Balance of Payments and Current Account

# Starter - Discussion Question

**Instructions:** Consider the question individually, discuss your thoughts with a partner, share your ideas with the class

*When does money enter and leave an economy?*

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| --- |
| Note Space (list all the ways you can think of): |

# Presentation 1 – Intro to the BoP

Complete the activities below so as to have a complete set of notes:

**Definition:** *Balance of Payments*

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It is made up of several different accounts

It always sums to zero

**Diagram:** BOP Tree Diagram



**Definition:** *Capital Account*

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It records the movement of physical assets associated with migration or acquisition/disposal of intellectual assets.

 An example of a physical asset is \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

 An example of an intellectual asset is \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

**Definition:** *Financial Account*

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It records:

Foreign Direct Investment (FDI):

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Portfolio Investment:

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Balance of banking flows:

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**Definition:** *Current Account*

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Trade in goods, trade in services, income, and current transfers

# Quick Questions: Understanding the BoP Accounts

**Instructions:**

* Consider the below quick questions
* Discuss your thoughts with a partner
* Share your answers with the class

Which account(s) report the flow of income between a country and the rest of the world?

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Which account(s) report the change of ownership of assets between a country and the rest of the world?

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If a country has a net outflow of income to the rest of the world, how might this be paid for?

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# Extension Research Task: The Pink Book

**Definition:** *The Pink Book*

The annual publication by the Office for National Statistics that details the United Kingdom's balance of payments.

*Available to download here:* <https://www.ons.gov.uk/economy/nationalaccounts/balanceofpayments/bulletins/unitedkingdombalanceofpaymentsthepinkbook/2020>

**Instructions:**

* Using ‘The Pink Book’ to research and answer the questions on the patterns in the UK’s Balance of Payments
* Discuss your answers as a class

Using data, describe the trend in the UK’s current account. (2 – knowledge & application)

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**Challenge**: What do you think is driving the trend and how does this impact the UK economy?

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Using data, describe the trend in the UK’s net trade in services, net trade in goods and the trade balance (the difference between exports and imports of goods and services). (6 - knowledge & application X 3)

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**Challenge**: Why do you think there is such a contrast between the UK’s net trade in services and the net trade in goods?

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Using data, which sectors are driving change in the UK’s net trade in services? (8 - knowledge & application)

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**Challenge**: Can you foresee any tailwinds or headwinds to these sectors?

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How do we finance our current account deficit currently? (1 - knowledge)

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**Challenge**: How stable is this form of finance and how may this impact the UK economy?

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# Presentation 2 – The Current Account

Complete the activities below so as to have a complete set of notes:

**Equation:** Complete the below equation:

*Current Account Balance =*  + \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

 - \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

 + \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

 - \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

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*Tip:*When considering if a transaction is an import or an export examine the direction in which the money flows (money inflow=export, money outflow=import)

**Definition:** *Current Account Surplus*

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**Definition:** *Current Account Deficit*

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*Stat:*In 2020 the UK current account balance for the year was an £55.9 bn deficit

## Components of the Current Account

**Definition:** *Trade in Goods*

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*Stat:* In the 3 months to April 2020, the UK’s balance of trade in goods was a £30.0 bn deficit (£73.3 bn of goods sold overseas, £103.3 bn of goods bought from overseas)

**Definition:** *Trade in Services*

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*Stat:* In the 3 months to April 2020, the UK’s balance of trade in services was a £25.6 billion surplus (£65.1 bn of services sold overseas, £39.6 bn bn of services bought from overseas)

**Definition:** *The balance of trade (in goods and services)*

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It is the value of their exports minus the value of their imports, X-M (i.e. net exports).

BOT Surplus: \_\_\_\_\_\_\_\_\_\_\_\_\_

BOT Deficit: \_\_\_\_\_\_\_\_\_\_\_\_\_

*Stat:* In the 3 months to April 2020, the UK’s balance of trade in goods and services was a £4.5 billion deficit

**Definition:** *Net Income*

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AKA \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

Includes profits, dividends on investments abroad and interest.

**Key Question:** What is the difference between Net Income and the Financial Account?

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**Definition:** *Net Current Transfers*

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AKA \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

Usually, money transfers between central governments as aid or grants, such as those that the UK used to receive as part of the CAP from the EU.

Can also include remittance payments.

# Task: The Balance of Payments I

*A country has the following international transactions:*

1. Exports of manufactured goods £28bn

2. Food imports £16bn

3. Foreign tourists in the UK spend £5bn

4. Dividends paid to foreign shareholders £2bn

5. Profits repatriated by foreign multinationals £5bn

6. Purchase of oil from abroad £12bn

7. EU government provides agricultural subsidies to British farmers £1bn

8. Repatriated earnings of UK citizens working overseas £10bn

9. Sale of coal to foreign countries £3bn

10. Payments by foreigners to UK financial institutions for services rendered £3bn

11. UK tourists abroad spend £10bn

12. UK government provides financial aid to various African countries £2bn

a) Which of these items are:

i. Exports of goods?

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ii. Exports of services?

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iii. Imports of goods?

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iv. Imports of services?

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v. Income items (specify whether debit (-) or credit (+))?

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vi. Transfer items (specify whether debit (-) or credit (+))?

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b) Calculate:

i. The balance of trade in goods:

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ii. The balance of trade in goods and services:

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iii. The current account balance: ……………………………………………………………………………………………………………………………………………………………………………………

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c) How would your answers to b) differ if it cost the country £5bn to transport its exports:

i. In its own ships?

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ii. In foreign-owned ships?

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# Presentation 3 – The Interconnectedness of Economies through Trade

Complete the activities below so as to have a complete set of notes:

**Definition:** *Open Economy*

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In practice, almost all economies are interconnected through trade.

But Economists often compare open economies to theoretical ‘closed’ economies, those not open to trade with other economies.

**Key Notes:** *Interconnection*

As exports and imports flow between different economies, it is obvious that every economy experiences injections and withdrawals.

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**Example:** To see this, consider the following:

Imagine that the UK and China are the only two economies that exist.

If the UK exports £100 of goods to China but imports £200 worth of goods, this will lead to a trade balance of \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_.

However, by symmetry, China is exporting £200 of goods and only importing £100, a \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_.

# Assignment

**Short-answer questions (Section A)**

1. The chart shows Cyprus’s balance of trade between 2003 and 2012 (Euros).



 From this chart it can be deduced that for the whole of this period:

 A The value of exports was greater than the value of imports

 B Government expenditure was greater than tax revenues

 C The value of imports was greater than the value of exports

 D Savings were greater than investment

[1]

1. Explain what is meant by a “deficit in the trade of goods and services on the current account of the balance of payments”.

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1. Explain **two** main components of the Balance of Payments on Current Account.

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