

Big Ideas

Is the balance of payments current account deficit a significant problem in the long run?

“The balance of payment must always balance”. Is this a valid statement?

The balance of payments connects with indebtedness. How does this work?

What are 2 key problems and cures of a bop deficit?

SL2 + HL2

M14/3/ECONO/SP2/ENG/TZ0/XX

(Question 1)

(b) With reference to the text, explain how Japan’s **current account** can be in surplus while it has a trade in goods deficit (paragraph 7). [4 marks]

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(Question 1)

(ii) Define the term **financial account** indicated in bold in the text (paragraph 7).

(b) With reference to the concept of price elasticity of demand, explain why rising oil prices have contributed to Turkey’s growing **current account deficit** (paragraph 7). [4 marks]

(c) Explain two reasons why “rapidly rising domestic demand” may have contributed to Turkey’s **current account deficit** (paragraph 7). [4 marks]

(d) Using information from the text/data and your knowledge of economics, evaluate the possible policies that the Turkish authorities might use to reduce the **current account deficit**. [8 marks]

HL2

HL2 2009-May

5 Oil prices have risen in recent years.

Explain the likely impact on the terms of trade and the current account balance of a country that depends on oil exports for most of its revenue.

10/30 marks

HL2 2008-May

5 Explain why a depreciation of a country’s exchange rate may not always lead to an improvement in its current account of the balance of payments. 10 /30 marks

HL2 2004-May

Explain how in theory balance of payments deficits and surpluses on current account are automatically adjusted under a system of flexible exchange rates. Illustrate your answer using supply and demand analysis.

SL2 + HL2

M13/3/ECONO/SP2/ENG/TZ0/XX

(ii) List three components of the current account of the balance of payments. [2 marks]

(c) Explain how inflation in China might affect its **current account balance**. [4 marks]

(d) Using information from the text/data and your own knowledge of economics, evaluate the possible effects on the Chinese economy of increased trade protection imposed by its trading partners. [8 marks]

HL3