

Balance of Payments, Exchange Rates and International Competitiveness — Worksheet

The parts of the balance of payments · deficits and surpluses · exchange rate systems · changes in exchange rates · international competitiveness

Name: _____

Class: _____

Date: _____

DEFINE appreciation of a currency · **EXPLAIN** how a fall in a currency changes foreign direct investment · **CALCULATE** relative unit labour costs, and a percentage change in an exchange rate · **CLASSIFY** which account records each payment across a border · **ANALYSE** what moves a floating exchange rate · **EXAMINE** how a fall in a currency affects the current account · **DISCUSS** how a government can reduce a current account deficit · **EVALUATE** how a developing country can become more competitive

Sitting 1 — Topic practice

30 marks

MULTIPLE CHOICE Task 1 — Six questions from across the topic

6 marks

Choose one answer for each question.

1. Because the world's current account balances sum to zero:

- A global trade imbalances must disappear within a few years
- B not every economy can run a surplus at the same time
- C a deficit in one economy is always caused by policy in another
- D the total value of world exports must be zero

Answer:

2. Under a managed exchange rate, many holders of the currency start to sell it. What happens next?

- A The rate may fall, but the central bank buys the currency if it falls too far or too fast
- B The central bank holds the announced value, whatever this costs in reserves and in higher interest rates
- C The rate falls, and the central bank does not buy or sell the currency at all
- D The government raises tariffs on imported goods

Answer:

3. Quantitative easing (QE) tends to make a currency fall in value. Why?

- A It increases the quantity of notes and coins that people use
- B It is always announced as a devaluation
- C It raises the prices of imports directly
- D It lowers bond yields at home, so savers move money abroad to earn more

Answer:

4. A currency that loses value with no announcement, under a system where the market sets the rate, has:

- A devalued
- B depreciated
- C revalued
- D appreciated

Answer:

5. Two countries compete for the same export orders. Each lets its currency fall by 10% against the US dollar. What happens?

- A Each country wins export orders from the other
- B The country whose currency fell first keeps a lasting advantage
- C The exchange rate between the two currencies moves in favour of the larger country
- D Neither wins export orders from the other, and both pay more for imports

Answer:

6. A country stays internationally uncompetitive for many years. What is it most likely to face?

- A A current account deficit that grows and must be financed
- B A current account surplus that grows
- C Falling demand at home for imported goods and services
- D A rise in the value of its currency

Answer:

DEFINE Task 2 — The meaning of appreciation

2 marks

Define the term appreciation.

appreciation

EXPLAIN Task 3 — A factory for sale in Kirra

4 marks

Kirra is a country whose currency, the kira, floats. A food company from abroad plans to buy a factory in Kirra. The price of the factory is 200 million kira, and this price does not change. In 2026, the kira falls from \$1.20 to \$0.75. Nothing else changes.

Explain why the fall in the kira is likely to increase foreign direct investment (FDI) in Kirra.

CLASSIFY Task 4 — Payments in the balance of payments of Talma

8 marks

Talma is a country. Each payment below crosses Talma's border, and each one is recorded in Talma's balance of payments.

Classify each payment by the part of Talma's balance of payments that records it.

Key: Trade in services · Primary income · Secondary income · Financial account

#	The payment	Part of Talma's balance of payments
1	Visitors from abroad pay a hotel in Talma for a week in its rooms.	
2	A shipping company abroad pays a firm in Talma to insure its ships.	

#	The payment	Part of Talma's balance of payments
3	A bank in Talma receives interest on a loan that it made to a firm abroad.	
4	A company abroad owns a mine in Talma, and the mine sends its profit to the company.	
5	A nurse from Talma moved abroad to live five years ago, and she sends money to her parents in Talma.	
6	Talma's government gives food aid to a country after a flood.	
7	A car maker from abroad builds a factory in Talma and runs it.	
8	A pension fund in Talma buys shares in a company abroad.	

CALCULATE

Task 5 – Unit labour costs in Brava and Corin

4 marks

Firms in Brava and Corin make the same bicycle parts. In Brava, the labour cost of each worker is 16,000 bril a year: the wage plus the non-wage costs. The exchange rate is \$0.40 per bril. Each worker in Brava makes 50 units a year. In Corin, the labour cost of each worker is \$9,000 a year, and each worker makes 60 units a year.

Calculate Brava's relative unit labour cost as an index, with Corin = 100, to one decimal place.

Brava's relative unit labour cost index (Corin = 100), to one decimal place

Workings

Answer:

Show your working for each step.

Dovar's clothing firms sell shirts abroad. Each worker is paid \$3,000 a year and makes 1,000 shirts a year. In 2026, a new law makes employers pay social security contributions equal to 20% of each worker's pay. Output per worker does not change. Costs in rival countries do not change.

Analyse the likely effect of the new law on Dovar's international competitiveness.

Knowledge — name and explain one economic idea (2)

Application — use the facts about Dovar (2)

Analysis — your chain of reasoning (2)

Sitting 2 — Mock section
54 marks
Source: Ravia

- 1 Ravia is a developing country. Its currency, the rav, floats: demand and supply set its value, and the central bank takes no action to change it. Cocoa earns 60% of Ravia's export earnings. Output per worker in Ravia's factories is about half of that in rival countries.
- 2 In 2024, the world price of cocoa fell by 30%, and Ravia sold the same quantity of cocoa as before. From 2023, banks in Ravia lent much more to households, and spending on imported cars and phones rose quickly. In 2025, interest rates abroad rose from 3% to 5%, while Ravia's interest rate stayed at 4%. Figure 1 shows data for Ravia from 2023 to 2025.
- 3 Most of Ravia's imports are bought under contracts that fix the quantity for a year ahead. Ravia's central bank has estimated price elasticities for Ravia's exports and imports. In the first year after a fall in the rav, they are 0.3 for exports and 0.4 for imports. After two years, the central bank expects them to be 0.9 for exports and 0.6 for imports.
- 4 The government wants to reduce the current account deficit. It is considering three measures: a rise in income tax, a tariff of 15% on imported cars, and new technical colleges to train factory workers. Some ministers say that the government should take no action, because the rav has already fallen.

Figure 1: Ravia, the value of the rav, the current account, GDP and the world price of cocoa, 2023 to 2025

Year	Value of the rav (US\$ per rav)	Current account balance (US\$bn)	GDP (US\$bn)	World price of cocoa (index, 2023 = 100)
2023	0.80	−4.2	60.0	100

Year	Value of the rav (US\$ per rav)	Current account balance (US\$bn)	GDP (US\$bn)	World price of cocoa (index, 2023 = 100)
2024	0.72	−6.6	62.0	70
2025	0.62	−7.5	63.0	72

CALCULATE Task 7 — The change in the value of the rav

2 marks

Using Figure 1, calculate the percentage change in the value of the rav against the US dollar from 2023 to 2025, to one decimal place.

Workings

Answer: %

EXPLAIN Task 8 — A cause of the current account deficit in Ravia

4 marks

With reference to the source, explain one likely cause of Ravia's current account deficit.

ANALYSE Task 9 — The fall in the value of the rav

6 marks

With reference to the source, analyse two factors that are likely to have caused the fall in the value of the rav.

Knowledge — name two factors, and explain how each one changes the value of a currency (2)

Application — one fact from the source for each factor (2)

Analysis — your chain of reasoning, one chain for each factor (2)

EXAMINE

Task 10 — The fall in the rav and the current account

8 marks

With reference to the source, examine the likely effect of the fall in the value of the rav on Ravia's current account.

Knowledge — name two ideas that explain the effect, and say what each one means (2)

Application — two facts or figures from the source (2)

Analysis — your chain of reasoning, from the fall in the rav to the current account (2)

Evaluation — two comments on what the effect depends on (2)

DISCUSS

Task 11 — Measures to reduce the current account deficit in Ravia

14 marks

With reference to the source and your own knowledge, discuss the measures that Ravia's government could use to reduce its current account deficit.

Knowledge — name two measures, and say how each one works (2)

Application — one fact from the source for each measure (2)

Analysis — two chains, one for each measure (4)

Evaluation — weigh the two measures, say what their success depends on, and judge which suits Ravia better (6)

EVALUATE Task 12 — Measures to increase international competitiveness in developing countries

20 marks

Many developing countries want their firms to win more export orders from buyers abroad. Their governments can choose between several measures.

Evaluate the likely effectiveness of measures that a developing country could use to increase its international competitiveness.

Knowledge — say what international competitiveness is, and name two measures to increase it (3)

Application — use real countries or real examples (3)

Analysis — one chain for each of the two measures (6)

This image shows a single sheet of white paper with horizontal blue or grey ruling lines. The lines are evenly spaced and run across the width of the page. There are approximately 20 lines visible. The paper has a slight shadow on the right side, suggesting it's resting on a surface.

Write the one sentence that answers Task 12's question.



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