25.1 The Balance of Payments Account (BOP Account)

1. The balance of payments account consists of the current account and the _____.

2. All receipts and obligations received from non-residents are recorded on the *(credit / debit)* side and all payments and liabilities to non-residents are recorded on the *(credit / debit)* side.

3. The components of the current account are _____, _____, _____ and _____.

4.

Balance of visible trade	= (	Value of _____	+	Value of _____	) –	Value of _____

5. When the value of total exports of goods is smaller than the value of imports of goods, the balance of visible trade is *(positive / negative)* and there is a visible trade *(surplus / deficit)*.

6.

Balance of invisible trade	=	Value of _____	–	Value of _____

7. In the current account, the component of income is also known as _____ _____. The difference between income receivable from abroad and income payable abroad is known as the _____.

8. The difference between current transfers from abroad and current transfers to abroad is known as the _____.

9.

Current account balance	=	_____ _____	+	_____ _____	+	_____ _____	+ _____ _____

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10. Which of the following would be included in the calculation of Hong Kong's current account balance?

☐ A Hong Kong resident purchases travel insurance from a Japanese insurance company.

☐ A Mainland resident buys a property in Hong Kong.

☐ A Hong Kong resident buys an air ticket to South Korea from a Hong Kong airline.

☐ A Hong Kong resident buys shares listed in the United States.

☐ A Hong Kong resident donates money to a charity organisation in Indonesia.

☐ A Hong Kong resident who owns a property in the Mainland receives rent from tenants.

☐ A French chef who lives in Hong Kong remits money to his family in France.

11. Explain how Hong Kong's current account will be affected by the following events.

(a) A Hong Kong resident buys souvenirs during his trip to Japan.

_____

_____

(b) A Hong Kong firm imports raw materials from the Mainland.

_____

_____

(c) An Australia resident donates money to a charity organisation in Hong Kong.

_____

_____

12. Refer to the following information about the balance of payments account of a country.

Item	$ billion
Exports of goods	30
Imports of goods	45
Exports of services	25
Imports of services	10
Net factor income from abroad	10
Net current transfers	−30
Decrease in reserve assets	5

Based on the above information,

(a) the current account *(surplus / deficit)* is $_____ billion.

(b) the balance of payments *(surplus / deficit)* is $_____ billion.

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25.2 Introduction to Exchange Rate

13. An exchange rate is _____.

14. There are two main types of exchange rate systems: _____ system and fixed exchange rate system (_____).

15. When a currency *(appreciates / depreciates)*, each unit of the currency can be exchanged for more of another currency.

25.3 Effects of a Change in the Exchange Rate

16. The following table shows a change in the exchange rate between the Hong Kong dollar (HKD) and the Australian dollar (AUD).

Year X	Exchange rate
September	HKD 1 = AUD 5.7
November	HKD 1 = AUD 5.5

(a) During the above period,

- the Hong Kong dollar has *(appreciated / depreciated)* against the Australian dollar; the Australian dollar has *(appreciated / depreciated)* against the Hong Kong dollar.
- the number of Australian tourists visiting Hong Kong will *(increase / decrease)*.
- the number of Hong Kong tourists visiting Australia will *(increase / decrease)*.
- the price of imports from Australia (in terms of Hong Kong dollars) will *(increase / decrease / remain unchanged)*.
- the price of imports from Australia (in terms of Australian dollars) will *(increase / decrease / remain unchanged)*.
- the volume of imports from Australia will *(increase / decrease)*.
- the total value of imports from Australia (in terms of Hong Kong dollars) *(will increase / will decrease / may increase, decrease or remain unchanged)*.
- the total value of imports from Australia (in terms of Australian dollars) *(will increase / will decrease / may increase, decrease or remain unchanged)*.
- the price of Hong Kong's exports to Australia (in terms of Hong Kong dollars) will *(increase / decrease / remain unchanged)*.
- the price of Hong Kong's exports to Australia (in terms of Australian dollars) will *(increase / decrease / remain unchanged)*.
- the volume of Hong Kong's exports to Australia will *(increase / decrease)*.
- the total value of Hong Kong's exports to Australia (in terms of Hong Kong dollars) *(will increase / will decrease / may increase, decrease or remain unchanged)*.
- the total value of Hong Kong's exports to Australia (in terms of Australian dollars) *(will increase / will decrease / may increase, decrease or remain unchanged)*.

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(b) If the demand for imports from Australia is inelastic, the percentage increase in price will be *(larger / smaller)* than the percentage decrease in quantity demanded. The value of imports from Australia to Hong Kong (in terms of HKD) will *(increase / decrease)*, as shown below:

17. The table below shows a change in the exchange rate between the Hong Kong dollar (HKD) and the euro (EUR).

Year X	Exchange rate
January	HKD 1 = EUR 9.2
December	HKD 1 = EUR 9.0

Suppose the price of European jewellery (in terms of euros) did not change. Explain why the above change in the exchange rate would result in a decrease in the total export value of European jewellery (in terms of euros) to Hong Kong.

_____

_____

_____

_____

_____

_____

25.4 The Linked Exchange Rate System in Hong Kong

18. Under the linked exchange rate system in Hong Kong,

- the note-issuing banks can sell Hong Kong dollars to the _____ in return for US dollars at a fixed rate of US$1 to HK$7.8.
- when the US dollar depreciates against other currencies, the Hong Kong dollar *(appreciates / depreciates)* against other currencies accordingly.

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