RATU NAVULA COLLEGE
YEAR 12 ECONOMICS 2021

WEEKLY HOME STUDY LESSON NOTES – Week 10 (# 75 – 79)

Strand: (4) International Economics **Lesson 75**
Sub Strand: (4.1) Balance of Payments
L/Outcome: define capital account

CAPITAL ACCOUNT

Definition

- ✓ Capital account records public and private investment, and lending activities.
- ✓ Components include: Foreign Direct Investment (FDI) and portfolio investment.
- ✓ **Direct investment** is the act of purchasing an asset and at the same time acquiring control on it. Acquisition of an asset, without control over it.
- ✓ Portfolio investment and acquisition of shares, Loans - Loans are further classified into external assistance, medium and long-term commercial borrowings and short-term borrowings.

- Records all international borrowing, lending and investment transactions of the domestic country's private
- When borrowing from other nations we create a liability – a debt which we have to pay thus borrowing of funds by domestic residents from overseas is called **capital inflow**. e.g borrowing, foreign direct investment to domestic country.
- When we lend to overseas, we gain a new assets- a claim over foreign resources and lending funds to overseas is called **capital outflow** e.g. lending, portfolio investment abroad (purchase of share, debentures and other securities)
- Capital Account also include total official and total non-official capital transactions
- Official transaction – are those involving Government Authorities and Reserve Bank.
- Non- official capital transactions – comprises all overseas borrowing and lending by the private sector as well as public sector.

1. The Balance on Capital Account = Capital Inflow – Capital Outflow
2. The Balance of Capital Account is sum of Official and Non-Official capital

The Balancing Item

- In theory a surplus on capital account is always = to the deficit on current account.
- The required equality between the sum of the credit and debits entries in the Balance of Payment is brought about by the inclusion of a balancing item.
- It ensures that the Balance of Payment always balances.

Factors influencing Capital Account.

1. The relative attractiveness of Fiji to the foreign investors i.e. the interest rate we offer, inflation rate, economic policies, and political climate.
2. International borrowing and lending.

Strand: (4) International Economics **Lesson 76**
Sub Strand: (4.1) Balance of Payments
L/Outcome: analyse and interpret the calculation of BOP

Example:

Balance of Payments Account		
Current Account	**$m**	**$m**
Merchandise (visible trade)		
Exports	51.8	
Less imports	- 49.2	
BOT		2.6
Services (Invisible Trade)		
Services Credit	13.2	
Less Services Debit	-16.5	
NET SERVICES		-3.3
BALACE ON GOOS AND SERVICES		**+ -0.7**
Income:		
Income Credit	5.0	
Less Income Credit	-22.3	
NET INCOME		**+ -17.3**
Unrequited Transfers		
Unrequited Transfers Credits	4.7	
Unrequited Transfers Less Debits	-2.2	
NET UNREQUITED TRANSFERS		**+ -2.5**
Balance of Current Account (Deficit)		**- 15.5**
Capital Account		
Official capital transactions		
General government	-1.8	
Plus Reserve Bank	+(1.5)	
TOTAL OFFICIALS		(3.3)
Non official capital transactions		+18.8
Balance on capital account (surplus)		**$15.5m**

Class Activity

Ref: 2019

2. The inclusion of the **balancing item** in the Balance of Payments (BOP) is to

   A. capture payments for imports.
   B. ensure that the BOP balances.
   C. ensure the debit entries balances.
   D. allow the credit entries to balance.

3. The account that records all international borrowing, lending and investment transactions is known as the

   A. Capital Account.
   B. Financial Account .
   C. Current Account.
   D. Assets Account.

Strand: (4) International Economics **Lesson 77**

Sub Strand: (4.1) Balance of Payments
L/Outcome: analyse and interpret the calculation of BOP

Class Activity

Ref:2020

a. Classify the following transactions as from Fiji's point of view into visible trade, invisible trade, capital inflow or capital outflow.

Transactions	Visible trade/invisible trade/ Capital inflow/capital outflow
1. Remittances received from abroad	(i)
2. Export Kava to United States	(ii)
3. Tourist spending in Fiji	(iii)
4. Borrowing from World Bank	(iv)
5. Dividends paid abroad	(v)
6. Purchase of shares from a company in Australia	(vi)

(3 marks)

Ref: 2020

1. A nation has a trade deficit if its

   A. capital inflow exceeds its capital outflow.
   B. capital outflow exceeds its capital inflow.
   C. imports exceed its exports.
   D. exports exceed its imports.

2. If a country's current account is in deficit, its capital account is in

   A. surplus and it is lending to the rest of the world.
   B. deficit and it is lending to the rest of the world.
   C. deficit and it is borrowing from the rest of the world.
   D. surplus and it is borrowing from the rest of the world.

3. The Balance of Payments must always balance because it

   A. is a cash flow statement.
   B. records international transactions.
   C. is based on the double-entry principle.
   D. is a record of a flow of foreign exchange between countries.

Strand: (4) International Economics **Lesson 78**

Sub Strand: (4.1) Balance of Payments
L/Outcome: Calculate and interpret BOP.

Class Activity

Ref:2019

Study the table below and answer questions (i) to (iv).

A summary of an economy's Balance of Payments for 2006 (in billion dollars).

	Credit	**Debit**
Current Account		
(1) Exports	**898.91**	
Merchandise	615.81	
Services	117.30	
Factor Income	165.80	
(2) Imports		**-717.72**
Merchandise		-534.51
Services		-135.56
Factor Income		-47.65
(3) Net Unrequited transfers		**-10.69**
Capital Account		
Direct Investment	-6.78	
Portfolio investment	198.56	
Capital account net	102.3	
Errors and Omissions	-3.0	

(i) Define the **Balance of Payments**. **(1 mark)**

(ii) Calculate the **balance of Current Account** from the table above. **(Answer must include deficit or surplus)** **(1 mark)**

(iii) Calculate the **Balance of Payments.** **(1 mark)**

(iv) Explain why it is useful for Fiji to examine its country's balance of payments data. **(2 marks)**

Strand: (5) Development Economics **Lesson 79**
Sub Strand: (5.1) Economic Development
L/Outcome: Define Economic development

Economic Development

Economic development occurs when sustained increases in real GDP per capita are accompanied by changes in economic and social structures of nation as are required to reduce the incidence of poverty among people

Sustainable development is development which meets the needs of the present without limiting the needs of the future generations. It is development which is economically, socially and environmentally viable overtime.

Indicators of Economic Development

There are **two broad indicators** of economic development :

1. **Monetary indicator** - is the prime indicator of economic development is real GDP per capita. 'The higher the nations real GDP per capita the higher the economic development of a nation' .The real GDP per capita is the monetary indicator that is used to show the enomorous gap between living standards of LDCs and advanced nation
2. **Non Monetary Indicators or social indicators**

   Real GDP per capita figures do not provide a clear picture of differences in material welfare among the world's people.

   To overcome this deficiency and make international comparisons of living standards more meaningful, non-monetary or social indicators are used.

Some key social indicators are

- Life expectancy at birth measures the average number of years a new born infant can expect to live.
- The infant mortality rate refers to the percentage of babies who die before reaching their first birthday.
- Daily calories supply per capita measures the food supply available to each person.
- The adult literacy rate measures the percentage of the population aged fifteen years and over who can read and write.

Worksheet

Essay Writing – Ref 2020

The balance of payments *(*BOP*)* is a statement of all transactions made between entities in one country and the rest of the world over a defined period of time, such as a quarter or a year.

With reference to the above statement, discuss the following:

- definition of capital account and two components of the capital account (**3 marks**)
- any **three** effects of current account deficit in the economy **3 marks**)
- **three** ways to improve current account deficits. **(3 marks)**