

6.4 Current Account of Balance of Payments

Question Paper

Course	CIEIGCSE Economics
Section	6. International Trade & Globalisation
Topic	6.4 Current Account of Balance of Payments
Difficulty	Medium

Time allowed: 110
Score: /86
Percentage: /100

Question 1

Mexico has a history of trade deficits. The government is moving the economy closer to free trade, to try to improve its macroeconomic performance. It was predicted in 2017 that Mexico's economy would experience a small rise in its unemployment rate. In 2017 the economy's inflation rate was 6.6%, the highest rate since 2001. A number of policy measures may be used to reduce inflation, including increasing the rate of income tax.

Define trade in goods balance.

[2 marks]

Question 2

Discuss whether or not India is likely to experience a deficit on the current account of its balance of payments in the future.

Refer to the [source material](#) in your answers.

[6 marks]

Question 3a

a)

The Indian government subsidises the country's exports of cotton textiles. The USA, the largest buyer of Indian cotton textiles, benefited from this. India planned to stop the subsidy by 2019. This was welcomed by other cotton textile exporters. The USA may not be much affected, in part, because income usually rises in the country. The value of the Indian rupee against the US dollar was relatively stable in this period but rose slightly in mid-2017

Identify the difference between an export and an import

[2 marks]

Question 3b

b)

The Indian government subsidises the country's exports of cotton textiles. The USA, the largest buyer of Indian cotton textiles, benefited from this. India planned to stop the subsidy by 2019. This was welcomed by other cotton textile exporters. The USA may not be much affected, in part, because income usually rises in the country. The value of the Indian rupee against the US dollar was relatively stable in this period but rose slightly in mid-2017

Explain how a rise in the income of its main trading partners may affect a country's trade in goods balance

[4 marks]

Question 4a

a)

The election of a new president in South Africa in 2018 led to improvement in business and consumer confidence. Inflation rates fell despite a rise in total demand. One government policy measure established areas known as economic zones where firms pay lower, or no, taxes. These zones encourage domestic firms to become internationally competitive which could reduce the deficit on the current account of South Africa's balance of payment.

State two components of the current account

[2 marks]

Question 4b

b)

The election of a new president in South Africa in 2018 led to improvement in business and consumer confidence. Inflation rates fell despite a rise in total demand. One government policy measure established areas known as economic zones where firms pay lower, or no, taxes. These zones encourage domestic firms to become internationally competitive which could reduce the deficit on the current account of South Africa's balance of payment.

Analyse how a country's current account deficit might be reduced if its firms become internationally competitive.

[6 marks]

Question 5

The use of supply-side policy measures, including deregulation, is moving China closer to a market economic system. Some supply-side policy measures, such as education and subsidies, can also increase a country's economic growth rate. China joined the World Trade Organisation in 2001 and has since removed some quotas on imports and reduced some import tariffs. These measures may influence the size of its current account surplus.

Discuss whether or not a reduction in a country's trade protection will reduce its current account surplus.

[8 marks]

Question 6

The Monetary Authority of Singapore (MAS), the government body which controls the monetary policy of the country, has allowed the Singapore dollar to appreciate. However, the high cost of the Singapore dollar has created a need for new incentives for firms, such as a reduction in taxes and granting subsidies.

Analyse the consequences of an appreciating currency on the current account of the balance of payments of a country.

[6 marks]

Question 7

In 2016, France had a trade in services deficit. France is a rich, developed country with a high standard of living. The country is, however, facing several challenges including population problems. Also, after elections in 2017, politicians and economists debated whether the country should try to move towards freer international trade.

Define a trade in services deficit.

[2 marks]

Question 8

Germany's economy is one of the best-performing economies in the European Union (EU). Germany has low unemployment rates and a surplus on the current account of the balance of payments. Single parents, long-term unemployed, immigrants, elderly, and low-skilled workers have not always benefitted from Germany's economic performance. This has created increasing levels of relative poverty.

Define a surplus on the current account of the balance of payments.

[2 marks]

Question 9

Germany's economy is one of the best performing economies in the European Union (EU). Germany has low unemployment rates and a surplus on the current account of the balance of payments. Single parents, long-term unemployed, immigrants, elderly, and low-skilled workers have not always benefitted from Germany's economic performance. This has created increasing levels of relative poverty.

Discuss whether or not an increase in a surplus on the current account of the balance of payments decreases unemployment.

[8 marks]

Question 10

Ireland has attracted a significant number of foreign multinational companies (MNCs) to set up production in the country. These firms employ approximately 10% of the country's labour force and make a high proportion of Ireland's exports. The surplus on the current account of Ireland's balance of payments fell in 2016 while government spending rose.

Discuss whether or not an increase in government spending will reduce a surplus on the current account of that country's balance of payments.

[8 marks]

Question 11

A relatively high proportion of people from the Philippines either work in call centres or abroad. Call centres employ 1.2 million people in the Philippines and account for 8% of the country's Gross Domestic Product. Due to the time difference with the US, the main market for call centre services, many Filipinos have to work at night. The call centres are introducing new technology including robots.

Analyse how having some of its population working abroad may benefit an economy.

[6 marks]

Question 12

Analyse to what extent the information in Fig. 1 suggests that countries with current account deficits have higher inflation rates and lower economic growth rates than those with current account surpluses.

Refer to the [source material](#) in your answers.

[4 marks]

Question 13

High technology (hi-tech) firms use a range of resources including labour and land. One US hi-tech firm has produced a new price index which it claims is more accurate than the Consumer Prices Index (CPI). Central banks try to achieve the most accurate measure of inflation because inflation has effects on a range of people, including savers and borrowers, and on the level of investment in a country.

Discuss whether or not an increase in investment would reduce a deficit on the current account of the balance of payments.

[8 marks]

Question 14

In 2014, the government of Kazakhstan devalued its currency, the tenge. A year later the country still had a current account deficit. Therefore, in 2016 it considered adopting a floating exchange rate which might help to remove the deficit. However, it had concerns that this might affect the country's inflation rate which was already high at 17%.

Discuss whether or not a reduction in a current account deficit on the balance of payments will benefit an economy.

[8 marks]

Question 15

Farms in the USA are getting larger. One dairy farm in the state of Indiana has over 38 000 cows. Farms in the USA compete with farms in both developed and developing countries. The value of the farms' exports of milk appears in the trade in goods section of the current account of the USA's balance of payments.

Explain how a country could have a trade in goods surplus, but a deficit on the current account on the balance of payments.

[4 marks]