



ECONOMICS

BOOKS - GEETA PUBLISHING HOUSE ECONOMICS (HINGLISH)

BALANCE OF PAYMENTS

Multiple Choice Questions Mcqs With Answers

1. Which of the following items is entered on the credit side of BOP account?

- A. Investment from abroad
- B. Import of goods

C. Gifts paid to foreigners

D. Repayment of foreign loan

Answer: A



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2. An account indicating a systematic reco'rd of all economic transactions between residents of a country and residents of foreign countries during a period of account is called ____

Account

A. Balance of trade

B. Balance of payment

C. Government budget

D. None of these

Answer:



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3. Current account of BOP records

A. Exports and import of goods

B. Exports and import of services

C. Unilateral transfers from and to foreigners

D. All of these

Answer: D



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4. There is ___ relationship between exchange rate and supply of foreign exchange.

- A. a direct
- B. an inverse
- C. no
- D. both (i) and (ii)

Answer: A

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5. Outflow of foreign exchange is recorded on the ___ sides

- A. credit

B. debit

C. either (i) or (ii)

D. neither (i) nor (ii)

Answer: B



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6. Which of the following is a component of capital account of BOP?

A. Export and import of goods

B. Export and import of services

C. Unilateral transfers

D. Sale of assets to foreigners

Answer: D



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7. Which of the following is included in balance of trade?

A. Shipping

B. Insurance

C. Imports of goods

D. Unilateral transfers

Answer: C



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8. Transactions that take place to cover deficit or surplus are called ____ transactions

A. accommodating

B. autonomous

C. current account

D. above the line

Answer: A



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9. The balance of trade shows a deficit of Rs 500 crore. The value of exports is Rs 700 crore. Find the value of imports.

A. Rs 700 crore

B. Rs 1200 crore

C. Rs 900 crore

D. Rs 200 crore

Answer: B



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10. Which of the following is a source of demand for foreign currency?

A. Foreign tourists visiting India

B. Exports of goods and services

C. Imports of goods

D. All of these

Answer: C

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11. When receipts of foreign exchange are less than payments of foreign exchange, then BOP is:

A. deficit

B. surplus

C. balanced

D. none of these

Answer: A

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12. Underflexible exchange rate system, exchange rate is determined ____

A. by the government

B. by market forces of demand and supply

C. by Central Bank of a country

D. none of these

Answer: B



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13. Balance of payment is a ____ concept

A. flow

B. stock

C. both (i) and (ii)

D. neither (i) nor (ii)

Answer: A



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14. Devaluation which means fall in value of domestic currency in terms of foreign currency takes place in ____

A. Flexible Exchange Rate regime

B. Fixed Exchange Rate regime

C. both (i) and (ii)

D. neither (i) nor (ii)

Answer: B



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15. A change from Rs 60 = 1\$ to Rs 62 = 1\$ indicates that Rs has

A. appreciated

B. depreciated

C. neither (i) nor (ii)

D. either (i) or (ii)

Answer: B



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16. The net value of balance of visible trade, invisible trade and of unilateral transfers is

- A. Balance of capital account
- B. Balance of current account
- C. Balance of trade
- D. Balance of payments

Answer: B



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17. Demand curve of foreign exchange is _____

A. downward sloping

B. upward sloping

C. vertical straight line parallel to Y-axis

D. horizontal straight line parallel to X-axis

Answer: A



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18. Indian rupee is appreciated in terms of British pound because of

A. falling demand of pounds

B. shortage of pounds

C. more supply of Indian rupees

D. less demand for Indian rupees

Answer: A



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19. _____ refers to the difference between exports and imports of visible items

A. Balance of payments

B. Balance of trade

C. both (i) and (ii)

D. neither (i) nor (ii)

Answer: B



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20. Exports of goods and services raises the _____ of foreign exchange.

A. demand

B. supply

C. both (i) and (ii)

D. neither (i) nor (ii)

Answer: B



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21. Other things remaining unchanged, when in a country the price of foreign currency rises, national Income is _____

- A. likely to rise
- B. likely to fall
- C. likely to rise and fall both
- D. not affected

Answer: A

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22. BOP is measured as:

- A. difference between invisible items of exports and imports
- B. difference between visible items of exports and imports
- C. difference between internal and external flow of gold

D. difference between all receipts and payments of foreign exchange

Answer: D

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23. BOP is in disequilibrium when

A. current account balance+ capital account balance is not equal to zero

B. current account balance+ capital account balance is some positive number

C. current account balance+ capital account balance is negative number.

D. all of these

Answer: D



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24. Which of the following transactions is/are recorded in the current account of BOP?

- A. import and export of goods and services
- B. transfer from one country to an other.
- C. Both (a) and (b)
- D. None of these

Answer: C



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25. Exports of goods and services raises ____of foreign exchange.

A. supply

B. demand

C. both (a) and (b)

D. neither (a) nor (b)

Answer: A



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26. Other things remaining the same, when in a country market price of foreign currency falls , national income is

likely:

- A. to rise
- B. to fall
- C. to rise and fall both
- D. Not affected

Answer: B



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27. Other things remaining unchanged, when in a country, price of foreign currency rises, national income is

- A. Likely to rise
- B. likely to fall

C. Likely to rise and fall both

D. Not affected

Answer: A



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28. Foreign exchange transactions. dependent on other foreign exchange transactions are called

A. Current account transactions

B. Capital account transactions

C. Autonomous transactions

D. Accommodating transactions

Answer: D



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29. Foreign exchange transactions which are independent on other transactions in the Balance of Payments Account are called:

- A. Current transactions
- B. Capital transactions
- C. Autonomous transactions
- D. Accommodating transactions

Answer: C



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30. A company located in India receives a loan from a company located abroad. How is this transaction recorded in India's BOP account?

- A. Credit side of current account
- B. Debit side of current account
- C. Credit side of capital account
- D. Debit side of capital account

Answer: C



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True Or False Questions With Answers

1. In case of flexible exchange rate, rate of foreign exchange does not change.

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2. Export and import of machines are recorded in Capital Account of BOP account.

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3. Excess of foreign exchange receipts over foreign exchange payments on account of accommodating transactions equals deficit in BOP.

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4. Increase or decrease in gold reserve is an item of BOP on Capital account.

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5. Current Account of BOP account records only imports and exports of goods and services.

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6. Repayment of loan is reflected as credit item in BOP account

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7. Increase in foreign exchange rate leads to increase in supply of foreign exchange.



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8. Gifts and donations sent or received from abroad is an item of Capital account in BOP.



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9. Accommodating transactions are undertaken to maintain balance in BOP account.



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10. Foreign Investments are recorded In Capital account of BOP.



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11. When there is depreciation of Indian rupee in terms of US dollars, Indian imports will rise.



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12. Balance of payment always balances.



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13. Autonomous items of trade are undertaken by the government to restore equilibrium in balance of payment.



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14. Borrowing and lending in the international money market is a part of current account balance of payment.



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15. If BOT is in deficit, the BOP is also in deficit.



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16. Transfer to the rest of world is a debit component of payment on current account.

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17. Compensation of employees from ROW is a credit component of BOP on capital account.

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18. High rate of inflation in domestic economy causes 'deficit balance of trade'.

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19. Flexible exchange rate depends upon demand and supply of foreign exchange in the international money market.



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20. Appreciation of Indian currency occurs when more rupees are to be paid for a UK pound.



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21. Greater flow of foreign exchange from ROW always reflect higher level of development of domestic economy.



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Remembering And Understanding Based Questions With Answers

1. What is balance of payment (BOP) account?

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2. What is balance of payment (BOP)?

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3. What is meant by balance of trade (BOT) ?

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4. What are components of BOT?



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5. What does BOP account of a country record?



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6. How is BOT deficit offset?



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7. What is meant by disequilibrium in BOP?



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8. Why are autonomous items called 'above the line' items?



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9. What is foreign exchange rate?



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10. Define foreign exchange market.



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11. At what point equilibrium rate of foreign exchange is determined?



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12. What is spot exchange rate?



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13. What is hedging?



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14. What is the significance of autonomous transactions of BOP?



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15. What are debit and credit in BOP account?

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16. What happens to domestic currency when there is depreciation of domestic currency?

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17. What are visible and invisible items in BOP?

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18. Distinguish between current account and capital account of BOP account.

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19. Define (i) Accommodating and (ii) Autonomous items.

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20. Distinguish between BOT and BOP.

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21. State the components of (i) current Account and (ii) capital Account.

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22. Are the following transactions entered on credit or debit side? Give reasons.

(i) Exports (ii) Imports (iii) Borrowing from Row (iv) Lending to ROW.



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23. What are (i) Spot Market and (ii) Forward Market in foreign exchange?



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24. Differentiate between fixed and flexible. exchange rates.



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25. Describe four causes for disequilibrium in BOP.

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26. Explain the meaning of Managed floating.

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27. Differentiate between devaluation and depreciation.

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Hots And Application Based Questions With Answers

1. What is meant by deficit in balance of payment (BOP)?



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2. If British pound becomes costlier in terms of foreign currency, is it good or bad for growth of Indian economy? Give reasons.



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3. Are concepts of 'demand for domestic goods' and 'domestic demand for goods' the same?



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4. Recently Government of India has doubled the import duty on gold. What impact is there on foreign exchange and how?



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5. What is the basis of classifying transactions into credit and debit items? Give two examples of each.



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6. How does giving incentives for exports influence foreign exchange rate? Explain.



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7. Why does a rise in foreign exchange rate cause a rise in its supply?



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8. How Is depreciation of Indian rupee likely to affect Indian exports? Explain.

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9. Distinguish between BOT and Balance on current account.

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10. What is appreciation of domestic currency? Explain its effects on exports.

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11. Explain the significance of distinction between autonomous and accommodating transactions in BOP account.



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Evaluation Based Questions With Answers

1. Suppose exchange rate rises from $1\$ = \text{Rs } 60$ to $1\$ = \text{Rs } 65$ leading to rise in prices of imports of essential goods. How can RBI help in bringing down the high exchange rate?



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2. How is cancellation of coal blocks allocation by Supreme Court of India likely to affect our current account deficit (CAD)?



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3. What are official reserve transactions? Explain their importance in BOP.



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4. The country needs a huge amount of imports for development projects. Name one step which the Central Bank can take to make imports cheaper using foreign exchange market.



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5. Should a current account deficit be a cause for alarm?

Explain.



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6. A British company has ordered readymade garments from an Indian company. What will be the impact on their total import expenditure if foreign exchange rate increases?



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7. How does fixed foreign exchange rate promote capital movements and foreign trade?



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8. How do the deficit BOP and surplus BOP impact the exchange rate?



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9. What is the effect of increase in national income (or aggregate demand) on foreign exchange rate? Explain.



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10. Increase in interest rate in the domestic economy leads to an appreciation of domestic currency. Your comments?



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Very Short Answer Questions Of 1 Mark Each

1. Define foreign exchange.



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2. What is meant by foreign exchange market?



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3. Name three visible items of exports



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4. Mention three invisible items of exports.



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5. What is meant by non-factor services in international trade?



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6. What is foreign exchange rate?



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7. Define balance of trade (BOT).



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8. What is balance of visible items in BOP accounts called?

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9. Define balance of payment.

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10. Name two sub-accounts of BOP.

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11. what is meant by appreciation of currency?

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12. What is meant by depreciation of currency?



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13. What is meant by fixed exchange rate?



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14. What is managed floating rate?



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15. Define flexible exchange rate.



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16. What does BOP account record?



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17. When will BOT show a surplus?



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18. When is there a deficit in BOT?



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19. What is meant by disequilibrium in BOP?

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20. Which transaction- autonomous or accommodating- brings balance in BOP account?

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21. What is the difference between values of exports and imports called?

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22. The price of US dollar has fallen from Rs 65 to Rs 62. Has the Indian currency depreciated or appreciated?

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Short Answer Questions Of 3 4 Marks Each

1. Distinguish accommodating and autonomous items of BOP.



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2. Distinguish between a spot market and forward market of foreign exchange.



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3. Differentiate between BOP and BOT.



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4. Differentiate between capital account and current account.



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5. Explain the relation between foreign exchange rate and its supply.



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6. Why does demand for foreign exchange rise when its price falls?



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7. Why does supply of foreign exchange rise when its price rises?



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8. Explain the concept of hedging in the context of foreign exchange market.



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9. Distinguish between BOT and Balance on current account.



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10. How can an increase in foreign direct investment affect the price of foreign exchange?



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11. Name the broad categories of transactions recorded in the 'capital account' of the BOP account.



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12. Name the broad categories of transactions recorded in the 'current account' of the BOP account



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13. Will the sale of machinery to abroad be recorded in BOP accounts? Give reasons.



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14. What are fixed and flexible exchange rates?



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15. Explain the meaning of Management Floating Exchange Rate.



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16. Where is borrowing from abroad recorded in the BOP Accounts? Give reasons

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Long Answer Questions Of 6 Marks Each

1. Explain components of (a) current account and (b) capital account of BOP.

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2. Govt. of India has doubled the import duty on gold. What will be its impact on foreign exchange rate and how?

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3. Describe the causes for disequilibrium in BOP. Suggest corrective measures.

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4. Foreign exchange rate in India is on the rise recently. What will be its impact on exports and how?

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5. Explain the effect of fall in price of foreign exchange on exports.

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6. Distinguish between depreciation and devaluation.



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7. State the nature of transactions recorded in current account of BOP.



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8. Explain the effect of appreciation of domestic currency on imports.



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9. Explain the effect of depreciation of domestic currency on exports.

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10. (a) In which sub-account and on which side of Balance of Payments account will foreign investments in India be recorded? Give reasons.

(b) What will be the effect of foreign investments in India on exchange rate? Explain.

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11. Indian investors lend abroad. Answer the following questions:

(a) In which sub-account and on which side of the Balance of Payment Account such lending is recorded? Give reasons.

(b) Explain the impact of this lending on market exchange rate.

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12. Why does the demand for the foreign currency fall and supply rises when its price rises? Explain

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Cbse Sample Questions Paper 2018

1. Define money supply.

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2. State one fiscal measure that can be used to reduce the gap between rich and poor.

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3. Define the capital receipts of a government.

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4. From the following data calculate Fiscal Deficit.

S.No.	Item	in Billions
1.	Capital Receipt	68
2.	Revenue Expenditure	160
3.	Interest Payment	20
4.	Borrowings	32
5.	Tax Revenue	50
6.	Non- Tax revenue	10



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5. Estimate the value of ex-ante AD, when autonomous investment and consumption expenditure (A) is Rs 50 crores, and MPS is 0.2 and level of income is Rs 300 crores.



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6. Calculate Multiplier when MPC is $\frac{4}{5}$ and $\frac{1}{2}$. From the calculations establish the relation between size of Multiplier and size of MPC.



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7. Discuss the significance of 45 degree line in Keynesian Economics.

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8. Elaborate 'economic growth' as objective of government budget.

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9. Use following information of an imaginary country:

Year	2014 – 2015	2015 – 2016	2016 – 2017
Nominal GDP	6.5	8.4	9
GDP deflator	100	140	125

(i) For which year is real GDP and nominal GDP same and why?

(ii) Calculate Real GDP for the given years. Is there any year for which Real GDP falls?



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10. How will 'Reverse Repo Rate' and 'Open Market Operations' control excess money supply in an economy?



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11. Illustrate with the help of a hypothetical numerical example the process of credit creation.



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12. (a) Define Externality.

(b) Find National Income from following using expenditure method

	(In crores)
1. Current transfers from rest of the world	50
2. Net Indirect taxes	100
3. Net Exports	(-)25
4. Rent	90
5. Private Final Consumption Expenditure	900
6. Net Domestic Capital Formation	200

7. Compensation of Employees	500
8. Net Factor Income from Abroad	(-)10
9. Government Final Consumption Expenditure	400
10. Profit	270
11. Mixed Income of Self Employed	400
12. Interest	230



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13. Will the following factor income be included in domestic factor income of India ? Give reasons for your

(i) Compensation of employees to the resident of Japan working in Indian embassy in Japan.

(ii) Payment of fees to a Chartered Accountant by a firm.

(iii) Rent received by an Indian resident from Russian embassy in India.

(iv) Compensation given by insurance company to an injured worker.



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14. State whether the following statements are true or false.

Give valid reasons for your answers.

(i) Unplanned inventories accumulate when planned investment is less than planned saving.

(ii) Deflationary gap exists when aggregate demand is greater than aggregate supply at full employment level.

(iii) Average propensity to save can never be negative.



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15. (a) 'Devaluation and Depreciation of currency is one and the same thing'. Do you agree? How do they affect the exports of a country?

(b) What is meant by 'official reserve transactions'? Discuss their importance in Balance of Payments.



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Cbse Exam Questions Paper 2017

1. The ratio of total deposits that a commercial bank has to keep with Reserve Bank of India is called: (choose the correct alternative)

(a) Statutory liquidity ratio

(b) Deposit ratio

(c) Cash reserve ratio

(d) Legal reserve ratio



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2. Aggregate demand can be increased by: (choose the correct alternative)

(a) increasing bank rate

(b) selling government securities by Reserve Bank of India

(c) increasing cash reserve ratio

(d) none of the above



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3. Give the meaning of involuntary unemployment.



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4. What is primary deficit?



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5. Give the meaning of balance of payments.



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6. Distinguish between final goods and intermediate goods.

Give an example of each.



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7. Explain the store of value function of money.



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8. State the meaning and components of money supply.



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9. Explain the basis of classifying taxes into direct and indirect tax. Give examples.



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10. Explain 'banker to the government' function of the central bank

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11. Explain the role of reverse repo rate in controlling money supply.

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12. Explain how government budget can be used to influence distribution of income?

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13. An economy is in equilibrium. From the following data about an economy calculate autonomous consumption.

(a) Income = 5000

(b) Marginal propensity to save = 0.2

(c) Investment expenditure = 800

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14. Why does the demand for foreign currency fall and supply rises when its price rises'? Explain.

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15. Explain 'non-monetary exchanges' as a limitation of using gross domestic product as an index of welfare of a country.

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16. How will you treat the following while estimating domestic product of a country? Give reasons for your answer:

(a) Profits earned by branches of country's bank in other countries

(b) Gift given by an employer to his employees on independence day

(c) Purchase of goods by foreign tourists



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17. Calculate (a) net domestic product at factor cost and (b) gross national disposable income.

	₹ in crore
(i) Private final consumption expenditure	800
(ii) Government final consumption expenditure	1000
(iii) Exports	70
(iv) Imports	120
(v) Consumption of fixed capital	60
(vi) Gross domestic fixed capital formation	500
(vii) Change in stock	100
(viii) Factor income to abroad	40
(ix) Factor income from abroad	90
(x) Indirect taxes	700
(ξ) Subsidies	50
(ξi) Net current transfers to abroad	(-)30



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18. Assuming that increase in investment is 1000 crore and marginal propensity to consume is 0.9, explain the working of multiplier.



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1. Demand deposits include (Choose the correct alternative)

- (a) Saving account deposits and fixed deposits
- (b) Saving account deposits and current account deposits
- (c) Current account deposits and fixed deposits
- (d) All types of deposits



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2. Define marginal propensity to consume.



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3. If the marginal propensity to consume is greater than marginal propensity to save, the value of the multiplier will be
(Choose the correct alternative)

- (a) greater than 2
- (b) less than 2
- (c) equal to 2
- (d) equal to 5



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4. Define Government budget.



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5. What is meant by depreciation of domestic currency?



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6. Explain with the help of an example, the basis of classifying goods into final goods and intermediate goods.



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7. Explain "difficulty in storing wealth" problem faced in the barter system of exchange.



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8. Explain the "medium of exchange" function of money.



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9. Distinguish between direct taxes and indirect taxes. Give an example of each.

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10. Explain the "bankers' bank" function of the central bank.

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11. Explain the process of credit creation by commercial banks.

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12. An economy is in equilibrium. From the following data, calculate the marginal propensity to save:

Given the behaviour of marginal product and total product as more and more units of only one input are employed while keeping other inputs as constant.

(a) Income = 10,000

(b) Autonomous consumption = 500

(c) Consumption expenditure = 8,000



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13. Explain how government budget can be helpful in bringing economic stabilization in the economy.



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14. Distinguish (a) between current account and capital account, and (b) between autonomous transactions and accommodating transactions of balance of payments account.



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15. Explain the precautions that should be taken while estimating national income by expenditure method.



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16. Will the following be included in the domestic product of India? Give reasons for your answer.

(a) Profits earned by foreign companies in India

(b) Salaries of Indians working in the Russian Embassy in India

(c) Profits earned by a branch of State Bank of India in Japan



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17. Calculate (a) National Income, and (b) Net National

Disposable Income :

	₹ in crore
(i) Compensation of employees	2,000
(ii) Rent	400
(iii) Profit	900
(iv) Dividend	100
(v) Interest	500
(vi) Mixed income of self-employed	7,000
(vii) Net factor income to abroad	50
(viii) Net exports	60
(ix) Net indirect taxes	300
(x) Depreciation	150
(xi) Net current transfers to abroad	30



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18. Outline the steps required to be taken in deriving saving curve from the given consumption curve. Use diagram. ItBrgt

OR

Given consumption curve, derive saving curve and state the steps taken in the process of derivation. Use diagram.



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Model Sample Questions Paper 1

1. Define a central bank.



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2. The price of US dollar has fallen from Rs 65 to Rs 62. Has the Indian currency depreciated or appreciated?

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3. Foreign exchange transaction dependent on other foreign exchange transactions are called:

(i) current account transaction

(ii) capital account transaction

(iii) autonomous transaction

(iii) autonomous transaction

(iv) accomodating transaction

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4. An economy is in equilibrium. Calculate national income from the following:

National Income=100

Marginal propensity to save=0.2

Investment expenditure 200

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5. If an economy , Saving Function is given by $S = (-)50 + 0.2Y$ and $Y = Rs. 2,000$ crores, consumption expenditure for the economy would be Rs. 1,650 crores and the autonomous investment is Rs. 50 crores and the marginal propensity to consume is 0.8 True or False ? Justify your answer with proper calculations.

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6. Does equilibrium at full employment imply a higher level of output? Explain.

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7. Define externalities. Give an example of negative/positive externality and its impact on welfare.

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8. Explain function of money as a unit of account/measure of value. How has it solved related problem of barter?

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9. Explain the medium of exchange function of money. How has it solved the related problem of barter?

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10. Differentiate between devaluation and depreciation.

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11. Outline the steps required to be taken in deriving saving curve from the given consumption curve. Use diagram. It Brgt

OR

Given consumption curve, derive saving curve and state the steps taken in the process of derivation. Use diagram.

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12. How can a government budget help in reducing inequalities through redistribution of income? Explain.



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Others

1. Are the following transactions entered on the credit side or debit side of BOP account ?

- (i) Exports (ii) Imports (iii) Borrowings from rest of the world
(iv) Gifts from abroad (v) Lending to abroad.



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2. Where are the following items recorded? Give reasons.

(i) Import of machinery (ii) Sale of machinery to abroad (iii) Remittances from family members from abroad (iv) borrowing from abroad (v) Export and import of computers (vi) Lending abroad (vii) Foreign investment in India.



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3. 'Excess of foreign exchange receipts over foreign exchange payment on account of accommodating transactions equals deficit in BOP'. True or False.



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4. What will be the effect of foreign investment in India on exchange rate ? Explain.



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5. Explain the impact of Indians lending abroad on market exchange rate.



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6. How can an increase in foreign direct investment affect the price of foreign exchange ?



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7. Recently government of India has doubled the import duty on gold. What impact is it likely to have on foreign exchange rate and how ?



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