

Chapter 12: Balance of Payments

Question 1

What are the two components of the Balance of Payment account?

Ans: The two components of the Balance of Payment account are:

- Current account
- Capital account

Question 2

Define balance of payment.

Ans: Balance of payment is an accounting statement that provides a systematic record of all the economic transactions between the residents of a country and the rest of the world during a given period of time.

Question 3

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

Ans: The two alternative names of the balance of trade are:

- Balance of visible trade
- Trade balance

Question 4

Name the items included in the balance of trade account.

Ans: The items included in the balance of trade account are:

- Exports of visible items (goods)
- Imports of visible items (goods)

Question 5

What is the current account?

Ans: The current account refers to the account which records all the transactions relating to export and import of goods, services, and unilateral transfers during a given period of time.

Question 6

What is the capital account?

Ans: The capital account of the balance of payment records all the transactions, between the residents of a country and the rest of the world, which cause a change in all assets or liabilities of the residents of the country or its government.

Question 7

Define trade deficit.

Ans: Trade deficit means excess import of goods and services over exports of goods.

Question 8

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

Ans: When exports of visible items are more than imports of visible items.