## Balance of Payments

Starter activity

***Import (M) or Export (X) to the UK?*** *Think about the direction the money is flowing in. If money is flowing into the country then it must be an export. If money is flowing out of the country then it must be an import.*

1. A UK citizen buying a flight to Malaysia with Malaysian Airlines

2. A British teacher working in New Zealand and sending the money she earns home to her family.

3. A British bank arranging Insurance for an American Company

4. British tourist booking a guided tour around a safari park in South Africa

5. A UK citizen getting a haircut in France

6. An American tourist buys a souvenir on his trip to London

7. An American citizen booking a holiday in a Spanish Villa

**Activity 1:** Complete the table below by filling in the 4 components that make up the Balance of Payments (Current Account)

|  |  |
| --- | --- |
| Current account component | Explanation of terms |
|  | A record of all trade in visible exports and imports (e.g. manufactured goods, raw materials) |
|  | A record of all trade in invisible exports and imports (e.g. banking services) |
|  | The difference between inward and outward flows of interest, profits and dividends. |
|  | Consists of government and individual transfers to and from overseas organisations including the European Union. |
| Current account balance | The sum total of the individual components of the current account. This can be a surplus or deficit. |

A current account deficit exists when ............................................................................................................................

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**Activity 2**: Calculate the Current account balance:

|  |  |
| --- | --- |
| **Current account** | £**bn** |
| Total exports of goods | 50 |
| Total imports of goods | 70 |
| Total exports of services | 90 |
| Total imports of services | 80 |
| Transfers to EU | £2 |
| Transfers to the UK | £1 |
| Investment flow out of the UK | £10 |
| Investment flow into the UK | £8 |
| **Total balance** |  |

**Activity 3:** Decide which of the following statements are true and which are false.

1. A rise in the level of UK national income means that UK citizens will buy more imports (T/F)
2. The current account and the balance of payments are the same thing (T/F)
3. If the value of sterling falls, the UK will gain more revenue from exports.(T/F).
4. If the US government decide to offer subsidies to its firms then the amount of US exprts into the UK will rise. (T/F)
5. If the rate of inflation in the UK falls faster than those of our major trading partners the volume of UK exports will rise. (T/F)
6. Following a rise in Germany productivity, all things being equal, the volume of its exports will rise. (T/F)
7. Following a rise in the level of National income in our major trading partners, all things being equal we should expect an increase in UK exports.(T/F)
8. A rise in the value of the pound against other currencies, will usually mean that the UK will import more goods from overseas. (T/F)
9. Net transfers refers to that part of the current account where dividends, interest and profits are recorded. (T/F)
10. If the value of the Euro rises against sterling, the level of UK exports to Eurozone countries will rise. (T/F)

**Plenary**

**1.** The current account of the balance of payments comprises

**A** all government income and expenditure in a financial year.

**B** money that may be withdrawn at any time.

**C** trade in goods and services, investment income and transfers.

**D** all transactions involving money leaving or entering the country.

**2.** All other things being equal, which one of the following is most likely to lead to an increase in the size of the UK’s current account deficit on the balance of payments?

**A** A fall in the exchange rate

**B** A fall in consumer spending

**C** A reduction in income tax rates

**D** A fall in the rate of inflation

**3.** All other things being equal, which one of the following situations is most likely to lead to a deterioration in the UK’s balance of payments on current account? A fall in

**A** UK inflation relative to the rest of the world

**B** UK labor productivity relative to the rest of the world

**C** The exchange rate of the pound

**D** incomes in the UK

**4.** The annual rate of inflation in the UK falls from 5 per cent to 2 per cent but the annual rate of inflation in the UK’s main trading partners remains at 5 per cent. As a result, all other things being equal, it is likely that in the long term

**A** UK exports will increase.

**B** UK imports will increase.

**C** the UK current account balance will deteriorate.

**D** withdrawals from the UK circular flow of income will increase.