



ECONOMICS

BOOKS - SANDEEP GARG ECONOMICS (HINGLISH)

BALANCE OF PAYMENTS

Hots

1. Classify whether the following transactions will be recorded in current account or capital

account.

(i) Purchase of shares of Reliance by Microsoft.

(ii) Imports of computer spare parts from Germany.

(iii) Borrowings from World Bank.

(iv) Repayment of loan by Indian Government taken from Japan.

(v) Gifts received from a relative in America.

(vi) Purchase of Land in England.

(vii) Shipping service by an Indian company to a foreign company.



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2. A country exported goods worth Rs 600 crores, whereas, its imports amounted to Rs 700 crores. Calculate the volume of balance of trade and indicate its nature.



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3. State whether the following transactions will be recorded on debit or credit side of BOP.

(i) Loan from IMF to cover deficit of BOP.

(ii) Indian Government repays loan taken from

IMF.

(iii) Purchase of shares of Infosys by a Japanese resident.

(iv) Export of jute to Sri Lanka.

Acquisition of a foreign company by Tata.

(vi) Purchase of toys from China.



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4. Identify the following items as visible items or invisible items:

(i) Export of computer software. (ii) Import of

LCD screen from Malaysia.

(iii) Banking service to NRI. (iv) Export of Tea to Thailand.

(v) Consultancy services of TCS used by a foreign firm.



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5. Are the following entered (i) on the credit side or the debit side and (ii) in the current account or capital account in the Balance of Payments account? You must give reason for

your answer.

(a) Investments from abroad.

(b) Transfer of funds to relatives abroad.

(c) Imports of machinery.



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6. Distinguish between current account and capital account of the balance of payments account on the basis of its components.



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7. Where will sale of machinery to abroad be recorded in the Balance of Payments Accounts? Give reasons.



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8. Where is 'borrowings from abroad' recorded in the Balance of Payments Accounts ? Give reasons.



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9. Giving reasons explain where charity to foreign countries is recorded in the Balance of Payments Accounts.



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10. In which sub-account and on which side of balance of payments account, will foreign investments in India be recorded? Give reasons.



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

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

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



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12. What will be the effect of the following on the Balance of Payments: (i) 'Make in India'

Programme, (ii) Import of Pulses.



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13. State the effect of rise in the price of foreign currency on the Balance of Payments situation.



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14. Deficit or Disequilibrium in BOP may occur either due to autonomous transactions or due

to accommodating transactions.' Defend or refute.



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15. According to recent media reports: 'USA has accused China of currency devaluation to promote its exports'. In the light of the given media report comment, how exports can be promoted through the Currency devaluation?



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16. What is meant by Current Account Deficit (CAD) and Current Account Surplus (CAS)? State their significance.

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True And False

1. In balance of payments, repayment of loans by Indian government to Japanese Government will be reflected as credit item.



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2. Accommodating items of trade are undertaken in order to maintain the balance in the BOP account.

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3. Foreign exchange received on account of export of jute will be recorded in capital account.

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4. Autonomous items are also known as 'below the line' items.



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5. Unilateral transfer made to abroad will be recorded as a debit item of BOP on account account .



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6. Balance of payments is a stock concept.



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7. Borrowing by government from World Bank to finance the BOP deficit will be recorded in the capital account.



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8. Current account records receipts and payments of transactions relating to visible items only.



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9. Deficit in balance of trade indicates deficit in balance of payments also.



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10. Autonomous transactions take place in both current and capital accounts.



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11. Excess of foreign exchange receipts over foreign exchange payments on account of accommodating transactions equals deficit in the balance of payments.



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12. Export and import of machines are recorded in capital account of the balance of payments account.



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13. Current account of Balance of Payments account records only exports and imports of goods and services.



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14. Foreign investments are recorded in the capital account of balance of payments.



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15. Profits received from investments abroad is recorded in capital account.



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16. Import of machines is recorded in current account.



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Guidelines To Ncert Questions

1. Differentiate between balance of trade and current account balance.



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2. What are official reserve transactions?
Explain their importance in the balance of

payments.



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3. Should a current account deficit be a cause for alarm? Explain.



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Revision Exercise

1. Who out of the following is not included in "Residents" in BOP transactions?

A. Firms

B. Foreign military personnel

C. Government agencies

D. Individuals

Answer: B



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2. An accounting statement that provides a systematic record of all the economic transactions, between residents of a country and the rest of the world is_____.

A. Balance of Payments

B. Balance of Trade

C. Government Budget

D. None of these

Answer: A



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3. Balance of Payments is a _____ concept.

A. Stock

B. Flow

C. Both (a) and (b)

D. Neither (a) nor (b)

Answer: B



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4. Inflow of foreign exchange is recorded on the _____ side.

A. Credit

B. Debit

C. Either (a) or (b)

D. Neither (a) nor (b)

Answer: A



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5. When receipts of foreign exchange are more than payments of foreign exchange, BOP is:

- A. Balanced
- B. Surplus
- C. Deficit
- D. None of these

Answer: B



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6. 'Unilateral Transfers' are also known as:

A. Bilateral Transfers

B. One-way Transfers

C. Both (a) and (b)

D. Neither (a) nor (b)

Answer: B



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7. Balance on 'Balance of Trade' can be:

A. Surplus

B. Balanced

C. Deficit

D. Either (a) or (b) or (c)

Answer: D



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8. Which of the following is not a component of Balance of Payments?

A. Current account

B. Capital Account

C. Nominal Account

D. None of these

Answer: C



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9. Export and import of goods is also known as:

- A. Indivisible Trade
- B. Visible Trade
- C. One-sided transactions
- D. Unrequited transfers

Answer: B



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

A. Balance of payments

B. Balance of trade

C. Both (a) and (b)

D. Neither (a) nor (b)

Answer: B



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11. Autonomous transactions take place on

- A. Current Account
- B. Capital Account
- C. Both (a) and (b)
- D. Neither (a) nor (b)

Answer: C



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12. _____ transactions are undertaken to cover the deficit or surplus in autonomous transactions.

A. Current account

B. Capital Account

C. Accomodating

D. None of these

Answer: C



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13. _____ is the difference between value of goods sold to the rest of the world and value of goods imported from rest of the world.

- A. Balance of payment
- B. Balance of Trade
- C. Balance of current account
- D. Balance of capital account

Answer: B



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14. Gifts and remittances to abroad are recorded on the:

A. Credit side of Current Account

B. Debit side of Capital Account

C. Debit side of Current Account

D. Credit side of Capital Account

Answer: C



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15. Export of machinery is recorded on the:

A. Debit side of Current Account

B. Credit side of Current Account

C. Credit side of Capital Account

D. Debit side of Capital Account

Answer: B



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16. Surplus in BOP arises when:

A. Autonomous Payments > Autonomous
Receipts

B. Accommodating Receipts >
Accommodating Payments

C. Accommodating Payments >
Accommodating Receipts

D. Autonomous Receipts > Autonomous
Payments

Answer: D



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17. Autonomous transactions take place on:

A. Current Account only

B. Capital Account only

C. Both Current and Capital Accounts

D. Neither Current Account nor Capital
Account

Answer: C



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18. Import of Machinery' is recorded in the _____ Account and 'Borrowings from abroad' is recorded in the _____ Account.

- A. Current, Capital
- B. Capital, Current
- C. Capital, Capital
- D. Current, Current

Answer: A



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19. Foreign exchange transactions dependent on other foreign exchange transactions are called:

A. Current Account Transactions

B. Capital Account Transactions

C. Autonomous Transactions

D. Accommodating Transaction

Answer: D



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

A. Current Transactions

B. Capital Transactions

C. Autonomous Transactions

D. Accommodating Transaction

Answer: C



21. Balance of Payments 'deficit' is the excess of:

A. Current account payments over current account receipts.

B. Capital account payments over capital account receipts.

C. Autonomous payments over autonomous receipts.

D. Accommodating payments over a
accommodating receipts.

Answer: C



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22. A company located in india receives a loan from a company located abroad. How is this transaction recorded in India's balance of payments account?



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23. An Indian company located in India invests in a company located abroad. This transaction is entered in India's balance of payments account on: (Choose the correct alternative)

- 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: D



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Very Short Answer Type Question

1. What does balance of payment account of a country record?

OR

Give the meaning of balance of payments.



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2. Who all are considered as the residents of a country ?



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3. What is meant by visible items ?



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4. What is the meaning of invisible items?



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5. Identify the following items as visible or invisible: (a) Export of jute, (b) Export of software services.



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6. Why are exports entered as positive items in the Balance of Payments account?



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7. What is meant by balance of trade?



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8. What are the two alternative names of the balance of trade?



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9. Name the items included in balance of trade account.





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10. Name the items that are excluded from the Balance of Trade account, but included in the Balance of Payments account.



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11. When will balance of trade show a deficit?



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12. When will there be a surplus in the Balance of Trade account?



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13. If the value of exports of a country is Rs 1,000 crores and the value of imports is Rs 600 crores, how much will be the trade balance?



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14. Calculate the value of imports when balance of trade is Rs (-) 400 crores and the value of exports is Rs 300 crores.



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15. The Balance of Trade shows a deficit of Rs 300 crores. The value of exports are Rs 500 crores. What is the value of imports?



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16. The balance of trade shows a deficit of Rs 5,000 crores and the value of imports are Rs 9,000 crores. What is the value of exports ?



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17. What are the two main components of the Balance of Payments account?



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18. What is meant by current account?



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19. State the components of current account?



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20. What is the difference between balance of trade account and current account?



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21. What is meant by capital account?



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22. What are the components of capital account?



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23. How is purchase of an asset in another country treated in the capital account?



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24. How is a deficit or a surplus on the current account restored?



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25. What is meant by autonomous transactions?



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26. Name the economic transactions, which are undertaken to make equilibrium in balance of payment.



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27. What is meant by deficit in balance of payments?



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28. What is 'current account deficit' in the balance of payments?



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29. What is excess of exports of goods over the imports of goods called?



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30. What is meant by trade deficit?



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Short Answer Type Questions

1. What is meant by economic transactions?

How can they be categorised?



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2. Why is it said that the balance of payments

is always balanced?



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3. Distinguish between balance of trade and balance of payments.



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4. What is meant by visible items and invisible items in the Balance of Payments account?
Give examples of invisible items.



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5. What does balance of payment account show? Name the two parts of the balance of payments account.



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6. Distinguish between balance on trade account and balance on current account.

OR

Distinguish between Balance of trade and Balance on current account of the Balance of

Payments account.

OR

Distinguish between trade account and current account of balance of payments account.

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7. Which transactions determine the balance of trade? When is balance of trade in surplus?

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8. Explain the meaning of deficit in a Balance of Payments account.

OR

How is balance of payment 'deficit' measured?

Explain.



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9. State the nature of transactions that are recorded in current account of the Balance of Payments account.



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10. State the components of current account of the Balance of Payments account.

OR

Name the broad categories of transactions recorded in the 'current account' of the Balance of Payments Accounts.

OR

List the items of the current account of balance of payments account. Also define 'balance of trade'.



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11. State the components of capital account of balance of payments.

OR

Name the broad categories of transactions recorded in the 'capital account' of the Balance of Payments Accounts.

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12. State any four items each of current account and capital account of the balance of payments account.



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13. Distinguish between current account and capital account of balance of payments account. Is import of machinery recorded in current account or capital account?



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14. Explain the meaning of deficit in balance of payments.



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15. Distinguish between autonomous and accommodating transactions of balance of payments account.

OR

Distinguish between the autonomous transactions and the accommodating

transactions in the Balance of Payments. What is the significance of this distinction?



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16. List the items included as invisible in the balance of payments account.



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17. What does the Balance of Payments Account record? Distinguish between the

"balance on current account" and the "balance of trade" in this account.



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18. Give the meanings of 'autonomous' transactions and 'accommodating' transaction in the Balance of Payments Accounts.



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19. Indian investors borrow from abroad. Answer the following: (a) In which sub-account and on which side of the Balance of Payments Account will this borrowing be recorded? Give reason, (b) Explain what is the impact of this borrowing on exchange rate.



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20. What is meant by 'official reserve transactions'? Discuss their importance in

Balance of Payments.



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21. Define Balance of Payments. Discuss briefly the components of current account.



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Long Answer Type Questions

1. What is the meaning of Balance of Payments? What are its main components? Explain them briefly.



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2. What is meant by capital account? Explain its various components.



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3. What do you mean by capital account?

Briefly discuss its components.



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4. Distinguish between: (i) Balance of Trade and Balance of Payments, (ii) Current Account and Capital Account.



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5. Explain the distinction between autonomous and accommodating transactions in balance of payments. Also explain the concept of balance of payments 'deficit' in this context.



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6. 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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