A-LEVEL ECONOMICS • EXERCISE SHEET

6.5 Policies to correct imbalances in the current account

Name: ____________ Class: ________ Date: __________ **Total: 23 marks**

KEY WORDS expenditure-switching 支出转换 • expenditure-reducing 支出减少 • supply-side 供给侧 • competitiveness 竞争力 • current account 经常账户

Objective

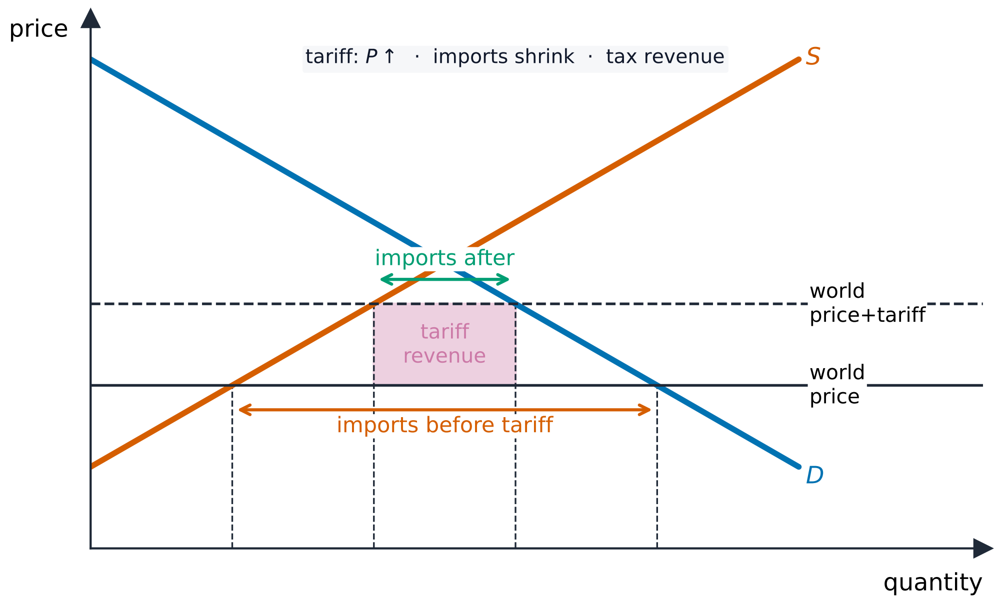
Build the skills to answer exam questions on **policies to correct a current account imbalance 纠正经常账户失衡的政策 — expenditure-reducing, expenditure-switching and supply-side** 支出减少、支出转换、供给侧 policies.

You must be able to:

- describe the three types of policy to correct a deficit
- explain how each one works and its side effects
- analyse and evaluate the best policy for a deficit

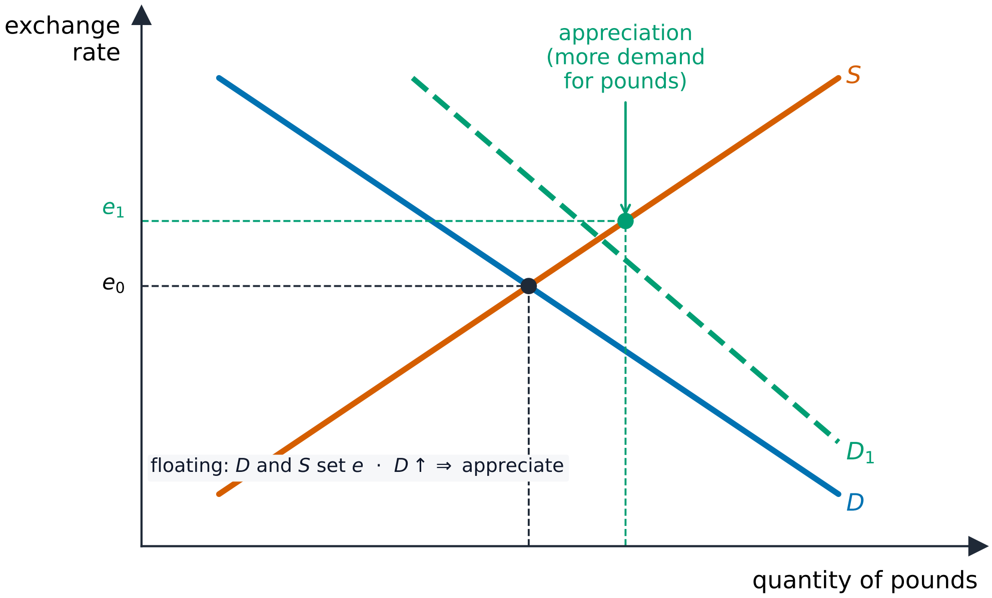
1 Worked examples

■ Correcting a deficit



Three routes to a smaller deficit, each with side effects

- **Expenditure-reducing** 支出减少: higher taxes/interest rates lower demand → fewer imports — **but** slows growth, raises unemployment.
- **Expenditure-switching** 支出转换: a tariff or lower exchange rate moves spending to home goods — **but** risks retaliation or inflation.



A lower exchange rate is the main expenditure-switching policy for a deficit

- **Supply-side** 供给侧: raise **competitiveness** 竞争力 (skills, technology) so exports rise — best long-run, but slow.

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

2 Practice

2.1 Define the term *expenditure-switching policy.* [2]

2.2 State one expenditure-reducing policy. [1]

2.3 State one drawback of using expenditure-reducing policy to cut a deficit. [1]

3 Exam-style questions

3.1 A **depreciation** of the currency to reduce a current account deficit is an example of: [1]

- **A** an expenditure-reducing policy
- **B** an expenditure-switching policy
- **C** a supply-side policy
- **D** a contractionary monetary policy

3.2 Explain how an expenditure-switching policy could reduce a current account deficit. [6]

3.3 Discuss the best way for a government to reduce a large current account deficit. [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 a policy that moves spending away from imports towards domestically produced goods, e.g. a tariff or a lower exchange rate (2 for a clear definition; 1 for a partial idea).

2.2 any one of: higher taxes; higher interest rates (1).

2.3 any one of: slower economic growth; higher unemployment (1).

3.1 B. A depreciation switches spending to home goods, so it is expenditure-switching.

3.2 *[6]* AO1 1 + AO3 up to 5 — a depreciation (or tariff) makes imports dearer and exports cheaper → consumers switch from imports to home goods and foreigners buy more exports → imports fall and exports rise → the deficit narrows (if demand is elastic enough).

3.3 *[12]* AO1/AO2/AO3 up to 8 + AO4 up to 4. **Expenditure-reducing:** cuts imports fast but harms growth and jobs. **Expenditure-switching:** a depreciation or tariff helps if demand is elastic but risks inflation/retaliation. **Supply-side:** raises competitiveness for a lasting fix but is slow and costly. Judgement: the best mix depends on the cause and size of the deficit and the time available — supply-side measures give the most durable solution, but short-run support may be needed first.