

**PENANG SANGAM HIGH SCHOOL
P.O.BOX 44, RAKIRAKI**

LESSON NOTES

Subject: Economics

Year/Level: 12

Week 22

Strand	4	International Economics
Sub Strand	4.1	Balance of Payment
Content Learning Outcome	Evaluate the Balance of Payment and describe its impact in the economy.	

Greetings to all...

We will look at Balance of Payments calculations using the formula.

Lesson Notes (Copy in your note book)

Illustrative Example:

Merchandise –Debit	\$ 250m
Merchandise –Credit	\$355m
Net income & transfers	\$240m
Net official borrowing	\$500m
Net services	\$430m

Calculate the following:

1. Balance on Visible trade

$$\text{B.O.T} = \text{Merchandise CR} - \text{Merchandise DR}$$

$$= 355 - 250$$

$$= \$105\text{m surplus}$$

2. Balance on invisible trade

$$\text{B.O.Invisibles} = \text{B.O.S} + \text{Balance on Income \& Transfers}$$

$$= 430 + 240$$

$$= \$670\text{m surplus}$$

3. Balance on current account

$$\text{B. O. Current A/c} = \text{B.O.T} + \text{B.O. Invisibles}$$

$$= 105 + 670$$

$$= \$775\text{m surplus}$$

4. Non-official borrowing

$$\text{Non-official Borrowing} = \text{Balance on Capital A/C} - \text{Official Borrowing}$$

$$= (\text{B.O.P} - \text{Balance on Current A/C}) - \text{Official Borrowing}$$

$$= (0 - 775) - 500$$

$$= -775 - 500$$

$$= -\$ 1275\text{m / deficit}$$

Note: we can also prepare Balance of Payments Account.

Example : (Using the same information as above)

Balance of Payments Account

	\$m	\$m
Merchandise -Cr	355	
Less Merchandise -Dr	<u>-250</u>	
Balance of Trade -surplus	105	
Add Net services	+430	
Add Net income and transfers	<u>+240</u>	
Balance of Current Account-surplus		775
Official borrowing	500	
Add non-official borrowing	<u>-1275</u>	
Balance of Capital Account		<u>-775</u>
Balance of Payments		0

We will look at activities on this in the next session.....

Stay safe.....