Balance of Payments — Worksheet

Part A — Structure, calculations and the savings–investment gap

This worksheet develops the BOP calculation and analysis skills the exam tests: computing the balance on goods and services, the income balance and the current account balance, and explaining the outcome.

Worked example. Exports 480, imports 455, net primary income −58, net secondary income −2 (A$b).

$BOGS = 480 - 455 = +25; CA = 25 + (-58) + (-2) = -35$ *(deficit)*

Always state the **sign and the label** ("a deficit of $35b"), not just the number — and name the driving component when asked to "account for" the result.

Structure and concepts

1. List the two main accounts of the balance of payments and state what each records.

2. Name the three components of the current account, and give one example of a transaction recorded in each.

3. Explain the double-entry rule and what it implies about the relationship between a current account deficit and the financial account.

Calculations

Use this data for a hypothetical year (A$ billion): exports of goods & services 525; imports of goods & services 498; net primary income -72; net secondary income -4.

4. Calculate the balance on goods and services. ______________

5. Calculate the current account balance and state whether it is a surplus or a deficit. ______________

6. Account for this current account outcome, identifying the component that has the greatest influence.

Analysis

7. Explain why a current account deficit is not necessarily a sign of economic weakness, referring to the savings–investment gap.

8. Over the last ten years, Australia's current account briefly moved into surplus. Suggest one factor (e.g. a change in the trade balance driven by commodity prices) that could cause such a shift.