

## Bal of Pay A: M - R & U - Reason-Based Quest

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**Q.1. Monetary transactions arise only due to international sale and purchase of financial assets.**

**Ans.** False. Monetary transactions arise due to export and import of goods, export and import of services, international sale and purchase of financial assets as well as international sale and purchase of real assets.

**Q.2. If exports > imports, the level of aggregate demand tends to fall.**

**Ans.** False. If exports > imports, the level of aggregate demand tends to rise. Because exports lead to a rise in AD, while imports are the opposite of exports.

**Q.3. BoP accounts reflect the growth potential of the economy.**

**Ans.** True. BoP accounts reflect the growth potential of the economy in terms of demand for the domestically produced goods and services in rest of the world.

**Q.4. Balance of trade is the difference between export of services and import of services of a country.**

**Ans.** False. Balance of trade is the difference between export of material goods and import of material goods of a country. It relates only to visible items of trade.

**Q.5. While estimating invisibles balance, we consider goods and non-factor services only.**

**Ans.** False. While estimating invisibles balance, we consider

- i. balance relating to non-factor services,
- ii. balance relating to factor services, and
- iii. balance on current transfers.

**Q.6. Current account is a part of balance of trade.**

**Ans.** False. Balance of trade is a part of current account.

Balance on Current Account = Trade balance + Invisibles balance

**Q.7. Import of machinery is reflected in the capital account of balance of payments.**

**Ans.** False. Import of machinery (which is a capital good) is reflected in the current account of balance of payments as an element of merchandise.

**Q.8. Portfolio investment relates to ownership of enterprises by the non-residents in the domestic economy.**

**Ans.** False. Portfolio investment refers to investment by the non-residents in shares and bonds of the domestic companies.

**Q.9. When BoP is in equilibrium, there is movement of official reserves of the central bank.**

**Ans.** False. When BoP is in equilibrium:

Current account balance + Capital account balance + Errors and omissions = Zero, and there is no movement of official reserves of the central bank.

**Q.10. BoP is in surplus when: Current account balance + Capital account balance is not equal to zero.**

**Ans.** True. In case of surplus in BoP:

Current account balance + Capital account balance is some positive number, pointing to net inward flow of foreign exchange, and causing an increase in official reserves.

**Q.11. Accommodating items do not cause any movement of goods and services across the borders.**

**Ans.** True. Accommodating items relate only to the movement of official reserves with a view to correcting BoP imbalances.

**Q.12. If balance of trade is showing a deficit of ₹ 20,000 and value of exports is ₹ 30,000, then the value of imports will be ₹ 10,000.**

**Ans.** False. Value of imports in this case will be ₹ 50,000.

We know that,

Balance of Trade = Value of exports - Value of imports

Or, Value of Imports = Value of exports - Balance of trade

= ₹ 30,000 - (-) ₹ 20,000

$$= ₹ 30,000 + ₹ 20,000$$

$$= ₹ 50,000$$

Therefore, value of imports will be ₹ 50,000