IGCSE ECONOMICS · 2.1 GOVERNMENT AND THE ECONOMY · CHAPTER 28 · PAPER 2

The Balance of Payments Current Account

Topic question sheet L28 | **Total: 29 marks** | **Time: 30 minutes** | **Student Book pp. 220–227**

Instructions: answer **all** questions. Write your answers on lined paper. The marks for each question are shown in brackets: use them as a guide to how much to write.

Calculators may be used. Show your working. Draw diagrams in pencil and label them fully. The mark scheme starts on a new page: do not look at it until you have finished.

Section A: Multiple choice

One mark each. Choose **one** answer: A, B, C or D.

1 Which of the following is an example of an invisible item of trade? **(1)**

A Machinery
B Cars
C Insurance
D Confectionery

2 Renault cars made in Morocco and sold to Spain, France and Germany will: **(1)**

A increase Morocco's imports
B reduce Morocco's exports
C improve Morocco's current account
D improve Morocco's invisible balance

3 The balance of trade is the difference between: **(1)**

A all exports and all imports
B visible exports and visible imports
C invisible exports and invisible imports
D savings and investment flows

4 A rise in a country's exchange rate is likely to: **(1)**

A make exports cheaper
B make imports dearer
C make exports dearer
D have no effect on trade

Section B: Short answers

Define, state, calculate, draw and explain. Show your working for calculations.

5 Define the **current account**. **(1)**

6 Calculate Serrania's current account balance. You are advised to show your working. **(3)**

7 Explain how high inflation can lead to a current account deficit. **(3)**

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Section C: Data response

Read the extract, then answer the questions. Use evidence from the extract in every answer.

Extract: Trade in Serrania

The fictional country of Serrania exported goods worth US$84 billion last year and imported goods worth US$97 billion. Tourism and financial services gave it a surplus of US$6 billion on invisible trade.

Inflation in Serrania is 9%, much higher than in its trading partners, and its currency rose 8% against the US dollar. Serrania imports most of its fuel and food. Its foreign currency reserves have fallen by a third in two years.

Fictional case, written for this sheet.

8 With reference to the extract, analyse the causes of Serrania's current account deficit. **(6)**

9 With reference to the extract, evaluate whether Serrania's current account deficit is a serious problem. **(12)**

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Mark scheme: The Balance of Payments Current Account

How to mark: Multiple choice, Define, State: 1 mark. **What is meant by** (2): two separate parts to the definition. **Calculate**: working and answer (with units). **Draw** (3): one mark per correct labelled feature. **Explain** (3): 1 for a point, 2 for developing it in context. **Analyse** (6): knowledge 2, application 2, analysis 2. **Assess** (9) and **Evaluate** (12) are marked by levels: choose the level that best fits the whole answer. Indicative content is a guide: credit other valid points.

Section A

1 *Which of the following is an example of an invisible item of trade? (1 mark)*

Answer: C (Insurance). Insurance is a service.

2 *Renault cars made in Morocco and sold to Spain, France and Germany will: (1 mark)*

Answer: C (improve Morocco's current account). Visible exports rise.

3 *The balance of trade is the difference between: (1 mark)*

Answer: B (visible exports and visible imports). Goods only.

4 *A rise in a country's exchange rate is likely to: (1 mark)*

Answer: C (make exports dearer). Foreigners need more of their currency.

Section B

5 *Define the current account. (1 mark)*

The part of the balance of payments where all exports and imports are recorded (1).

6 *Calculate Serrania's current account balance. You are advised to show your working. (3 marks)*

Balance of trade: 84 − 97 = −US$13bn (1).

Add invisible surplus: −13 + 6 (1).

Answer: −US$7bn, a deficit (1).

7 *Explain how high inflation can lead to a current account deficit. (3 marks)*

Point: domestic goods become dearer than foreign goods (1).

Development: exports fall as foreigners buy elsewhere (1), and home consumers buy more imports (1).

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Section C

8 *With reference to the extract, analyse the causes of Serrania's current account deficit. (6 marks · K2 · Ap2 · An2)*

Knowledge (2): prices of domestic goods; exchange rate.

Application (2): inflation 9% vs partners; currency up 8%; imports fuel and food.

Analysis (2): exports dearer and imports cheaper, so export demand falls and import spending rises; essential imports keep import spending high.

Knowledge 2 · Application 2 · Analysis 2.

9 *With reference to the extract, evaluate whether Serrania's current account deficit is a serious problem. (12 marks · levels)*

Serious: reserves down a third (funding problem); leakages threaten jobs; fuel/food imports bring imported inflation; persistent if inflation stays high.

Less serious: invisible surplus partly offsets it; deficit of US$7bn may be small relative to total trade; could be funded by capital inflows.

Judgement: becoming serious because reserves are falling; depends on reducing inflation and whether the currency weakens.

Levels: L1 1–3 · L2 4–6 · L3 7–9 · L4 10–12 (balanced, well-developed arguments using the data throughout, and a justified conclusion that answers the question).

Original practice questions written in the style of the Pearson Edexcel International GCSE Economics (4EC1) papers. This is not an official paper. Unless a source is given, the firms, countries and figures are fictional and made up for practice.

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