What is Balance of Payments?

Worksheet

The balance of payments is the sum of the current account (trade and services) and the financial account (investment flows). BOP = Current Account + Financial Account + Errors & Omissions = 0.

$$BOP = CA + FA + KA$$

BOP = Balance of payments (USD or EUR)
CA = Current account (goods + services + income) (USD)
FA = Financial account (investment) (USD)
KA = Capital account (transfers) (USD)

Questions

1. If exports = 200B and imports = 180B, trade balance = ?
A) 20B deficit
B) 20B surplus
C) 200B surplus
D) impossible to tell

2. BOP surplus means...
A) currency will strengthen
B) too many imports
C) BOP is not balanced
D) money is leaving the country

3. Which belongs in the financial account, not current account?
A) Exports of goods
B) Foreign investment
C) Income from abroad
D) Transfer payments

4. What is FDI?
A) Foreign depreciation impact
B) Foreign direct investment
C) Final domestic impact
D) Floating deposit index

5. A country has: exports 500B, imports480B, net income 20B, transfers −5B. Current account?

6. Current account = 30B, financial account = −35B. What is the statistical discrepancy?

7. Exports 600B, imports 550B, foreign investment inflow 30B, capital transfers 5B. BOP?

8. Define: What is balance of payments?

9. Define: What does the current account include?

10. Define: What is the financial account?

Answer Key

1. B) 20B surplus — 200 − 180 = 20B surplus (exports exceed imports).

2. A) currency will strengthen — Surplus = inflows > outflows → currency strengthens due to high demand.

3. B) Foreign investment — Financial account tracks investment; current account is trade and income.

4. B) Foreign direct investment — FDI is investment by foreigners that gives them control (10%+ equity).

5. CA = (Exports − Imports) + Net Income + Transfers CA = (500 − 480) + 20 − 5 CA = 20 + 20 − 5 = 35 billion USD

6. BOP = CA + FA + Statistical Discrepancy = 0 30 − 35 + SD = 0 SD = 5 billion USD

7. Trade balance = 600 − 550 = 50B Current account ≈ 50B (simplified) Financial account = 30B BOP ≈ 50 + 30 = 80B (before balancing)

8. A record of all money flows between a country and the rest of the world.

9. Exports and imports of goods/services, income flows (interest, dividends), and transfers.

10. Investment flows: foreign direct investment (FDI), portfolio investment, loans.