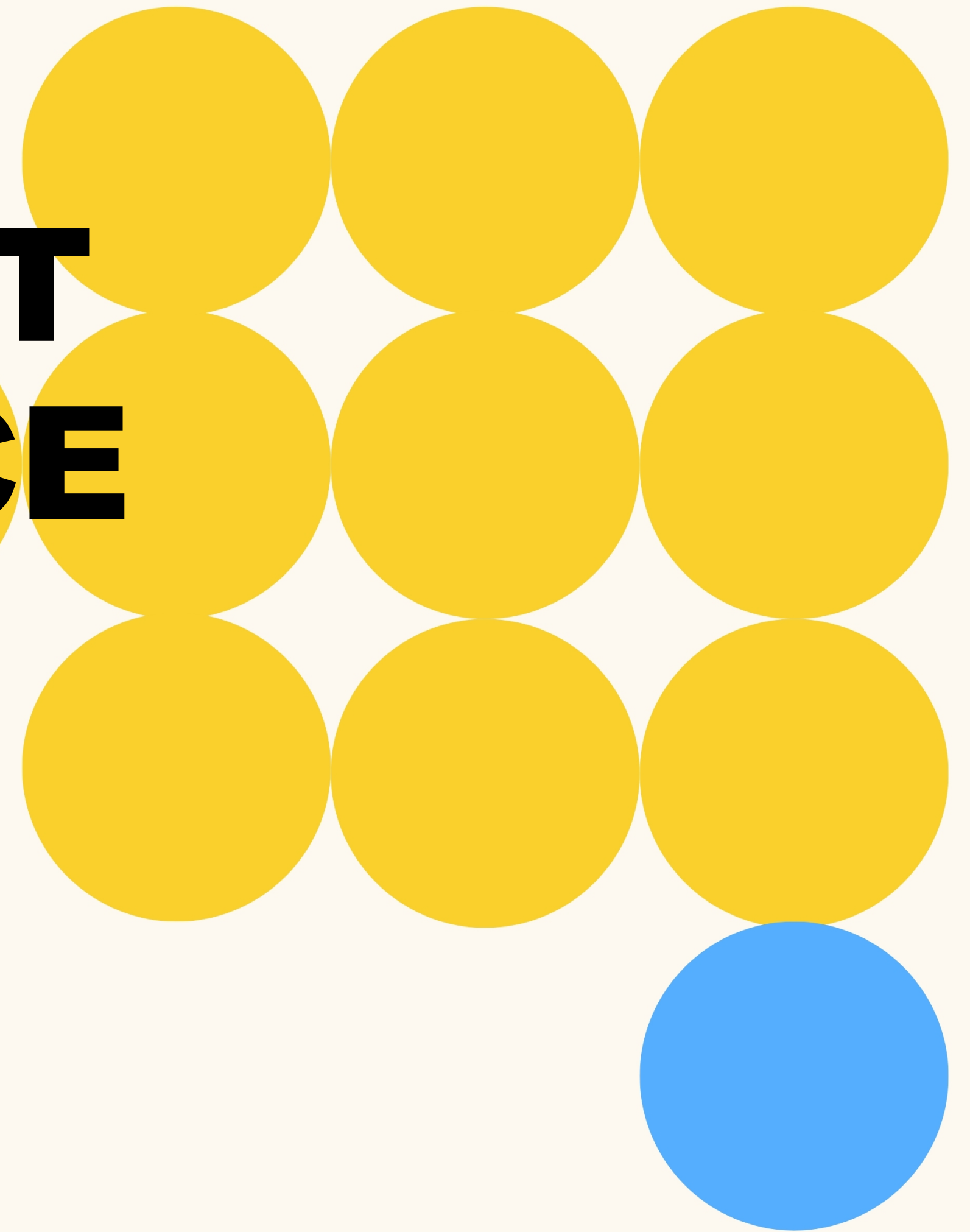


CHAPTER 39 CURRENT ACCOUNT OF BALANCE OF PAYMENT

Macroeconomics - year11



Agenda

Drive growth of monthly sales volume of purchases

- Multiple choice
- Essay

Be the most desirable brand



RECAP

1. Structure of Current Account of Balance of Payments:

- Balance of trade in goods and services (exports revenue minus imports expense)
- Primary income (net income from abroad)
- Secondary income account (net transfers such as foreign aid and remittances).

2. **Trade deficit:** occurs when the value of export revenue in goods and services is lower than the value of import expense in goods and services

3. **Current account deficit:** occurs when the money outflow for imports of goods and services, primary income (such as interest and dividends), and secondary income (such as remittances and foreign aid) exceed the money inflow from exports of goods and services, primary income receipts, and secondary income receipts.

RECAP

4. **Causes of Current Account Deficit:** Imports exceed exports, often due to

- A high exchange rate or inflation
- Low domestic product quality reduces competitiveness,
- High domestic production costs hinder exports

5. **Causes of Current Account Surplus:** Exports exceed imports, driven by

- A low exchange rate or inflation
- High-quality products increase international demand
- Low production costs enhance export competitiveness

RECAP

6. Consequences of Current Account Deficit:

- Slowed economic growth and risk of payment deficits
- Job losses in export industries
- Currency depreciation
- Loss of competitiveness in export industries.

7. Consequences of Current Account Surplus:

- Boosts economic growth and facilitates a balance of payment surplus
- Enhances employment opportunities
- Accumulation of foreign reserves
- Currency appreciation
- Potential trade tensions with surplus-receiving countries.

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8. Policies to Reduce Trade Deficit:

- Implementing tariffs, quotas
- Subsidies to reduce imports
- Currency depreciation to enhance export competitiveness
- Contractionary fiscal and monetary policies to reduce spending on imports.

9. Policies to Reduce Trade Surplus:

- Currency revaluation/appreciation to make exports more expensive and imports cheaper
- Expansionary fiscal and monetary policies to boost spending on imports.

Part1-Multiple choice

1. Which of the following is NOT included in the current account of the balance of payments?

- A) Trade in goods
- B) Trade in services
- C) Foreign direct investment (FDI)
- D) Net income and current transfers

Part1-Multiple choice

1. Which of the following is NOT included in the current account of the balance of payments?

- A) Trade in goods
- B) Trade in services
- C) Foreign direct investment (FDI)
- D) Net income and current transfers

Answer: C) Foreign direct investment (FDI)

Part1-Multiple choice

2. Which of the following would be classified under the "primary income" component of the current account?

- A) A country's purchase of military equipment from abroad
- B) Interest payments received from foreign investments
- C) A government's foreign aid donation to another country
- D) The sale of domestic currency to foreign investors

Part1-Multiple choice

2. Which of the following would be classified under the "primary income" component of the current account?

- A) A country's purchase of military equipment from abroad
- B) Interest payments received from foreign investments
- C) A government's foreign aid donation to another country
- D) The sale of domestic currency to foreign investors

Answer: B) Interest payments received from foreign investments

Part1-Multiple choice

3. A country has a current account deficit. This means that:

- A) Its total exports exceed total imports
- B) The value of imports of goods, services, and transfers is greater than the value of exports
- C) The country's foreign reserves are increasing
- D) It has a trade surplus

Part1-Multiple choice

3. A country has a current account deficit. This means that:

- A) Its total exports exceed total imports
- B) The value of imports of goods, services, and transfers is greater than the value of exports
- C) The country's foreign reserves are increasing
- D) It has a trade surplus

Answer: B) The value of imports of goods, services, and transfers is greater than the value of exports

Part1-Multiple choice

4. If a country experiences a persistent current account deficit, which of the following is the least likely consequence?

- A) Depreciation of the currency
- B) Increase in foreign debt
- C) Fall in foreign exchange reserves
- D) A continuous increase in inflation

Part1-Multiple choice

4. If a country experiences a persistent current account deficit, which of the following is the least likely consequence?

- A) Depreciation of the currency
- B) Increase in foreign debt
- C) Fall in foreign exchange reserves
- D) A continuous increase in inflation

Answer: D) A continuous increase in inflation

Part1-Multiple choice

5. Which of the following policies is most effective in reducing a current account deficit?

- A) Lowering interest rates
- B) Increasing government spending
- C) Implementing protectionist policies
- D) Printing more money

Part1-Multiple choice

5. Which of the following policies is most effective in reducing a current account deficit?

- A) Lowering interest rates
- B) Increasing government spending
- C) Implementing protectionist policies
- D) Printing more money

Answer: C) Implementing protectionist policies

Part2-Essay

1 (a) State any two elements of the current account of the balance of payments. [2]

2 (b) Explain 2 causes of surplus in a current account on the balance of payments.
[4]

3 (b) Analyse the policies a government could use to decrease a country's current account deficit.[6]

4 (d) Evaluate a country always negatively impacts from a current account deficit on its balance of payments [8]

Part2-Essay

3 (b) Analyse the policies a government could use to decrease a country's current account deficit.[6]

Part2-Essay

3 (b) Analyse the policies a government could use to decrease a country's current account deficit.[6]

Policies to Reduce Trade Deficit:

- Implementing tariffs, quotas
- Subsidies to reduce imports
- Currency depreciation to enhance export competitiveness
- Contractionary fiscal and monetary policies to reduce spending on imports.

Part2-Essay

Macro aims

- 1 High growth
- 2 low unemployment
- 3 low inflation
- 4 Balance of payment stability
5. Reduce poverty and income equality
6. Reducing pollution and resource waste

Parties in economy

- 1 consumer/workers // producer,MNC
- 2 gov //tax payer
- 3 exporter // importer
- 4 saver // borrower (for inflation topic)

4 (d) Evaluate a country always negatively impacts from a current account deficit on its balance of payments [8]

Part2-Essay

Macro aims

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The End

