Skoolumy

CAMBRIDGE A LEVEL ECONOMICS TOPICAL MULTIPLE CHOICE QUESTIONS

BALANCE OF PAYMENTS

PAST QUESTIONS

1 What is not an example of an expenditure-reducing policy?

A a decrease in government spending

B a depreciation of the exchange rate

C an increase in direct taxes

D an increase in interest rates

2 The inflation rate in a country increased.

Which effect would this most likely have on the country's balance of payments?

A an improvement in the current account balance

B an increase in price competitiveness

C an increase in export revenue

D an increase in import expenditure

3 A measure encourages consumers to change spending on imports to spending on domestically produced goods.

What does this describe?

A an expenditure-reducing policy

B an expenditure-switching policy

C the law of comparative advantage

D the Marshall–Lerner condition

4 The macroeconomic objective of a government is to move the current account of the balance of payments from deficit to surplus. To achieve this, it devalues the currency.

Under which condition would a devaluation of the currency achieve this objective?

A if the combined price elasticity of demand for exports and imports is greater than 1

B if the combined price elasticity of demand for exports and imports is less than 1

C if the income elasticity of demand is less than 1

D if other countries decide to impose tariffs on all imported goods and services

5 Germany, one of the world's strongest trading nations, achieved a surplus on current account of the balance of payments in 2021–2022.

Which income flow would not have been included in the calculation of Germany's current account?

A Declining sales of German cars for export overseas.

B Falling earnings of foreign exchange from visitors to Germany.

C Increasing transfers of aid to less developed countries.

D Investment in a natural gas pipeline link to its main foreign supplier.

6 Country X decides to devalue its currency to eliminate a balance of payments deficit.

Why might devaluation have a positive effect on its macroeconomy?

A Competitive pricing of exports may create employment potential in country X.

B Foreign importers may depreciate their own currencies and reduce any advantage gained by country X.

C Inelastic demand for imported raw materials may lead to cost inflation in country X.

D Loss of import duties by country X may reduce government backing for trade promotion.

7 What is an example of an expenditure-switching policy?

A an increase in income tax rates

B an increase in interest rates

C an increase in tariff rates

D an increase in the supply of money

8 In year 1, countries X and Y are each in balance of payments equilibrium. In year 2, country X, an exporter of oil, raises the price of its oil, which increases its foreign earnings by $500m, half of which is deposited with banks in country Y.

Country Y is an important buyer of X's oil and the price rise increases its foreign expenditure by $400m.

Other things remaining equal, what are the total currency flows for X and Y?

	X ($m)	Y ($m)
A	+150	–150
B	+150	–400
C	+250	–150
D	+250	–400

9 Which policy to reduce a current account deficit on the balance of payments could be described as an expenditure-switching policy?

A a decrease in government spending

B a decrease in the exchange rate of the country's currency

C an increase in domestic income taxes

D an increase in domestic interest rates

10 Which components are included in the financial account of the balance of payments?

	foreign direct investment	interest, profits and dividends
A	✓	✗
B	✗	✗
C	✓	✓
D	✗	✓

key
✓ = included
✗ = not included

MARK SCHEME

1 B

2 D

3 B

4 A

5 D

6 A

7 C

8 C

9 B

10 A