

- 1 A Chinese-owned company builds a factory in the UK with a view to exporting 100% of the final product to Europe. What is likely to be the long run impact on the UK's balance of trade in goods and on its current account balance?

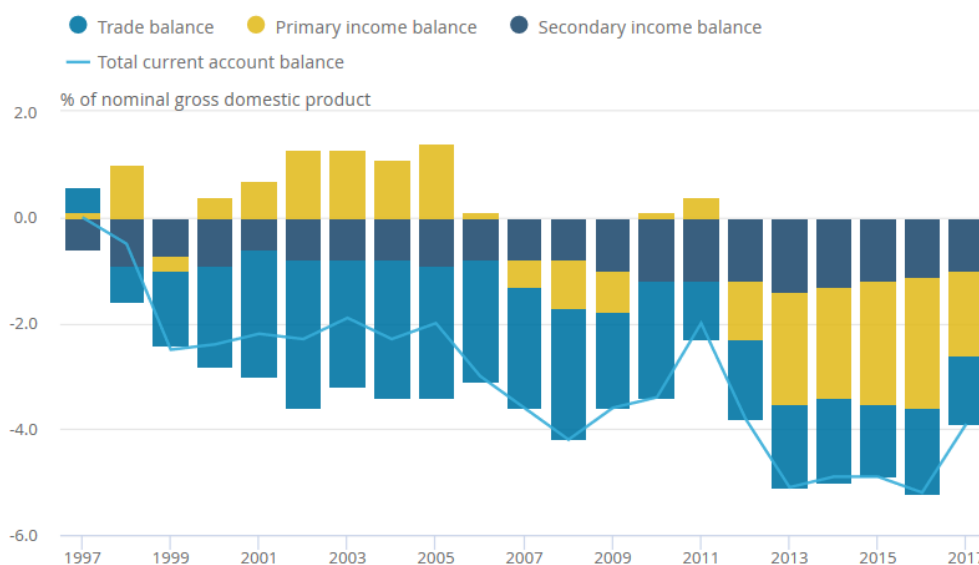
	Balance of trade in goods	Current account balance	
A	Improve	Improve	•
B	Worsen	Worsen	•
C	Improve	Uncertain	•
D	Uncertain	Worsen	•

- 2 If a country's currency depreciates, which of the following is most likely to occur on the current account of the balance of payments given a country has invested heavily in FDI abroad?

	Primary Income (Investment Income) balance	Current account balance	
A	Improve	Uncertain	•
B	Improve	Improve	•
C	Improve	Worsen	•
D	Uncertain	Improve	•

- 3 The chart below shows the UK's current account in current prices over a period of time, expressed as a % of nominal GDP.

UK, 1997 to 2017



Source: Office for National Statistics



Primary income, at 0.9% of GDP is £17.2bn.

Nominal GDP in 2017 can be calculated to be

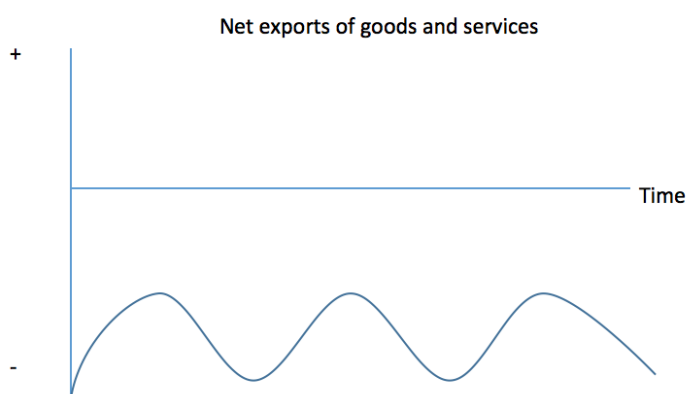
- A £1911bn .
- B £191bn .
- C £19111bn .
- D £19.1bn .

- 4 A country has, historically, attracted many years of inward FDI and its economy has grown strongly in recent years. However, the economies of its main trading partners have stagnated in recent years.

Which of the following changes is most likely to happen?

- | | Primary Income Balance | Currency | |
|---|------------------------|------------|---|
| A | Improve | Appreciate | . |
| B | Improve | Depreciate | . |
| C | Worsen | Depreciate | . |
| D | Worsen | Appreciate | . |

- 5 What is the **best** description of what is depicted by the following diagram>



- A A cyclical budget deficit .
- B A structural budget deficit .
- C A cyclical trade deficit .
- D A structural trade deficit .



- 6 A government may seek to improve the current account of the balance of payments by introducing either expenditure-reducing or expenditure-switching policies. Which of the following is an expenditure-reducing policy?
- A A rise in income tax .
 - B Devaluation of the currency .
 - C The introduction of an export subsidy .
 - D The introduction of an import tariff .
- 7 If the UK's PED for exports is 0.5 and PED for imports is 0.6, which of the following is likely to hold true?
- A A depreciation of sterling will have no effect on the trade balance. .
 - B An appreciation of sterling will lead to a smaller trade deficit in the long run. .
 - C A depreciation of sterling will lead to a smaller trade deficit in the short run. .
 - D A depreciation of sterling will lead to a smaller trade deficit in the long run. .
- 8 Assuming that the UK's price elasticity of demand for exports is -0.6 and the price elasticity of demand for imports is -0.7, then a depreciation in Sterling is likely to result in a(n)
- A shrinking of the current account deficit. .
 - B increase in the current account deficit. .
 - C increase in the volume of imports. .
 - D reduction in the volume of exports. .
- 9 The Migration Observatory think tank recently released a report on the importance of migration in the development of economies. How is outward migration from a developing economy likely to affect its current account on the balance of payments?
- A It may improve its current account by increasing inflows of current transfers .
 - B It may improve its current account by increasing its export capacity .
 - C It may worsen its current account by causing a currency depreciation .
 - D It may worsen its current account by increasing consumer expenditure on imported goods .



- 10 In September 2019, the Federal Reserve Bank in the US lowered interest rates by a quarter of a percentage point for the second time in two months. Why might a reduction in domestic interest rates have an adverse effect on a country's balance of payment on current account?
- A It will cause a rise in the exchange rate .
 - B It will make the country's industry less competitive .
 - C The resulting higher level of economic activity is likely to increase imports .
 - D There will be an outflow of "hot money" from the country .

