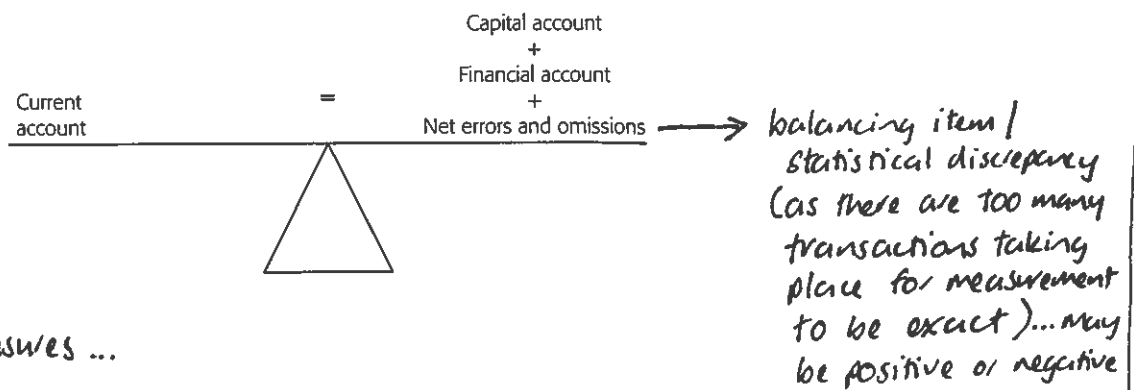


### 3.3 The balance of payments

A country's balance of payments account records \_\_\_\_\_

Inflows (or credit items)	Outflows (or debit items)

There are three components of the balance of payments accounts - the current a/c, the capital a/c + the financial a/c



The current account measures ...

The capital account measures ...

The financial account measures ...

#### The structure of the balance of payments for IB Diploma Programme economics students

##### Current account

- Balance of trade in goods (visible balance)
  - Balance of trade in services
  - Income
  - Current transfers
- } (invisible balance)

##### Capital account

- Capital transfers
- Transactions in non-produced, non-financial assets

##### Financial account

- Direct investment
- Portfolio investment
- Reserve assets

## The Current Account

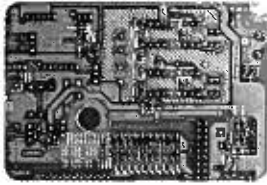
- visible balance - Balance of (Merchandise) Trade
  - records trade in goods, e.g.
- invisible balance
  - includes - trade in services, e.g.
    - investment income flows, e.g.
    - government & private transfers, e.g.

### **Student workpoint 24.1**

#### **Be a thinker**

Identify whether each of the following elements represents an invisible import, a visible import, an invisible export, or a visible export on the UK current account.

- 1 UK computer manufacturers buy semi-conductors from Malaysia.



- 2 Lloyds of London sells insurance to Chinese shipping companies.



- 3 Canadian football fans buy tickets to a Manchester United game.



- 4 British football fans attending the World Cup 2010 stay in hotels in South Africa.



- 5 France buys North Sea natural gas from UK companies.



Distinguish between a current a/c surplus + a current a/c deficit:

## The Capital Account

Relatively minor part of the BOP a/cs ... explain the two components:

\* Capital transfers:

\* Transactions in non-produced, non-financial assets:

## The Financial Account

\* Direct investment

\* Portfolio investment

\* Reserve assets

Explain why a loan taken by a Hungarian firm from a British Bank would be given a plus sign in the financial account <sup>(of Hungary)</sup>, whereas the interest payable on that loan would be given a minus sign on the current account <sup>(of Hungary)</sup>:

What does this imply about the interdependence of the current account + the financial account?

The balance of payments must always balance

ie. a current account deficit must be matched by \_\_\_\_\_  
→ a country can import more than it exports and may pay for this by borrowing from abroad, repatriating capital or running down its foreign saving.

The relationship between the current acc + 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.

• 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.