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Question 25 (Answer: **A**)

- The current account covers trade in goods and services, primary income and secondary income.
- Investment income and remittances therefore belong there.
- Purchases of assets belong to the financial account, and capital transfers to the capital account.

Question 29 (Answer: **A**)

- A higher domestic interest rate attracts financial inflows, so the financial account improves.
- It also reduces domestic spending, so imports fall and the current account improves.
- With a *fixed* rate the central bank must intervene to stop the currency appreciating.

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Question 18 (Answer: **C**)

- A devaluation makes exports cheaper and imports dearer, so it should improve the current account.
- But it only works if trade volumes respond enough – the Marshall–Lerner condition.
- The sum of the export and import demand elasticities must exceed one.

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Question 29 (Answer: **D**)

- A current account surplus creates excess demand for the currency, pushing the fixed rate up.
- To hold the rate the authorities must reduce that pressure.
- So they should encourage imports or capital outflows – an export subsidy would make the surplus worse.