

6.1 Balance of Payments Accounts

Name: _____ Class: _____ Date: _____

Total: 9 marks

Objective

Build the skills to answer exam questions on **balance of payments accounts**.

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

1 Worked examples

Study these first. Each one shows the method for a question type used later.

■ The balance of payments

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

■ Two main accounts

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

■ They offset

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

2 Practice

2.1 State what the balance of payments records. [1]

2.2 State the difference between the current account and the financial account. [2]

2.3 State the relationship between the current and financial accounts. [1]

3 Exam-style questions

3.1 The balance of payments records a country's [1]

- A national debt
 - B international transactions
 - C GDP
 - D money supply
-

3.2 Trade in goods and services is recorded in the [1]

- A current account
 - B financial account
 - C money market
 - D national debt
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3.3 A country runs a large current-account deficit.

(a) Name the account that broadly offsets it. [1]

(b) State what this implies about capital flows. [2]

4 Go further

- work through the **6.1 Balance of Payments Accounts** lesson on the **Learn** page;
- read the **Open Economy** section of the AP Macroeconomics handout on the **Know** page.

Solutions

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

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

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

3.1 B.

3.2 A.

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