and the time available — supply-side measures give the most durable solution, but short-run support may be needed first.

4 **(a)** Explain **three** components of the current account of the balance of payments **and** consider the extent to which a depreciation in the exchange rate will always lead to a surplus on the current account. [8]

(b) Assess the extent to which the use of supply-side policy would be the best way to reduce a deficit on the current account of the balance of payments. [12]

OR

5 **(a)** Explain **two** reasons why an economy may have a deficit on the current account of its balance of payments **and** consider whether its government is likely to be concerned about this deficit. [8]

(b) Assess whether it is better to use protectionist policies or contractionary policies to reduce a deficit on the current account of the balance of payments. [12]