

6.4 Current account of the balance of payments

Name: _____ Class: _____ Date: _____

Total: 18 marks

KEY WORDS current account
• surplus • trade in goods

• balance of payments

• deficit

Objective

Build the skills to answer exam questions on **the current account of the balance of payments** – its four sections, **deficit and surplus**, and how to **correct a deficit**.

You must be able to:

- state the four sections of the current account
- explain a current account deficit and surplus
- analyse policies to correct a deficit

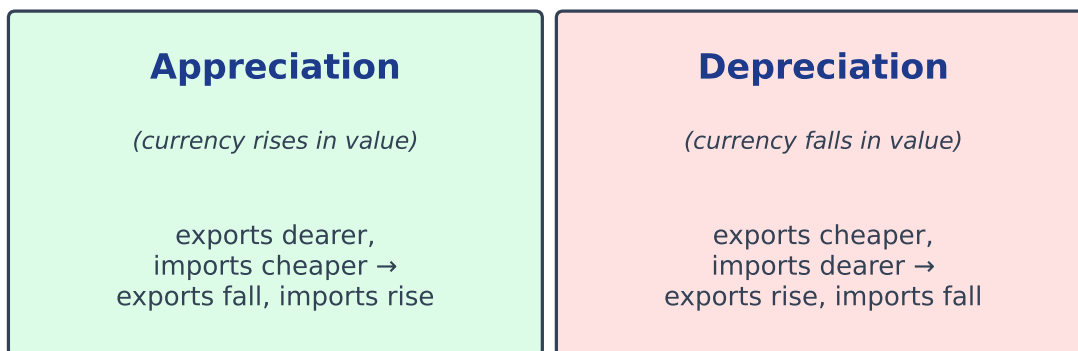
1 Key knowledge and worked examples

■ The current account



A record of money flowing into and out of a country

- **Four sections:** trade in goods, trade in services, primary income (wages, interest, profit from abroad), secondary income (aid, gifts).
- **Deficit** : more money flows out than in. **Surplus** : more flows in than out.
- **Correct a deficit by:** cutting demand, a depreciation, trade protection, or raising competitiveness.



Exam: appreciation hurts export competitiveness; depreciation can boost net exports (SPICED)

A depreciation is one cure for a deficit: cheaper exports, dearer imports, a smaller trade gap

Answer shapes: K + App + An + Ev (a justified judgement, for discuss questions).

2 Practice

2.1 State the four sections of the current account. [2]

2.2 Define the term *current account deficit*. [2]

2.3 State one way a government could reduce 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 the country's gold reserves
D a loan from a foreign bank

3.2 Explain two reasons why a country might have a current account deficit.

[4]

3.3 Discuss whether a current account deficit is always a problem for a country.

[8]

Solutions

IGCSE Economics answers are marked by **level of response**: award **K** knowledge, **App** application, **An** analysis and **Ev** a justified judgement.

Each answer shows the steps, then the **result**.

2.1

- the four sections of the current account
- **trade in goods, trade in services, primary income, secondary income** (K)

2.2

- a **current account deficit** is when more money flows **out** of a country than into it on the current account (it buys more from abroad than it sells) (K)

2.3

- any **one** of: **cut total demand** / let the currency **depreciate** / use **trade protection** / raise **competitiveness** (K)

3.1 B

- **trade in services** is part of the current account (K)
- A, C and D are capital / financial-account items

3.2

- for **each** of two reasons: K + An
- e.g. **high demand for imports**: rising incomes mean people buy more foreign goods → imports exceed exports
- e.g. **low competitiveness**: home goods are dear or low-quality → exports are low while imports are high → a deficit

3.3

- **a problem if**: it is large and persistent, the country must borrow or sell assets, and it signals weak competitiveness (K + An)
- **not always**: a deficit caused by importing **machines** can raise future output; strong investment inflows can sustain one (An)
- **judgement (Ev)**: a small, temporary deficit to buy capital goods is not a worry, but a **large, lasting** one financed by borrowing is