6.4 Current account of the balance of payments

Name: ____________ Class: ________ Date: __________ **Total: 17 marks**

Objective

Build the skills to answer exam questions on **the current account of the balance of payments** 经常账户—its four sections, **deficit and surplus** 逆差与顺差, and how to **correct a deficit** 纠正逆差.

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 Worked examples

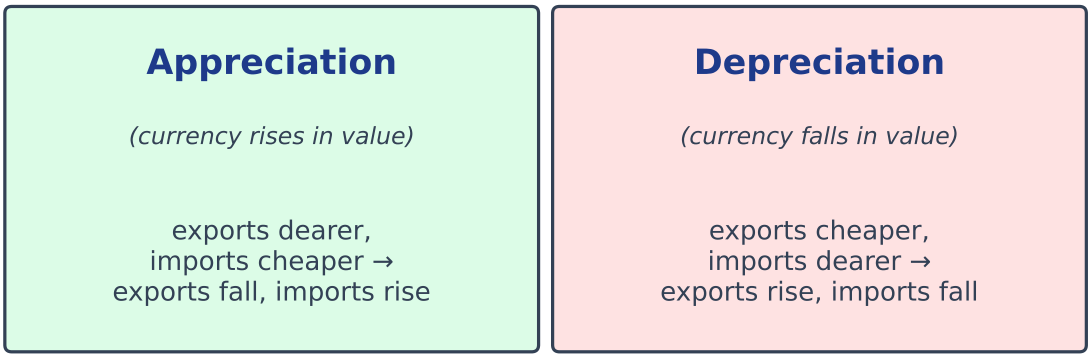
■ The current account

A record of money flowing into and out of a country

Image: source

- **Four sections: trade in goods** 货物贸易, **trade in services** 服务贸易, **primary income** 初次收入 (wages, interest, profit from abroad), **secondary income** 二次收入 (aid, gifts).

- **Deficit** 逆差: more money flows out than in. **Surplus** 顺差: more flows in than out.
- **Correct a deficit by:** cutting demand, a **depreciation** 贬值, trade protection, or raising **competitiveness** 竞争力.



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]

4 Go further

You are now ready for the real exam questions on this subtopic. Open the **6.4 Current account of the balance of payments** past-paper sheet in the Library, or try these in **Practice mode**:

- 0455/12 N25 —Q29 (current account)
- 0455/13 N25 —Q27 (balance of payments)
- 0455/13 N25 —Q29 (correcting a deficit)

Solutions

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

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

2.2 when more money flows out of a country than into it on the current account (it buys more from abroad than it sells) (2 for a clear definition; 1 for a partial idea).

2.3 any one of: cut total demand; let the currency depreciate; use trade protection; raise competitiveness (1).

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

3.2 *[4]* For **each** of two reasons: K 1 + An 1 —*high demand for imports*: rising incomes mean people buy more foreign goods → imports exceed exports; *low competitiveness*: home goods are dear or low-quality → exports are low while imports are high → a deficit.

3.3 *[8]* K/App/An up to 5 + Ev up to 3. **A problem if:** it is large and persistent, the country must borrow or sell assets to pay for it, and it signals weak competitiveness. **Not always:** a deficit caused by importing machines and capital goods can raise future output, and a country with strong investment inflows can sustain one. **Judgement (Ev):** a small, temporary deficit (especially to buy capital goods) is not a worry, but a large, lasting one financed by borrowing is —so it depends on the cause and how it is financed.