Exercise walk-through

Balance of Payments Accounts ▪ 6.1

eXercise

You must be able to

- describe the **balance of payments 国际收支** as a record of international transactions
- distinguish the **current account 经常账户** from the **financial (capital) account 金融账户**
- explain why the current and financial accounts broadly offset each other

Method — The balance of payments

A record of all a nation's transactions with the rest of the world.

Method — Two main accounts

- **Current account** — trade in goods and services (plus income and transfers).
- **Financial (capital) account** — flows of investment and financial assets.

Method — They offset

A current-account **deficit** is broadly matched by a financial-account **surplus** (foreign capital flowing in), so the two roughly cancel.

Practice 2.1 ▪ 1 mark

State what the balance of payments records.

Solution 2.1

Method: The balance of payments

Worked steps

all of a nation's transactions with the rest of the world **B1**.

Practice 2.2 ▪ 2 marks

State the difference between the current account and the financial account.

Solution 2.2

Worked steps

the current account records trade in goods and services; the financial account records flows of investment and financial assets **B1** **B1**.

Practice 2.3 ▪ 1 mark

State the relationship between the current and financial accounts.

Solution 2.3

Method: Two main accounts

Worked steps

they broadly offset each other (a deficit in one is matched by a surplus in the other) **B1**.

Exam-style 3.1 ▪ 1 mark

The balance of payments records a country's

A national debt

B international transactions

C GDP

D money supply

Solution 3.1

Method: The balance of payments

A national debt

B international transactions ✓

C GDP

D money supply

Worked steps

B.

Exam-style 3.2 ▪ 1 mark

Trade in goods and services is recorded in the

A current account

B financial account

C money market

D national debt

Solution 3.2

Method: Two main accounts

- **A** current account ✓
- **B** financial account
- **C** money market
- **D** national debt

Worked steps

A.

Exam-style 3.3 ▪ 1 mark

A country runs a large current-account deficit.
(a) Name the account that broadly offsets it.
(b) State what this implies about capital flows.

Solution 3.3

Method: They offset

Worked steps

(a) the financial (capital) account **B1**. (b) it runs a surplus — foreign capital flows in to finance the current-account deficit **B1** **B1**.