A-LEVEL ECONOMICS • EXERCISE SHEET

6.3 Current account of the balance of payments

Name: ______________ Class: __________ Date: ____________ **Total: 24 marks**

KEY WORDS current account 经常账户 • deficit 赤字 • balance of payments 国际收支 • current account deficit 经常
• primary income 初次收入

Objective

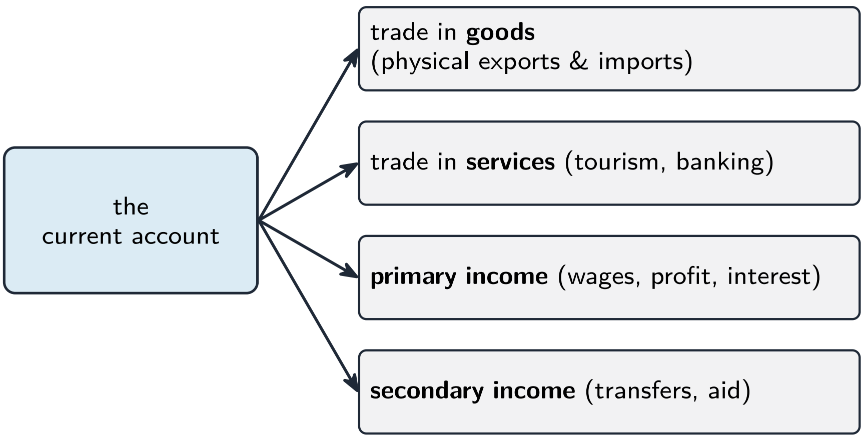
Build the skills to answer exam questions on the **current account of the balance of payments** 经常账户 — its four parts, and the meaning of a **deficit** 赤字 and a **surplus** 盈余.

You must be able to:

- state the four parts of the current account
- explain a current account deficit and surplus
- analyse the causes and consequences of a current account deficit

1 Worked examples

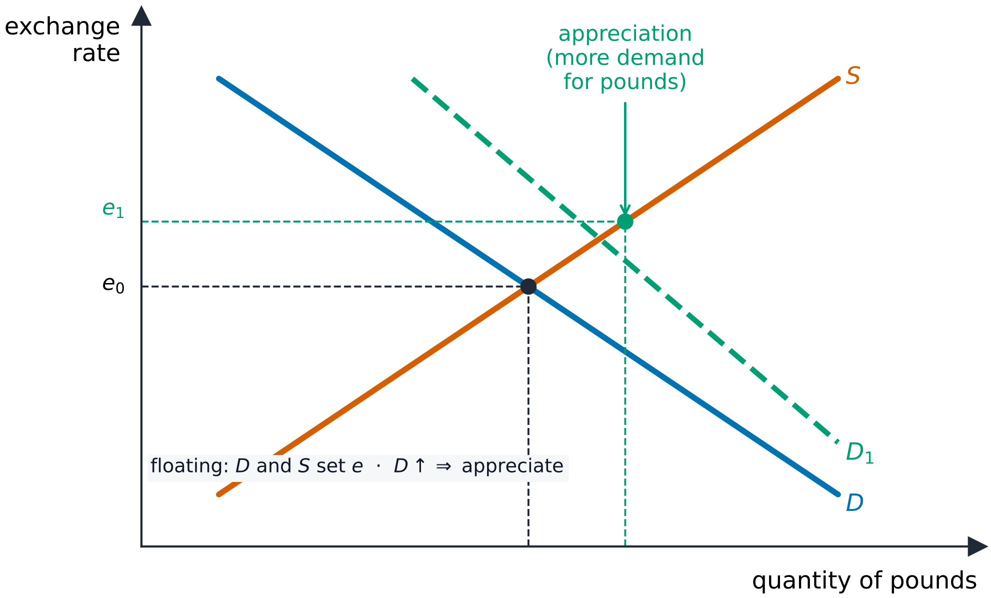
■ The current account



Trade in goods + trade in services + primary income + secondary income

- **Trade in goods** 货物贸易 and **trade in services** 服务贸易 (exports − imports of each).
- **Primary income** 初次收入: income from work and investment abroad. **Secondary income** 二次收入: transfers (e.g. aid).

- **Deficit** 赤字: a country buys more from abroad than it sells. **Surplus** 盈余: the opposite.
- A long deficit can mean rising debt to other countries.



A current-account deficit puts downward pressure on a floating exchange rate

Answer shapes: AO1 + AO2 + AO3 (analysis) + AO4 (a supported judgement *in context*).

2 Practice

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

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

2.3 State one cause of 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** foreign direct investment
- **D** changes in foreign currency reserves

3.2 Explain two reasons why a country might run a current account deficit. [6]

3.3 Discuss whether a current account deficit is always a problem for an economy. [12]

Solutions

Economics answers are marked by **level of response** against the assessment objectives: award **AO1** knowledge, **AO2** application, **AO3** analysis and **AO4** evaluation.

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

2.2 when the money leaving a country for imports and other current-account outflows exceeds the money entering from exports and inflows (2 for a clear definition; 1 for a partial idea).

2.3 any one of: a strong currency making exports dear; high domestic demand pulling in imports; low competitiveness; high inflation (1).

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

3.2 *[6]* For **each** of two reasons: AO1 1 + AO3 up to 2 — e.g. *strong currency*: a high exchange rate makes exports dear and imports cheap → more imports, fewer exports → deficit. *High domestic demand*: rising incomes raise spending on imports → the import bill grows → deficit. Maximum 3 each.

3.3 *[12]* AO1/AO2/AO3 up to 8 + AO4 up to 4. **A problem if:** it is large and persistent, financed by rising debt, and signals poor competitiveness. **Not always:** a deficit caused by importing capital goods can raise future capacity, and a country with strong investment inflows can sustain it. Judgement: a small, temporary deficit from investment is not a worry, but a large, persistent one financed by borrowing is — it depends on the cause and how it is financed.