Beyond the Port

Trace how cross-border exchanges enter national accounts

GE.4.5 "Discuss the components that make up the balance of payments and balance of trade among nations."

NAME _____ DATE _____

1 READ AND MARK

Read it twice

YOUR JOB Underline each transaction with a dollar amount, then label it G for goods, S for services, I for investment income, T for a current transfer, F for a financial asset, or K for a capital transfer.

Coastland's Accounts

1. At Coastland's port, trucks deliver locally made bicycles for shipment abroad while containers of imported coffee arrive. In one year, Coastland sells $80 million in goods to other countries and buys $110 million in goods from them. The **balance of trade** compares exports and imports of goods, so Coastland has a $30 million goods trade deficit. That figure does not count every cross-border exchange. A foreign visitor might pay for a Coastland hotel room, and a Coastland investor might buy a foreign company's stock. Those transactions belong elsewhere in a nation's **balance of payments**.

2. The **current account** records trade in goods and services, income earned across borders, and current transfers such as gifts sent abroad. Coastland hotels earn $25 million from foreign visitors, while residents pay $10 million for foreign streaming services. These are services, not goods. Coastland investors receive $6 million in interest from foreign bonds, while foreign investors receive $4 million in dividends from Coastland companies. A worker in Coastland also sends $8 million to family overseas without receiving a product or service in return. These examples show why a goods trade deficit alone cannot reveal the current account's total.

3. The **financial account** tracks purchases and sales of financial assets across borders. A foreign pension fund buys $15 million in Coastland bonds; a Coastland firm buys $5 million in foreign shares. Neither purchase is a goods export or import. The smaller **capital account** includes certain one-time transfers, such as Coastland's government canceling $2 million in debt owed by a foreign government. In balance-of-payments accounting, entries across accounts and any statistical discrepancy add up to zero. A goods trade deficit can coexist with other inflows, including sales of bonds. It does not mean the entire balance of payments has a deficit.

2 ANSWER WITH EVIDENCE

Use the passage

1. Calculate Coastland's balance of trade. What does the result tell you about its goods exports and imports?

2. Find the combined balance for Coastland's services, investment income, and current transfers. Then use it to calculate the current-account balance shown in the passage.

3. Why do the $15 million bond purchase and the $2 million debt cancellation belong in different balance-of-payments accounts? Name both accounts.

4. What does Coastland's goods trade deficit show, and why does it not mean the balance of payments as a whole has a deficit?

3 YOUR TURN

Your own words

Invent a country with one goods export, one goods import, one service payment, and one cross-border asset purchase. Give each an amount, calculate the goods trade balance, and explain in three or four sentences why that balance is not the entire balance of payments.

Beyond the Port

PART 1 · READ AND MARK

Underline each transaction with a dollar amount, then label it G for goods, S for services, I for investment income, T for a current transfer, F for a financial asset, or K for a capital transfer. Accept any marking that follows this job and points at the right text.

PART 2 · ANSWERS

#	QUESTION	ANSWER
1	Calculate Coastland's balance of trade. What does the result tell you about its goods exports and imports?	**$80 million minus $110 million equals negative $30 million. Coastland imported $30 million more in goods than it exported.**
2	Find the combined balance for Coastland's services, investment income, and current transfers. Then use it to calculate the current-account balance shown in the passage.	**The combined balance is $25 million minus $10 million plus $6 million minus $4 million minus $8 million, or positive $9 million. Added to the $30 million goods deficit, it gives a $21 million current-account deficit.**
3	Why do the $15 million bond purchase and the $2 million debt cancellation belong in different balance-of-payments accounts? Name both accounts.	**Buying bonds is a purchase of a financial asset, so it belongs in the financial account. Canceling debt owed by another country is a capital transfer, so it belongs in the capital account.**
4	What does Coastland's goods trade deficit show, and why does it not mean the balance of payments as a whole has a deficit?	**It shows that goods imports exceed goods exports by $30 million. The balance of payments also includes other current-account exchanges, financial transactions, and capital transfers; its entries balance when any statistical discrepancy is included.**

PART 3 · YOUR TURN (SAMPLE ANSWER)

In Pinehaven, firms export $40 million in furniture and import $55 million in fruit, so its goods trade balance is a $15 million deficit. Pinehaven residents pay $5 million for foreign software services. A foreign investor buys $12 million in Pinehaven bonds, a financial-account transaction. The goods deficit excludes services and bond purchases, and the full balance of payments balances once all accounts and any statistical discrepancy are included.

For the marking job, expect two G labels, two S labels, two I labels, one T label, two F labels, and one K label. In Part 3, accept any internally consistent amounts and a correctly calculated goods balance that students distinguish from the full balance of payments.