6.4 Current account of the balance of payments

Name: _____ Class: _____ Date: _____ **Total: 18 marks**

KEY WORDS current account • balance of payments • deficit • surplus • trade in goods

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**.

Appreciation	Depreciation
(currency rises in value)	*(currency falls in value)*
exports dearer, imports cheaper → exports fall, imports rise	exports cheaper, imports dearer → exports rise, imports fall

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]