## 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