2.6 The Balance of Payments: Causes and Correction of Disequilibrium: 10-minute Pack

Total Marks

AQA 7136 · Calculators not allowed · about 10 minutes

Name: _____ Date: ____ / ____ / _____

Answer all questions. Write full sentences for questions worth 4 marks or more. Time guidance: 10 minutes total.

1 State two ways in which a loss of international cost or price competitiveness in UK firms can cause a current account deficit.

(Total for Question 1 is 2 marks)

2 Explain briefly how the trade cycle can cause temporary swings in the UK current account balance over a few years.

(Total for Question 2 is 2 marks)

3 Define protectionist measures used to correct a current account deficit and state one potential negative side effect for UK consumers.

(Total for Question 3 is 2 marks)

4 Define 'expenditure-switching' policies in the context of correcting a current account deficit, and give one clear example relevant to the UK.

(Total for Question 4 is 2 marks)

© Revision Library | revisionlibrary.co.uk

Mark scheme · 2.6 The Balance of Payments: Causes and Correction of Disequilibrium: 10-minute Pack

Question 1

any one valid way, e.g. higher relative wage or production costs raise UK export prices and reduce export volumes **B1**

a second, different valid way (e.g. an appreciation of the pound, higher relative inflation), or: slower productivity growth increases unit costs for UK firms, encouraging imports and reducing net exports **B1**

Answer: Higher relative wages or costs that make UK goods more expensive overseas; slower productivity growth raising unit costs and encouraging imports.

Question 2

in a boom domestic incomes and spending rise, boosting imports more than exports and worsening the current account **M1**

in a recession domestic demand and imports fall, which can temporarily improve the current account **A1**

Answer: During booms higher incomes raise import demand and can worsen the current account; during recessions lower demand reduces imports and can improve the current account temporarily.

Question 3

protectionist measures are policies such as tariffs, quotas or import restrictions designed to reduce import volumes and protect domestic industries **B1**

negative side effect: they raise prices for UK consumers, reducing consumer welfare and potentially causing retaliation from trading partners **B1**

Answer: Protectionism uses tariffs or quotas to cut imports; a likely negative effect is higher prices for consumers and lower consumer choice.

Question 4

expenditure-switching policies are measures that aim to change the pattern of domestic spending away from imports toward domestically produced goods and services **B1**

example: a deliberate depreciation of the pound sterling to make UK exports cheaper and imports more expensive, or targeted temporary tariffs on certain imports **B1**

Answer: Expenditure-switching policies change spending towards domestic goods, for example a depreciation of the pound to boost exports and discourage imports.

© Revision Library | revisionlibrary.co.uk