**Question 23** (10 marks)

(a) Distinguish between the current account deficit and foreign debt. **2**

The current account deficit comprises of the Balance of Goods and Services, Net Primary income and Net Secondary income and is the total deficit of funds ~~to external~~ ~~owed~~ going to other nations, whereas ~~net~~ foreign debt is the value of loans owed by Australians to overseas lenders.

(b) Explain how the level of national savings can influence the size of the current account. **3**

If a nation has a low level of national savings (e.g.: Australia), then this will likely ~~not~~ increase the size of the current account deficit, as Australian firms will rely on international investment and borrowing in order to achieve economic growth. Conversely, in nations such as Germany, where there is a high level of national savings, the CAD may in fact be in surplus, as the economy will invest more in other nations than other nations invest in it.

**Question 23 continues on page 15**

Question 23 (continued)

(c) What are the positive and negative implications of a current account deficit for the Australian economy? **5**

2018 HSC - Economics
Band 5/6
Sample 1 Question 23

Positive implications of a high CAD are that Australia is able to consistently fuel and experience economic growth; ~~and that~~ There are more negative implications however, as ~~it~~ a current account deficit may damage investor confidence, increased risk that the Australian economy will be unable ~~to~~ to service its loans, and that it may ~~result~~ mean in a nation ~~having~~ has increased dependency on other nations, and is not self-sufficient.

High CAD may also damage Australia's credit performance, and if excessively high, may hinder future economic growth.

**End of Question 23**