



## A-Level Edexcel Economics: Current Account Past Paper Questions

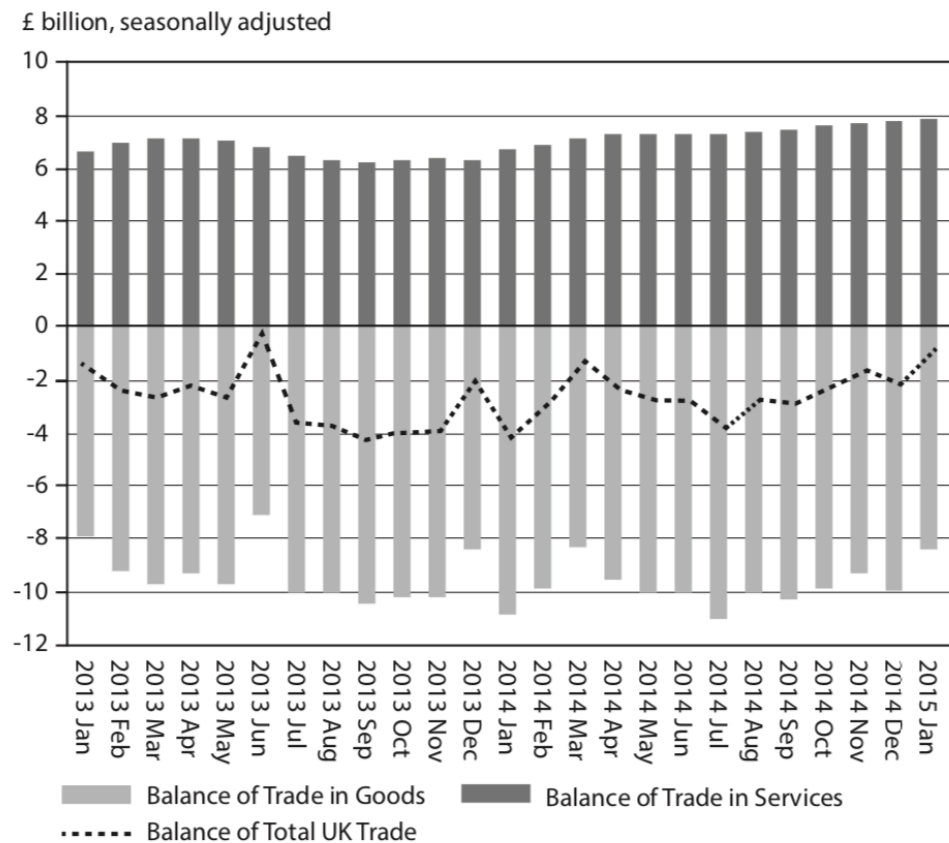
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## Question 1

**Figure 1 – UK's balance of trade January 2013 to January 2015**



(Source: <http://www.ons.gov.uk/ons/rel/uktrade/uk-trade/january-2015/summ-uk-trade--january-2015.html>)

(a) Which **one** of the following can be inferred from Figure 1 in the period shown?

(1)

- ☒ **A** The total UK trade deficit was the largest in June 2013
- ☒ **B** The trade in goods was always in surplus between January 2013 and January 2015
- ☒ **C** The total UK trade deficit was the smallest in January 2014
- ☒ **D** The trade in goods deficit was the smallest in June 2013

(b) Explain **one** likely reason for the reduction in the total UK trade deficit in January 2015.

(3)

## UK economic recovery

Country	Consumption	Investment	Government spending	Exports - Imports
UK	66%	14%	21%	-2%
Germany	57%	17%	19%	6%
France	57%	20%	25%	-2%
China	34%	49%	14%	3%

(Source: World Bank 2014)

Year	France (Dashed)	Germany (Solid Black)	United Kingdom (Solid Grey)
2000	100	100	100
2002	105	105	108
2004	112	110	118
2006	120	120	130
2008	127	131	135
2010	125	132	133
2012	132	140	138
2013	134	142	140

(Source: <https://www.imf.org>)

## The UK economy – a strange recovery

Fundamental to this problem is the UK's low productivity, which in 2015 remains around 20 percentage points below the average for the rest of the G7. It is vital that the government tackles this problem, particularly in the sectors that are currently facing difficulties. This will require relaxing the planning system to promote more house-building, the removal of burdens on UK manufacturers such as carbon taxes, finally getting shale gas exploration going, and reforming apprenticeships to rapidly improve skills in construction, manufacturing and technology.

(Source: adapted from <http://www.cityam.com/229481/chancellor-beware-uk-not-out-woods-yet>, 25 November 2015 by Daniel Mahoney)

(10)

**Question 3**

Outline the main components of the current account of the balance of payments.

(4)

**Question 4**

Analyse **two** reasons, apart from the UK's productivity performance, that might explain the deficit in the current account of the balance of payments.

(8)

## Question 5

### Extract 1 The deficit on the current account of the balance of payments continues into the first quarter of 2012

When sterling's exchange rate fell 25% between mid-2007 and early 2009, economists thought that this would reduce the deficit in the trade of goods and services on the current account of the balance payments and boost the UK's economic growth. They were only half right. Exports of British goods have indeed recovered from the depths of recession – volumes are up 21% since 2009 – and a recent survey of manufacturers suggested activity expanding at a healthy pace. However the volume of goods imported has also increased, by 16% since 2009, and inflation has continued well above target.

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David Blanchflower, a former member of the Bank of England Monetary Policy Committee, said: "We underestimated the uplift to inflation from the depreciation ... but we probably overestimated the positive effect of UK manufacturers replacing imports." In a recent paper, two Bank of England economists tried to explain these inaccurate estimates. Perhaps, they suggested, after the long contraction of UK manufacturing, some goods are no longer made in the UK, so it is impossible to replace certain imports. British manufacturers have almost entirely abandoned some markets, particularly those for products that are labour intensive. In 1997, for example, UK producers made 16% and 22% respectively of all the leather goods and clothing sold in the country. In 2009, these market shares had fallen to 6% and 8%.

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Manufacturing goods in the UK also often necessitates importing raw materials, components and capital goods. This dependency on overseas suppliers is partly explained by the fact that many manufacturers agreed long-term supply contracts with cheaper overseas suppliers before the depreciation of sterling.

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The Bank of England economists also noted there is still a large price differential with countries such as China and India, even after sterling's depreciation. Furthermore, many UK manufacturers learnt long ago to compete on brand and quality rather than price, which can mean that big changes in the exchange rate have little effect on sales.

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However, there are hints that things might start to change as the lower exchange rate and other factors have an impact on strategic decisions. Many manufacturers are discussing bringing parts of their production home because of high wage inflation in emerging markets, the desire for more responsive supply chains and lower shipping costs.

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(Source: adapted from © Financial Times, April 3rd 2012)

With reference to Extract 1, define a "deficit in the trade of goods and services on the current account of the balance of payments" (lines 2–3).

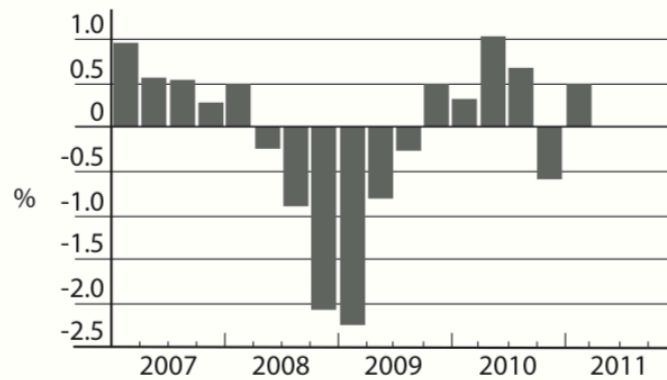
(4)

Explain **two** likely costs to the UK economy of a sustained deficit in the trade of goods and services on the current account of the balance of payments.

(8)

## Question 6

**Figure 1 UK Real GDP growth, quarter on quarter**



Source: ONS, Thomson Reuters

(Source: Adapted from the Financial Times © The Financial Times 2011)

**Figure 2 UK Balance of Payments Current Account 2009-10 (£ billions)**

	2009	2010
Trade in goods	-82.4	-97.8
Trade in services	52.7	49.3
<b>Subtotal: Trade in goods and services</b>	<b>-29.7</b>	<b>-48.5</b>
Income (interest, profits and dividends)	20.6	31.8
Current transfers	-4.9	-19.7
<b>Total: Current account balance</b>	<b>-14.0</b>	<b>-36.4</b>
<b>Current account balance as % of GDP</b>	<b>-1.7%</b>	<b>-2.5%</b>

(Source: Adapted from the Office of National Statistics © Crown Copyright)

The economy is still showing only very limited signs of the hoped-for rebalancing of aggregate demand away from debt financed consumption and government spending to investment and exports.

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(Source: Adapted from © Copyright Telegraph Media Group Limited 2011, 25th April 2011)

- (8)

- (12)

**Question 7**

Evaluate the likely effects on the UK's current account of the balance of payments of changes in consumption, investment and the exchange rate of the pound sterling (£), as shown in Figures 1 and 2.

**(30)**

