11 Balance of payments – Part 1 — Answers

Answers

Work through these after trying the questions yourself.

11.1 A record of a country's payments with the rest of the world.
11.2 They cut total demand, so people buy fewer imports.
11.3 A lower exchange rate (a depreciation).
11.4 They become cheaper.
11.5 Worse first (then better later).

11.6 At first, imports cost more straight away, but the *quantities* bought and sold change only slowly (existing contracts and habits). So the import bill rises while export volumes have not yet grown — the deficit *worsens*. Over time, buyers switch to cheaper home goods and exports rise, so the current account then *improves* — tracing a letter J.