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CXC PAST QUESTIONS AND ANSWERS – PRINCIPLES OF BUSINESS

Index of export prices = 100
Index of import prices

Whereas, a country's balance of trade is the difference between the country's imports and exports of goods only. To properly differentiate between the two terms, the candidate should use terms such as 'on the other hand', 'while', 'whereas', etc.

(ii) The balance of trade in this case is:

24,000
-28,000
-2,000 US (\$M)

(Hence 2,000 US(\$M))

(b) The current account balance takes into consideration the visible trade balance and the invisible trade balance. From (a) (ii) we found the visible trade balance of trade to be minus 2,000 US (\$M). The invisible trade balance is plus 4,000 US (\$M). This is the difference between invisible exports and visible imports. The current account balance is plus 2,000 US (\$M).

- (c) Exporting more goods and services than it imports
- Import less than it exports
- If the positive visible balance exceeds the negative invisible balance

(c) (i) A country's balance of payments is its annual record of trading with other countries in terms of income from exports and expenditure for imports.

(ii) To finance a deficit is different from correcting the deficit. To finance the deficit, the country must find ways to make the balance of payments balance by covering the deficit. This includes:

- Importing the deficit amount on credit
- Loans from other countries
- Loans from international financial institutions e.g., International Monetary Fund and the World Bank.
- Debit the foreign reserves account

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