

RATU NAVULA COLLEGE

WEEK 5 HOME RESOURCE PACKAGE

LESSONS 49 – 52 NOTES AND ACTIVITIES

School: Ratu Navula College

Year / Level: 10

Subject: Commercial Studies

Lesson : 49

Strand: Economics II

Sub-strand: International Economics

Content Learning Outcome: Explore and demonstrate measurements of Balance of Payment

Balance of Payment

There are two main sections of balance of payments. These are:

1. Current account
2. Capital account

Current Account

Records the imports and exports of goods and services. Regarded as the most important section of balance of payment because it measures nations earning and spending abroad.

A. Visible trade/ Merchandise trade- This section records all transactions related to export and import of **tangible goods** (items that can be seen or touched).

The difference between the value of export and the import of tangible goods is known as balance of trade.

Balance of trade = Visible export – Visible imports				
BOT	=	VE	-	VI

B. Invisible trade/ services

This section records the transactions related to export and import of services such as banking, insurance, tourism and transport. It also includes the following:

The capital account

Keeps the record of the movement of capital (money) in and out of the country.

It records the following:

1. International loans: borrowing and lending by private sector and government.
2. Direct investments: buying of factories or businesses by locals and foreigners.
3. Portfolio investments: buying of securities and shares by locals or foreigners in a company.
4. The difference between capital inflow and capital outflow is known as Balance on capital account.

Balance on capital a/c = Capital inflow – Capital outflow				
BOCa	=	CI	-	CO

Summary
Balance of payment

	\$	\$
<u>CURRENT ACCOUNT</u>		
<u>VISIBLE TRADE</u>		
Visible exports	20.00	
LESS Visible imports	<u>10.00</u>	
Balance of trade		10.00
<u>INVISIBLE TRADE</u>		
Invisible export	30.00	
LESS Invisible imports	<u>15.00</u>	
Balance on invisibles		<u>15.00</u>
BALANCE ON CURRENT ACCOUNT		25.00
<u>CAPITAL ACCOUNT</u>		
Capital inflow	50.00	
LESS Capital outflow	<u>30.00</u>	
Balance on capital account		20.00
ADD/LESS Balancing item		<u>5.00</u>
OVERALL BALANCE/BALANCE OF PAYMENT/ CHANGE IN RESERVE		50.00

- If the BOP is positive then it is favourable.
- If the BOP is negative then it is unfavourable.

Activity (FY10CE -2015)

Use the information for Economy Y given below to answer the questions that follow.

Economy Y

Export of goods	\$m 750
Import of goods	450
Invisible Exports	300
Invisible Imports	800
Capital Inflow	600
Capital Outflow	400

Calculate the following:

- Balance of Trade
- Balance of Current Account
- Balance of Capital Account
- Balance of Payments

Lesson : 50**Strand: Economics II**

Sub-strand: International Economics

Content Learning Outcome: Explore and demonstrate measurements of Balance of Payment

1. The table given below shows terms of trade for Economy Y for the year 2005-2007.

Export and Import Price Index for Economy Z

Year	Export Price Index	Import Price Index	Terms of Trade
2005	120	130	92.31
2006	110	148	74.32
2007	130	115	113.04

Base year 2004: 100

Use the table given below and your knowledge to answer the following questions:

- i. Explain the terms of trade for the years 2006 and 2007
- i. State the formula for calculating terms of trade
- iii. State one way of improving a country's terms of trade.

2. Use the data below to answer the question

Year	Export Price Index	Import Price Index
1	100	100
2	125	110

Base year : 100

The terms of trade for Year 2 is

- A. 88
- B. 113.6
- C. 125
- D. 137.5

2. A favorable movement in Fiji's terms of trade indicates that

- A. the ratio of import prices to export prices has increased
- B. the ratio of export prices to import prices has increased
- C. the prices of exports have increased
- D. the volume of exports have increased

3. Examine the information provided in the table given below to answer the questions that follow.

Year	Export Price Index	Import Price Index
1999	150	120
2000	120	160

Base year: 100

- a. Calculate the terms of trade for the years 1999 and 2000.
- b. In which year was the country's terms of trade unfavorable.
- c. What can be done if a country experiences unfavorable terms of trade?
- d. Differentiate between terms of trade and balance of trade.
- e. Define the term balance of payment.

Lesson : 51**Strand: Economics II**Sub-strand: International EconomicsContent Learning Outcome: Explore and demonstrate measurements of Balance of Payment

Use the information given below for the Economy Z to answer the questions that follow.

Economy Z	
	\$m
Capital inflow	76
Import of services	13
Capital outflow	57
Export of goods	45
Export of services	80
Import of goods	50

a. Calculate the following:

i. Balance of Trade

ii. Balance of Invisible

iii Balance of Current Account

iv. Balance of Capital Account

v. Balance of Payments

b. Why would there be a deficit Balance of Payments?

Examine the information provided in the table given below to answer the questions that follow.

Year	Export [FOB]	Import [CIF]	Balance of Trade
2005	1 779	1 200	
2006	1 756	1 025	

1. Calculate the Balance of trade in 2005 and 2006.
2. Suggest one way in which the government could improve the trade balance.
3. What do the abbreviations C.I.F and F.O.B mean as used in the table above?

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Strand: Economics II

Sub-strand: International Economics

Content Learning Outcome: Explore and demonstrate measurements of Balance of Payment

Examine the information provided in the table given below to answer the questions that follow

	\$m
Capital inflow	960
Import of services	300
Capital outflow	750
Export of goods	550
Export of services	700
Import of goods	600

a. Calculate the following:

i. Balance of Trade

ii. Balance of Invisible

iii Balance of Current Account

iv. Balance of Capital Account

v. Balance of Payments

WEEK 5 WORKSHEETQuestions

Use the information provided in the table given below to answer the questions that follow.

Year	Export Price Index	Import Price Index
2016	120	100
2017	90	120

Base Year = 100

1. Calculate the terms of trade for the years 2016 and 2017. Show all formulas and working.
2. Determine whether the country had favourable or unfavourable terms of trade in 2016 and 2017.
3. Define the term terms of trade.
4. What is the difference between visible exports and invisible exports?
5. What is a balance of payment account?

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