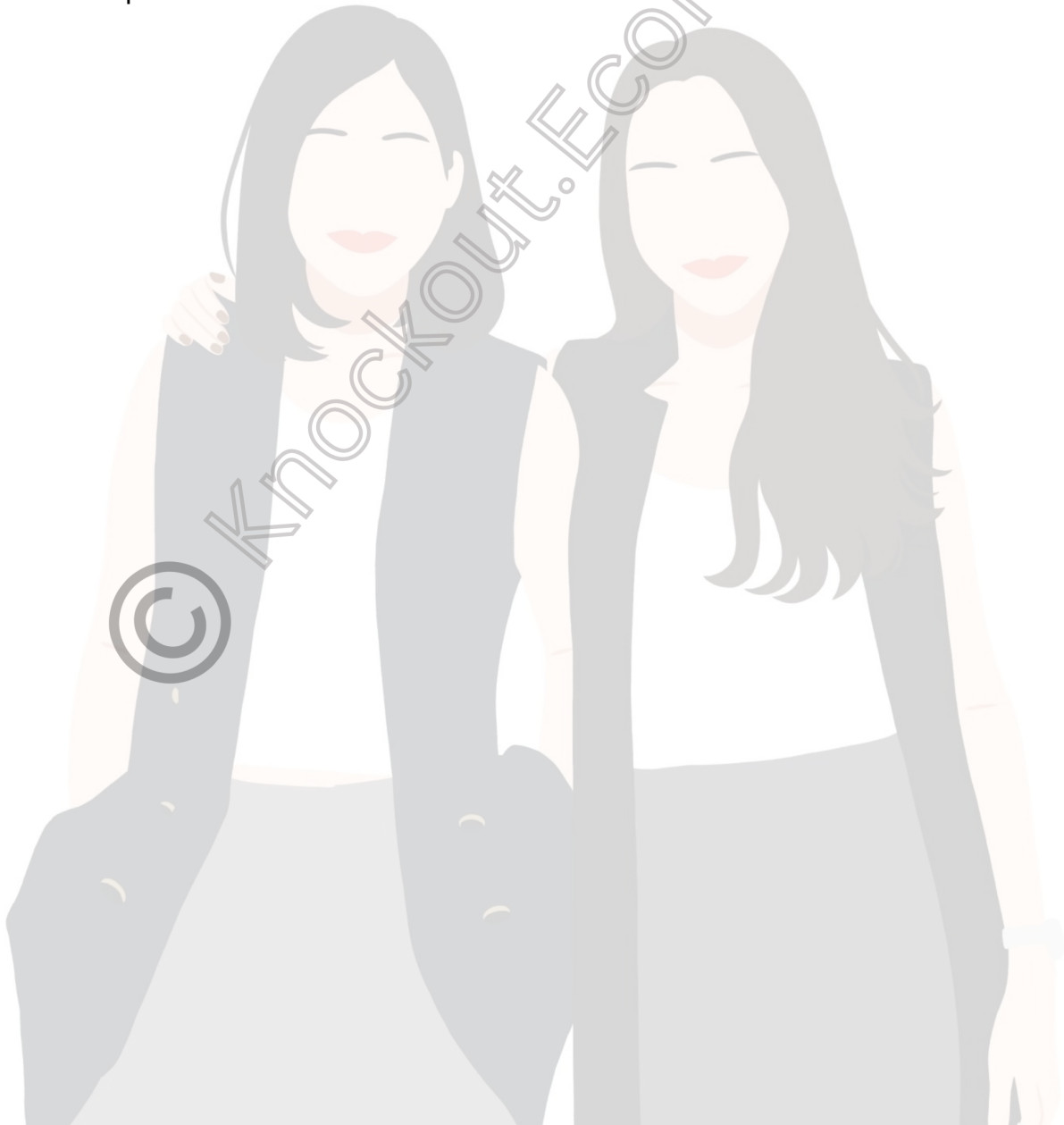


Chapter 39

CURRENT ACCOUNT OF BALANCE OF PAYMENT

Key terms

1. Trade in goods : the value of exported goods and the Value of imported goods
2. Trade in goods deficit : expenditure on imported goods exceeding revenue from exported goods.
3. Trade in goods surplus : revenue from exported goods exceeding expenditure on imports.
4. Trade in service : the value of exported services and the value of imported services.
5. Trade in service surplus : revenue from exported services lower than expenditure on imported services.



1. Structure of the current account

Current Account

Trade in goods

- Trade in goods deficit : Export revenue < Import revenue
- Trade in good surplus : Export revenue > Import revenue

Trade in services

- Trade in services deficit : Export revenue < Import revenue
- Trade in services surplus : Export revenue > Import revenue

Primary Income

: income inflow and outflow of an economy from interest, profit, dividend and wage.

Secondary Income

: money transfer out and in by not in return for anything else. e.g. donations, workers' remittances and foreign aid.

- **Current account deficit** : There is greater money outflow from the sum of 4 Components; trade in goods and service, income account and transfer account, than money inflow from these accounts.
- **Current account surplus** : There is greater money inflow from the sum of 4 Components; trade in goods and service, income account and transfer account, than money outflow from these accounts.

2. Factors influence on export and import

- The country's inflation rate
- The country exchange rate
- Productivity of a country
- Quality of products
- Domestic and foreign GDP
- Trade restriction e.g. Tariff

3. Causes of current account surplus

3.1 Lower exchange rate

: Price of export lower and more competitive, Higher amount of export

3.2 High quality of domestic products

: Higher amount of export

3.3 High income abroad

: Foreigners have more ability to spend or import goods from other countries

: Demand for export increases

3.4 High investment income earned abroad

: Primary income account improved , Current account improved

4. Consequences of current account surplus

Advantages	Disadvantages
1. Higher economic growth	1. Higher export can causes demand-pull inflation
2. BOP will be improve	2. Higher domestic production causes pollution
3. Higher export can create jobs	3. Floating currency, it can causes appreciated currency which finally makes trade balance
4. Poor people have a change to get job and lower poverty	
5. Government gains higher income tax revenue and lower expense on unemployed benefits	

5. Policies to achieve balance of payment stability

E.g Policies to reduce current account deficit

5.1 Tariff on import goods

5.2 Quota : limited amount of imports

5.3 Subsidy on domestic goods

5.4 Currency devaluation

5.5 Contractionary fiscal policy

5.6 Supply side policy : to increase productive potential of economy