

## Chapter – 28

### Balance of Trade and Balance of Payments

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#### I. Choose the Correct Answer

**Question 1.**

The Statement which discloses a record of transactions between the residents of one country and residents of foreign country .....

- (a) Balance of Payment
- (b) Balance of Trade
- (c) Statement of Receipts and Payments
- (d) Accounting Statement

**Answer:**

- (a) Balance of Payment

**Question 2.**

The Balance of Payments councils consists of .....

- (a) Current Account
- (b) Capital Account
- (c) Receipts and Payments Account
- (d) Both Current Account and Capital Account

**Answer:**

- (d) Both Current Account and Capital Account

**Question 3.**

Foreign capital long – term loan and foreign currency reserve are recorded under .....

- (a) Official Capital
- (b) Private Capital
- (c) Banking Capital
- (d) Both Private and Official Capital

**Answer:**

- (b) Private Capital

**Question 4.**

The term official capital includes .....

- (a) RBI holdings of foreign currencies
- (b) Special Drawing Rights held by the Government
- (c) Both A and B
- (d) Foreign Investment

**Answer:**

- (c) Both A and B

**Question 5.**

Balance of payments surplus indicates .....

- (a) Exports are more than the Imports
- (b) Imports are more than Exports
- (c) Exports and Imports are at Equilibrium
- (d) Exports and Imports are above Equilibrium

**Answer:**

- (a) Exports are more than the Imports

## **II. Very Short Answer Questions**

**Question 1.**

What do you mean by Balance of payments?

**Answer:**

Balance of payment refers to a systematic record of all economic transactions between the residents of one country and the residents of foreign countries during a particular period of time. For example, one year.

**Question 2.**

What do you mean by Balance of trade?

**Answer:**

Balance of trade denotes the difference between the value of import and the value of export during a year.

**Question 3.**

Define the Balance of payments.

**Answer:**

According to International Monetary Fund, "The balance of payments for a given period is a systematic record of all economic transactions taken place during the period between residents of the reporting countries."

**Question 4.**

What is the composition of private capital?

**Answer:**

Private capital consists of foreign investments, long-term loans and foreign currency deposits.

**Question 5.**

Mention the components of banking capital.

**Answer:**

Banking capital includes movement into external financial assets and liabilities commercial and co-operative banks authorized to dealing in foreign exchange.

**Question 6.**

Mention the components of official capital.

**Answer:**

It includes RBI's holdings of foreign currency and special drawing rights (SDR) held by the Government.

### **III. Short Answer Questions**

**Question 1.**

Why is the Balance of payment prepared?

**Answer:**

Balance of payment is the principal tool for analyzing the monetary position of international trade of a country just like Receipts and Payments account of

enterprise revealing the net effect of cash movements happening in an enterprise during a particular period.

Balance of payments help in framing monetary, fiscal, and trade policies of the country. It reveals whether a country produces enough economic output to pay for its growth. It is reported either for every quarter or for a year.

**Question 2.**

What does the Balance of payment disclose?

**Answer:**

A Balance of Payment surplus indicates that country's exports are more than its imports and its government and residents are savers. A Balance of Payment deficit points to the fact that the country's import is more than the export. This situation forces the country to borrow from other countries to pay for its imports.

**Question 3.**

What are the credit items shown in currents accounts?

**Answer:**

In the current account the following credit items have been shown:

1. Goods Export(visible)
2. Invisible-Exports

- Transport service sold abroad
- Banking service sold abroad
- Insurance service sold abroad
- Income received on loan and investments made in foreign countries.
- Expenses incurred by foreign tourists in India

**Question 4.**

State the components of capital account.

**Answer:**

Capital account consists of three components

1. Private Capital
2. Banking Capital
3. Official Capital

#### IV. Long Answer Questions

##### Question 1.

Write down the structure of the capital account.

**Answer:**

**The capital account consists of three components**

1. **Private Capital:** Private capital consists of foreign investments, long term loan, and foreign currency deposits
2. **Banking Capital:** Banking capital includes movement into external financial assets and liabilities commercial and co-operative banks authorized to dealing in foreign exchange.
3. **Official Capital:** It includes RBI's holdings of foreign currency and special drawing rights (SDR) held by the Government.

##### Question 2.

Distinguish balance of payment and balance of trade.

**Answer:**

Nature	Balance of Payment	Balance of Trade
1. Meaning	It is a systematic record of all economic transactions happened between the resident of one country and resident of foreign countries during a particular period.	Balance of trade is statement showing the net effect of export and import of a country
2. Nature of Transactions recorded	It records both the transactions relating to goods and services	It records only transactions relating to merchandise , i.e. goods transactions

3. Capital Transactions	It records capital transactions	It does not record capital transactions
4. Structure	It includes balance of trade, balance of services, balance of unilateral transfer and balance of capital transactions	It is part of current account of BOP
5. Net Position	It always remains balanced in the sense that receipt side is made equal to payment side	It may be at favorable or unfavourable or in equilibrium state.
6. Indicator Economic Status	It is true indicator of economic performance of an economy	It is not true indicator of economic prosperity or economic relations of country.
7. Correcting Unfavourableness	Unfavourable balance of payment leads to deficit in balance of payment situation.	Unfavourable balance of trade can be converted into favorable balance of payment

### Question 3.

Highlight the features of the balance of trade.

**Answer:**

**Meaning:** Balance of Trade denotes the difference between the value of import and the value of export during a year.

### Features of Balance of Trade:

- It is a statement showing the net effect of the export and import of a country.
- It records only transactions relating to merchandise.
- It does not record capital transactions
- It is a part of the current account of Balance of Payment.
- It may be at favourable or unfavourable or in an equilibrium state.
- It is not the true indicator of economic prosperity or economic relations of a country.
- Unfavourable balance of trade can be converted into favourable balance of payment.