



Anglo-Chinese Junior College

Department of Economics

H2

External Macroeconomic Issues

TUTORIAL WORKSHEET 2

Section A: Discussion Questions

- Question 1: Understanding exchange rate changes
- Question 2: Understanding balance of payments

Section B: Data Response Questions

- Question 3: Japan posts record ¥20 Trillion Trade Deficit in 2022

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Note to students: It is very important for your learning that you thoroughly prepare your answers before tutorials.

Your tutors may separately assign you modules from the SLS to supplement your understanding of the topic.

Section A: Discussion Questions

Question 1: Understanding exchange rate changes

Different countries' governments may choose to adopt different exchange rate regimes. For this question, we will assume that all three countries (UK, US and Malaysia) adopt a floating exchange rate regime.

Event	Explain the impact of the event on the country's exchange rate
A rise in domestic interest rates in UK, making them above the rates in many other countries.	
US reports that its trade deficit is the highest in recent years.	
Malaysia's export price competitiveness improves	

Question 2: Understanding balance of payments

With respect to Singapore's balance of payment account, identify and explain which of the accounts would likely be affected by each of the following events.

Events	Account
A rise in expenditure by tourists in Singapore	
An increase in import duties on cigarettes in Singapore	
Bread Talk Singapore sets up more franchise outlets in the Middle East	

Malaysian ringgit depreciates against Singapore dollar	
A rise in foreign direct investment into Singapore from the Asian region	
The Federal Reserve announces lower domestic interest rates in the US	

Section B: Data Response Questions

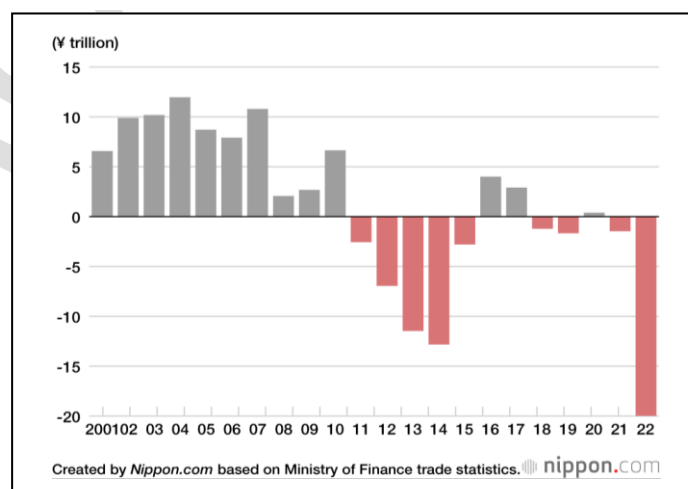
Question 3: Japan posts record ¥20 Trillion Trade Deficit in 2022

Japan's balance of trade for 2022 announced by the Ministry of Finance showed a deficit of ¥20.0 trillion. This far exceeds the ¥12.8 trillion deficit of 2014, marking the largest trade shortfall since comparative statistics were first available in 1979.

Resource-poor Japan is dependent on imports for 94% of its primary energy supply. The depreciating yen and soaring energy prices from Russia's invasion of Ukraine have thus been cited as the significant reasons for the trade deficit.

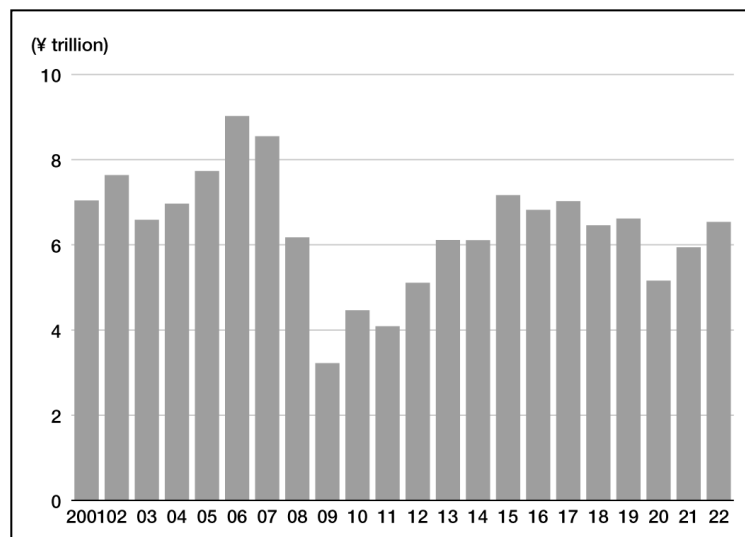
- (a) Explain how "depreciating yen and soaring energy prices from Russia's invasion of Ukraine" caused Japan's trade deficit in 2022. [4]

Figure 1: Japan's balance of trade with the rest of the world



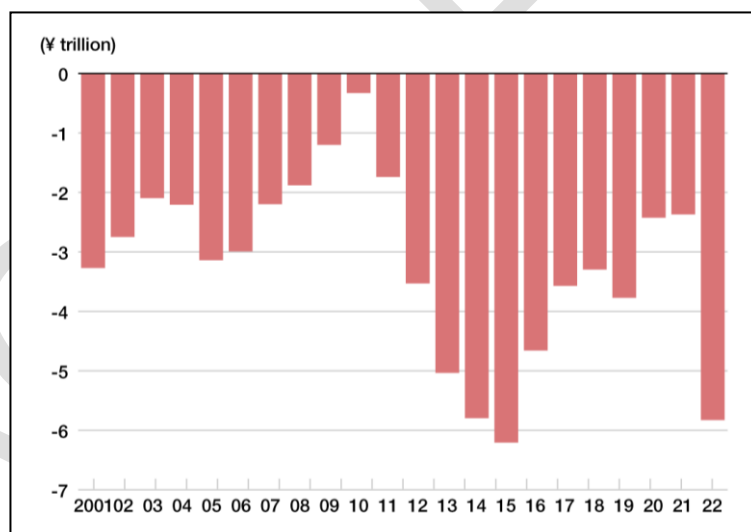
- (b) With reference to Figure 1, describe the change in Japan's overall balance of trade during the period of 2008-2014. [2]

Figure 2: Japan's balance of trade with the United States



- (c) Using Figure 2, comment on the impact of Japan's trade balance with the US in 2022 on Japan's economic growth. [6]

Figure 3: Japan's balance of trade with China



- (d) With reference to Figure 2 and 3, compare the changes in Japan's trade balances with the US and China from 2019 to 2022. [2]

[For Self-Practice] Question 4: Challenges faced by China (2022 HCI Prelims)

Table 1: China's exports and imports of goods and services demand (USD, billions)

	2014	2015	2016	2017	2018
Exports Of Goods And Services	2462.8	2362.1	2199.9	2424.2	2655.6
Imports Of Goods And Services	2241.3	2003.2	1944.5	2208.5	2564.1

Table 2: Singapore's exports and imports of goods and services (USD, billions)

	2014	2015	2016	2017	2018
Exports Of Goods And Services	604.4	549.4	525.2	587.4	665.7
Imports Of Goods And Services	530.6	465.3	441.7	496.6	557.5

Source: World Bank

Extract 2: China's economy to face key challenges

The global economic downturn and US-China friction have entered new phases, bringing about unprecedented uncertainty to global economic policies. This will not only directly impact China through trade, but it will also negatively influence its economy by undermining market confidence. As external demand has weakened from 2018, the global manufacturing industry is set to slump. Also, domestic demand is expected to remain weak and has experienced a significant decline, which may accelerate the economic slowdown.

Source: Adapted from Global Times, 11 December 2019

- (a) (i) Compare China's balance of trade with that of Singapore from 2014 to 2018. [2]
- (ii) With reference to Extract 2, explain one reason why the trend of China's balance of trade is likely to continue in 2019. [2]

Section C: Essay Question

Question 4

Between 2012 and 2013 the number of Singapore dollars required to buy US dollars and Chinese Renminbi increase by 3.5% and 6.6% respectively, while the number of Singapore dollars required to buy Japanese Yen and Malaysian Ringgit fell by 15.2% and 3.5% respectively.

Source: Monetary Authority of Singapore

- (a) Explain how an appreciation of a country's currency might affect the current account of its balance of payments. [10]
- (b) Discuss the likely overall effects of the changes in the exchange rate in 2012-2013 on Singapore's domestic economy. [15]

(2016 A-Level Paper 2 Question 6)

Question 5

The Singapore dollar (SGD) strengthened against the US dollar (USD) in a year of volatility and uncertainty in 2022. Singapore continued to have trade surplus in the same year.

- (a) Explain why governments may be concerned about a persistent balance of trade deficit. [10]
- (b) Discuss whether internal factors or external factors are more significant in explaining the continuous surplus in Singapore's balance of trade. [15]

Question 6

Most economies in the world are suffering from budget deficits and balance of trade deficits for the past two years due to domestic and external challenges.

- (a) Explain the relationship between a balance of trade deficit and a budget deficit. [10]
- (b) Discuss whether policies adopted by a government to reduce the balance of trade deficit would worsen the budget deficit. [15]

Note to students: Please do not attempt part (b) now as it requires content from the topic on International Trade.

(2022 NYJC Prelims)