Topic 6.1 Balance of Payments

1. What are the components of the current account?

2. Identify which of the following is a trade deficit and which is a trade surplus.

In Country A exports are greater than imports	
In country B imports are greater than exports	

3. Explain why a country could have a trade deficit without having a deficit in the current account.

4. What are the components of the capital and financial account?

5. The sum of the current account and capital account equals what number?

6. Identify if the account in question would be balanced, have a surplus, or have a deficit.

If Country C has a deficit in the current account, the financial and capital account...	
If Country D has a surplus in the current account, the financial and capital account...	
If Country E has a balanced current account, the financial and capital account...	

7. Read each scenario below and identify if the payment described would be a credit or debit for the United States and if it would be counted in the current account (CA) or capital and financial account (CFA).

	Credit or Debit	CA or CFA
A US citizen works in Zambia and brings his wages back to the United States		
The United States has a net financial capital inflow		
A Chinese business sells computer software to a firm in the US		
The United States has a net financial capital outflow		
A Japanese investor buys stock in Facebook (A US company)		
A US investor earns dividends on investments in South America		
A US resident buys saffron (a spice) from Kashmir, India		
A resident of New Zealand donates money to the American Red Cross		
A US resident buys a shoe factory in Mexico		

8. The table below shows the values of different components of Asgard's balance of payments. Using the numbers in the table, calculate the balance of trade, the balance on the current account, and the balance on the capital and financial account. Show your work.

Net Investment Income	$49 Billion
Net Money Transfers	-$4 Billion
Purchases of Foreign Assets	$90 Billion
Sale of Domestic Assets	$75 Billion
Imports	$100 Billion
Exports	$70 Billion

Balance of Trade

Current Account Balance

Capital and Financial Account Balance

9. How will these direct changes to the current account indirectly impact the capital and financial account balance (increase, or decrease)?

If there is an increase in imports, the capital & financial account will…	
If there is a decrease in investment income, the capital and financial account will…	
If there is an increase in money transfers, the capital and financial account will…	

10. How will these direct changes to the capital and financial account indirectly impact the current account balance (increase or decrease)?

If there is an increase in assets sold to foreign investors, the current account will…	
If rising interest rates cause a capital inflow, the current account will…	
If falling interest rates cause a capital outflow, the current account will…	