

Introductory Macroeconomics

Pre-Tutorial #11
Week Starting 24th May 2021

The Tutorial. This week's tutorial looks at the balance of payment.

Note that your tutor is under no obligation to go through the answers to the pre-tutorial work in detail. The focus in the tutorial will be on the tutorial work itself – the questions here are preparatory.

Reading Guide. You should look carefully over lectures 21 and 22. You may also find Chapter 18 of BOFAH useful.

Key Concepts. Current account. Capital account. Trade deficits.

Problems.

1. How would each of the following be likely to affect the balance of current account and capital account, all else being equal?
 - (a) European computer firms switch from software produced in Australia to software produced outside of Australia.
 - (b) The Australian government imposes a large tariff on imported automobiles.
 - (c) Australian shares are perceived as becoming more risky.
 - (d) Australian consumers increase their spending on imported goods.
 - (e) Australia donates to nations affected by the tsunami of December 2004.
 - (f) Australian universities increase tuition paid by overseas students.
2. Read the article entitled “Unpacking the Trade Deficit”, available on Canvas under Tutorial 11.

Solutions to Pre-Tutorial Work.

1.
 - (a) The demand for Australian goods (software) by foreigners falls, reducing the inflow of money to Australia. This event decreases the balance of the Australian current account.
 - (b) Australians are dissuaded from buying imported automobiles, reducing the outflow of money from Australia. This policy increases the balance of the Australian current account.
 - (c) Foreigners reduce investment in the Australian financial market, reducing the inflow of money to Australia. This event decreases the balance of the Australian capital account.
 - (d) Australians increase their spending on imported goods, increasing the outflow of money from Australia. This action decreases the balance of the Australian current account.
 - (e) The donation increases the outflow of money from Australia. This action decreases the balance of the Australian current account.
 - (f) The fees paid by overseas students at Australian universities increases, increasing the inflow money to Australia. This event increases the balance of the Australian current account.