11 Balance of payments – Part 1

Name: ____________ Class: ________ Date: __________

Vocabulary 词汇

Write each word three times. 把每个单词抄写三遍。

English	中文	Write it 3 times (English)		
balance of payments	国际收支			
expenditure-reducing	支出减少			
expenditure-switching	支出转换			
depreciation	贬值			
current account	经常账户			

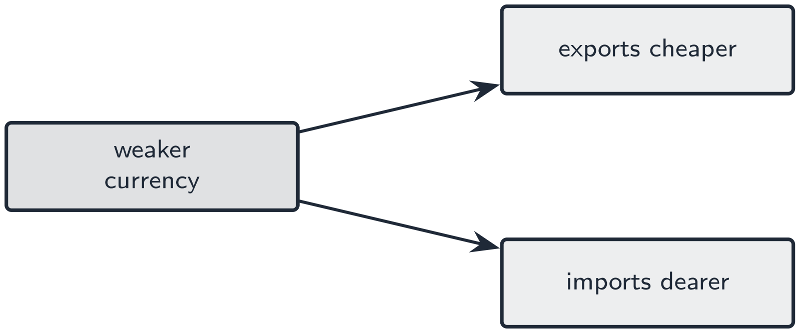
Recall

A country that imports far more than it exports has a **balance of payments** 国际收支 problem. How can it fix one?

New ideas

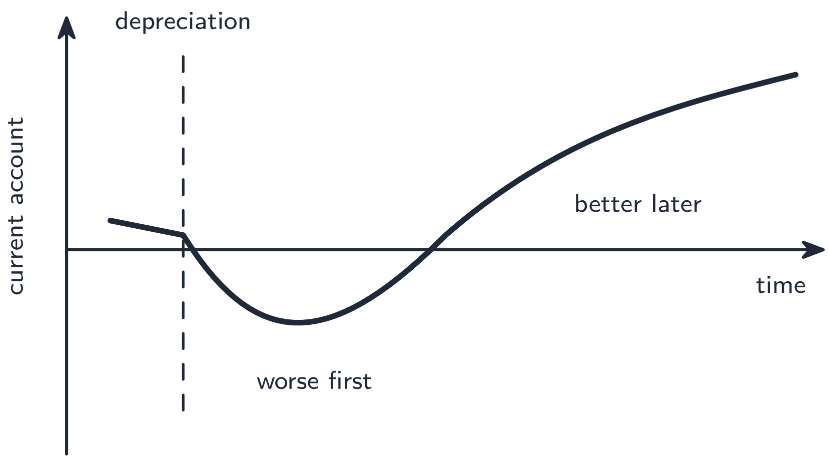
Read these first, then do the Practice.

■ 1 Two kinds of policy



- **expenditure-reducing** 支出减少 policies cut total demand, so people buy fewer imports;
- **expenditure-switching** 支出转换 policies move spending towards home goods — mainly a lower exchange rate (a **depreciation** 贬值), which makes exports cheaper and imports dearer.

■ 2 The J-curve



The **J-curve effect** says that just after a depreciation the **current account** 经常账户 first gets *worse* (imports cost more at once), then improves as buyers slowly switch — tracing a letter J.

Watch out: expenditure-*reducing* policies cut total demand (so fewer imports); expenditure-*switching* policies (a depreciation) make exports cheaper and imports dearer. By the J-curve, a depreciation first *worsens* the current account, then improves it.

Practice

Try these in order.

11.1 What is the *balance of payments*? [1]

11.2 How do *expenditure-reducing* policies cut imports? [1]

11.3 What is the main tool of *expenditure-switching*? [1]

11.4 After a *depreciation*, what happens to the price of exports abroad? [1]

11.5 In the *J-curve*, does the current account get better or worse just after a depreciation? [1]

11.6 Challenge. Just after its currency depreciates, a country's current account deficit gets *worse* before it gets better. Explain why, using the J-curve. [2]