

Bal of Pay A M - R & U - Very Short - Info & Con

Q.1. Define balance of payments.

Ans. Balance of payments refers to the statement of accounts recording all economic transactions of a country with rest of the world in an accounting year.

Q.2. What does balance of payments account show?

Ans. Balance of payments account is a summary statement of all economic transactions between a country and rest of the world. Each country enters into economic transactions with other countries of the world. As a result of such transactions, it receives payments from and makes payments to other countries. The balance of payments is a statement of accounts of these receipts and payments.

Q.3. Name the two parts of the balance of payments account.

Ans. Two parts of the balance of payments account are:

- i. Current account of balance of payments.
- ii. Capital account of balance of payments.

Q.4. Define balance of trade.

Ans. Balance of trade is defined as the difference between the value of imports and exports of only physical goods or visible items.

Q.5. Which two transactions determine balance of trade?

Ans.

- i. Export of goods.
- ii. Import of goods.

[Both are visible items of trade.]

Q.6. What is the difference between the value of exports and value of imports called?

Ans. The difference between the value of exports and value of imports is called balance of trade.

Q.7. What is meant by visible items of balance of payments?

Ans. All such items of exports and imports which are material in nature are called visibles. These items can be seen crossing the borders. These are also called merchandise.

Q.8. What is meant by invisible items of balance of payments?

Ans. Invisible items refer to all types of services which are rendered to rest of the world as exports or received from the rest of the world as imports as well as current transfers.

Q.9. Give two examples of invisible items.

Ans. Examples of invisible items are:

- i. export and import of shipping services, and
- ii. export and import of banking services.

Q.10. Name three such items which are not included in balance of trade.

Ans. Three items which are not included in balance of trade are:

- i. Export and import of services such as of shipping, insurance and banking.
- ii. Interest and dividend payments between the countries.
- iii. Expenditure by the tourists.

Q.11. When will balance of trade show a deficit?

Or

What does deficit in balance of trade indicate?

Ans. Deficit in balance of trade occurs when:

Export of goods < Import of goods.

Q.12. When will balance of trade show a surplus?

Ans. Surplus in balance of trade occurs when:

Export of goods > Import of goods.

Q.13. Define current account of balance of payments.

Ans. Current account of balance of payments is that account which records export and import of goods, and invisibles. It is a statement of actual receipts and payments of a country on account of imports and exports of both visible and invisible items.

Q.14. Define capital account of balance of payments.

Ans. Capital account of balance of payments is that account which records all such transactions between residents of a country and rest of the world which cause a change in ownership of assets. It is a statement of all capital inflows and outflows during the period of an accounting year.

Q.15. Name two items each relating to current account BoP and capital account BoP.

Ans.

i. Current Account BoP includes:

- a. export and import of goods (called merchandise), and
- b. export and import of services (called invisibles).

ii. Capital Account BoP includes:

- a. international sale and purchase of financial assets (like stocks and bonds), and
- b. international sale and purchase of real assets (like plant and machinery).

Q.16. Define balance of payments equilibrium.

Ans. Balance of payments equilibrium is a situation when receipts and payments of a country on account of economic transactions with rest of the world are exactly equal to each other, and there is no movement of official reserves.

Q.17. When will deficit in the balance of payments occur?

Ans. Deficit in the balance of payments occurs when payments of a country on account of economic transactions with rest of the world exceed its receipts and consequently, there is a decrease in official reserves.

Q.18. When will surplus in the balance of payments occur?

Ans. Surplus in the balance of payments occurs when receipts of a country on account of economic transactions with rest of the world exceed its payments and consequently, there is increase in official reserves.

Q.19. Define autonomous items.

Ans. Autonomous items are those transactions that are undertaken for certain economic or profit motive. These items are also known as above the line items. It is due to these items that there is surplus or deficit in the BoP account.

Q.20. Define accommodating items.

Ans. Accommodating items are those transactions that are undertaken by the government with a view to correcting imbalances in the country's BoP account. These items are also known as below the line items.