6 International trade – Part 2 — Answers

Answers

6.1 Trade in goods, trade in services, primary income, and secondary income.

6.2 The country buys more from abroad (imports) than it sells (exports) over the period.

6.3 The price of one currency in terms of another.

6.4 A floating rate is set by the demand for and supply of the currency; a fixed rate is held at a set value by the central bank. (Any clear difference.)

6.5 (a) exports become cheaper for foreigners (so export sales may rise); (b) imports become dearer (so imports may fall).

6.6 The depreciation makes the country's exports cheaper abroad, so foreigners buy more of them, while imports become dearer at home, so people buy fewer. With exports rising and imports falling, net exports improve — which shrinks the current account deficit.