Balance of trade and balance of payment

BALANCE OF TRADE
visible export + visible imports
TRADE SURPLUS — TRADE DEFICIT

BALANCE OF PAYMENT
visible + visible export and imports + monetary transactions
SURPLUS — DEFICIT

Macroeconomists have devised numerous statistics, called economic indicators, to measure a country's overall economic health and analyse its **business cycle**, that is the fluctuation in its economic activity over a period of time. Economic indicators include various indices or criteria, earnings reports and economic summaries, such as the volume of international trade, employment and unemployment rates, housing starts (i.e. the number of permits issued for the construction of new buildings), the **Consumer Price Index** (CPI measures inflation, in other words, the rise in the average prices of goods and services), industrial production, retail sales and stock market prices.

The **balance of trade** and the **balance of payment** are two records of a country's volume of international trade over a period of time (normally 12 months). The **BOT** reports the difference between the total value of visible exports and visible imports. If the value of exports is higher, the country has a **trade surplus**, otherwise, if the value of imports exceeds exports, it has a **trade deficit** or gap.

Countries also trade services, called invisible exports or imports, which cannot be seen or touched but make profit too. The **BOP** is the record of the flows of visible and invisible exports and imports, as well as any international monetary transaction into and out of the country. If a country has received money, this is known as credit, and if a country has paid or given money, the transaction is counted as debit. Theoretically, the BOP should be zero, meaning that assets (credits) and liabilities (debits) should balance, but in practice this is rarely the case. Thus, the BOP can tell if a country has a deficit or a surplus and which part of the economy the discrepancies come from.

The primary indicators of a nation's health and standard of living are the **Gross Domestic Product** and the **Gross National Product**. **GDP** represents the monetary value of a country's production that occurs within its boundaries, by residents and foreign producers. It measures the economic strength or expansion of a country over a year: an increase in GDP means economic health, growth in production, low unemployment, more purchasing power and higher demand for goods. On the contrary, its decrease foresees a future economic recession.

The **Gross National Product** is the total value of goods and services produced by the citizens of a country, regardless of their physical location. It equals GDP plus any income earned by residents from overseas investments, minus income earned by foreigners within the country.

1 Fill in the gaps transforming the word in bracket into a suitable form (noun, adjective or verb).

Macroeconomists use a **1.** .... (various) of different observational means to study and **2.** .... (explanation) how a country's economy functions and changes over time. At a local level, any company **3.** .... (own) can prove if his business is doing well and **4.** .... (increase) its profit quite easily, through **5.** .... (year) reports and personal **6.** .... (observe) of data. However, this data only provides **7.** .... (inform) about a single firm and doesn't accurately reflect the **8.** .... (healthy) of the economy as a whole.
In order to move beyond the limits of personal experiences, macro **9.** .... (economy) systematically measure the basic elements of the economy in order to **10.** .... (acquisition) standard and comprehensive statistics. Two of the most fundamental elements they study are the total output of an economy (GDP) and the cost of **11.** .... (life) within an economy (CPI). Gross domestic product, or GDP, is an **12.** .... (indicate) of economic **13.** .... (perform) and total income within an economy. The consumer price index, or CPI, is a cost of living indicator that measures the total cost of goods and services **14.** .... (purchasing) by a typical consumer within a country.
In conclusion, GDP and CPI show how much income **15.** .... (existence) within an economy and how much this income can purchase and these indices open the door to a scientific **16.** .... (understand) of the functioning of the economy on a large, or macro, level.

2 Match each description to a word or expression on the previous page.

1. It is the index that measures the total cost of goods and services purchased by a consumer within a country. ....
2. It is the sum of the market values of all final goods and services produced within a country during a period. ....
3. It is an excess of payments over receipts on the balance of payments. ....
4. It is the number of new residential construction projects that have begun during any particular month. ....
5. It is a progressive increase in the general level of prices. ....
6. It is an excess of revenues over expenditures during a certain period of time. ....
7. It is a temporary depression in economic activity or prosperity. ....
8. It is the limit of an area or a country. ....
9. It is the positive balance in an account. ....
10. It is a statistical form of measurement. ....
11. It is the sum of the market values of all goods and services produced by the citizens of a country regardless of their physical location. ....
12. It is the value of a currency expressed in terms of the amount of goods or services that one unit of money can buy. ....

Facts and figures

The GDP top ten countries by 2020 will be: United States, China, Japan, Germany, United Kingdom, France, India, Brazil, Italy, and Canada.

3 You will hear a student explaining the meaning of business cycle. Complete the summarising table.

	The business cycle
Business cycle:	**1.** .... in economic **2.** ....
GDP:	moves **3.** .... and **4.** ....
Economy:	periods of expansions or **5.** ...., and decline or **6.** ....
Economic changes:	are **7.** ....
Phases:	expansion, **8.** ...., contraction and trough or **9.** ....
First phase:	increase in **10.** .... rate, industrial production, **11.** .... and **12.** personal ....
Second phase:	production is at its **13.** .... output and there is **14.** .... employment
Third phase:	slower economic **15.** .... and higher **16.** .... rate
Last phase:	economic activity **17.** .... at the **18.** .... of the cycle
New cycle:	starts from **19.** .... and is followed by **20.** .... and contraction