

Section of the IB Syllabus IV *International Economics*
 Unit 11 **Balance of Payments**

Concepts and IDs

Current account	Visible trade
Capital account	Balance of trade
Direct investment	Balance of trade surplus
Portfolio investment	Balance of trade deficit
Reserve assets	
Balance of payments	Unilateral transfers
Current account surplus	Internal Balance
Current account deficit	External Balance
Capital account surplus	J curve
Capital account deficit	Marshall-Lerner condition
Debit	Expenditure Switching Policies
Credit	Expenditure reducing policies
Invisible trade	Supply Side Policies

Objectives

1. Distinguish between balance of payments and balance of trade.
2. Explain and describe the components of the Balance of Payments account
3. Explain how the current account and the [capital + financial accounts] are related.
4. Explain the relationship between the exchange rate and changes in balance of payments.
5. Describe the role of the government in restoring balance to the Balance of Payments.
- 6.

HL Objectives

7. State the Marshall Lerner condition and apply it to explain the effects of depreciation/devaluation.
8. Explain the J-curve effect with reference to the Marshal Lerner Condition.
9. Calculate the Balance of Payments for a country given the appropriate data.
10. Explain the consequences of a current account or capital account deficit or surplus.

Block B: Due Wednesday 11/6 SL and HL Block E/G Due Thursday 11/7 SL and HL	HW 11.1 Read 14.4 and 14.5 Balance of Payments Read p. 395 – 402 and answer “Test your understanding 14.7” p. 400 # 6 and 9 “Test your understanding 14.8 p. 405 # 1 a , b
Block B: Due Mon 11/11 HL only Block E/G: Due Tues 11/12 HL only	HW 11.2 Read 14.6 Balance of Payments Read p. 406-411 and answer: “Test your understanding 14.10” Page 412 # 2 , 4 and 8
B: Wednesday 11/13 E/G Thursday 11/14	Quiz – SL and HL – short answer, graphs and calculations

Structure of the balance of payments

While the structure of the balance of payments may vary from country to country, a working version of the structure (and components) of the balance of payments is given below and must be used by DP economics students for the purposes of the curriculum and assessment.

Current account

- Balance of trade in goods
- Balance of trade in services
- Income
- Current transfers

Capital account

- Capital transfers
- Transactions in non-produced, non-financial assets

Financial account

- Direct investment
- Portfolio investment
- Reserve assets

Current account = capital account + financial account + errors and omissions