

Item:	H L	S L	Must Know	3.3 The balance of payments Big Questions: <ol style="list-style-type: none"> 1. Why is the balance of payments important for a government – make reference to A) problems with a balance of payments deficit B) why is the balance of payments important for the exchange rate and trade? 2. Explain the J-Curve effect when a currency depreciates 3. How does the Marshall Lerner effect influence the Balance of Payments? 	Reading	<u>Example</u>	<u>U-tube</u>	Weight	web note
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The structure of the balance of payments

147			The meaning of the balance of payments	<ul style="list-style-type: none"> • Outline the role of the balance of payments. • Distinguish between debit items and credit items in the balance of payments. 					
Item	hl	sl	Must Know	Must know very well! Here are the details of what you need to know.	Reading	<u>Example</u>	<u>U-tube</u>	W E I G H T	W E B N O T E
148			The components of the balance of payments accounts	<ul style="list-style-type: none"> • Explain the four components of the current account, specifically the balance of trade in goods, the balance of trade in services, income and current transfers. • Distinguish between a current account deficit and a current account surplus. • Explain the two 		<u>Example</u>	<u>U-tube</u>	3	

			components of the capital account, specifically capital transfers and transaction in non produced, non-financial assets. • Explain the three main components of the financial account, specifically, direct investment, portfolio investment and reserve assets.					
149 HL Only		The components of the balance of payments accounts	• Calculate elements of the balance of payments from a set of data.		<u>Example</u>	<u>U-tube</u>	3	
150		The relationships between the accounts	• Explain that the current account balance is equal to the sum of the capital account and financial account balances (see the appendix, “The balance of payments” at end of this document page 62). • Examine how the current account and the financial account are interdependent.		<u>Example</u>	<u>U-tube</u>	3	

Current account deficits

151		The relationship between the current account and the exchange rate	• Explain why a deficit in the current account of the balance of payments may result in downward pressure on the exchange rate of the currency.		<u>Example</u>	<u>U-tube</u>	3	
152 HL Only		Implications of a persistent current account deficit	• Discuss the implications of a persistent current account deficit, referring to factors including foreign ownership of domestic assets, exchange rates, interest rates, indebtedness, international credit ratings and demand management.		<u>Example</u>	<u>U-tube</u>	3	
153 HL Only		Methods to correct a persistent current account deficit	• Explain the methods that a government can use to correct a persistent current account deficit, including expenditure switching policies, expenditure reducing policies and supply-side policies, to increase competitiveness. • Evaluate the effectiveness of the policies to correct a				5	

				persistent current account deficit.					
Item	hl	sl	Must Know	Must know very well! Here are the details of what you need to know.	Reading	<u>Example</u>	<u>U-tube</u>	W E I G H T	W E B N O T E
154 HL Only			The Marshall-Lerner condition and the J-curve effect	<ul style="list-style-type: none"> • State the Marshall-Lerner condition and apply it to explain the effects of depreciation/devaluation. • Explain the J-curve effect, with reference to the Marshall-Lerner condition. 	See webnotes 414 and 417 in Section 3	<u>Example</u>	<u>U-tube</u>	3	
Current account surpluses									
155			The relationship between the current account and the exchange rate	<ul style="list-style-type: none"> • Explain why a surplus in the current account of the balance of payments may result in upward pressure on the exchange rate of the currency. 		<u>Example</u>	<u>U-tube</u>	3	
156 HL Only			Implications of a persistent current account surplus	<ul style="list-style-type: none"> • Discuss the possible consequences of a rising current account surplus, including lower domestic consumption and investment, as well as the appreciation of the domestic currency and reduced export competitiveness. 		<u>Example</u>	<u>U-tube</u>	4	