# Balance of Payments

## 1 Mark Questions

**1. What is the meaning of deficit in Balance of Payments? (Delhi 2014,2010)**
**or**
**How is Balance of Payment ‘deficit’ measured? Explain (Foreign 2014)**

**Ans.** When the payments of a country on account of autonomous transactions exceed the receipts of the country on account of autonomous transactions, this difference is termed as BoP deficit.
Deficit in BoP = Receipts on account of autonomous transactions < Payments on account of autonomous transactions Suppose, the receipts of the domestic country is r 200 crore. Where as payments are r 220 crore. Then BoP deficit will be
= 220 – 200 crore = Rs. 20 crore

**2. Distinguish between current account and capital account of the Balance of Payments account on the basis of its components.(Compartment 2014)**

**Ans.** Current account of BoP measures the transaction of export and import natures which do not affects the assets and liabilities positions of a country whereas, capital of BoP includes of Investment and borrowing nature which has direct import on assets and liabilities of a country.
Current account includes export and imports of visible and invisible items and unilateral transactions to and from abroad, while capital account includes:
(a)Investment to and from abroad,
(b) Borrowings and landings to and from abroad
(c) Official reserves which contains foreign currency, SDRs and gold.

**3. Give meaning of Balance of Trade (Delhi 2014)**
**or**
**What is trade balance? (All India 2010,2008)**

**Ans.** The difference between export and import of goods, i.e. only the visible items of economic transactions is termed as Balance of Trade.

**4. Name two invisible items of the Balance of Payments account. (Delhi 2010c)**

**Ans.** Two invisibles of the Balance of Payments account are:
(i) Banking services (ii) Insurance services

**5. What does a deficit in Balance of Trade indicate? (All India 2009)**
**Ans.** A deficit in Balance of Trade indicates that the value of exports of goods are less than the imports of goods for a country.

## 3 Mark Questions

**6. Distinguish between autonomous and accommodating transactions of Balance of Payments account. (All India 2014,2010; Delhi 2010c)**

**Ans.** Autonomous items, also termed as ‘above the line items’, are those items, which are related to transactions which are determined by considerations of profit (economic motive) and hence, was no concern with the state of BoP. Autonomous transactions are present in both current and capital account of BoP, While accommodating transactions are present only in capital account of BoP. Accommodating items, also termed as ‘below the line items’, are those items of BoP that are not determined by considerations of profit but to restore identity of BoP.

The difference between autonomous and accommodating transacting is mat while deficit or surplus in BoP due to autonomous items, the accommodating items, are meant to restore the BoP identity.

**7. Distinguish between Balance of Trade and balance on current account. (Delhi 2013)**

**or**

**Distinguish between Balance of Trade and balance on current account of Balance of Payments. (All India 2013)**

**Ans.** Difference between Balance of Trade and balance on current account

| Basis | Balance of Trade | Balance on current account |
|---|---|---|
| Meaning | Balance of Trade includes only visible items. It is the difference between exports and imports of goods of a country. | Balance of current account is the difference between sum of credit items and sum of debit items on current account. |
| Coverage | Balance of Trade does not record any transactions of invisible items and transfers | Balance of current account includes balance of visible items, balance of invisible items and balance of unilateral transfer. |
| Concept | Balance of Trade is a narrow concept and it is only a part of the Balance of Payment account. | Balance of current account includes the Balance of Trade hence, it is a broader concept. |

**8. State the components of capital account of Balance of Payments. (Delhi 2011)**

**Ans.** Components of capital account of Balance of Payments:

**(i) Investments** It includes investments to and from abroad in the form of FDI and Fll. Investment from abroad is a ‘credit’ item, whereas investment to abroad is a ‘debit’ item.

**(ii) Borrowing and lending** It includes the borrowings by residents from the residents of abroad (credit item), and sending to the resident of foreign country (debit item).

**(iii) Foreign exchange** It includes the reserve of foreign currency gold and Special Drawing Rights (SDRs) with the domestic country.

**9. What does a Balance of Payments account show? Name the two parts of the Balance of Payments account. (Delhi 2011)**
**Ans.** The Balance of Payment (BoP) of a country is a systematic record of all economic transactions between its residents and residents of foreign countries. It summarises the exports and imports and other international transaction of a country with other countries.
Two parts of Balance of Payments account are as follows:
(i) Current account (ii) Capital account

**10. Which transactions determine the Balance of Trade? When is Balance of Trade in surplus? (All India 2011)**
**Ans.** The transactions involving export and import of goods, i.e. only the visible items of economic transactions, determine the Balance of Trade. Balance of Trade is in surplus, when the value of export of goods are more than the value of import of goods.

**11. List the transactions of current account of the Balance of Payments. (All India 2011; Delhi 2008C)**

**Ans.** The transactions included in the current account of the Balance of Payments are:
(i) Export and import of visible items (ii) Export and import of services (invisible items)
(iii) Unilateral transfers

**12. Explain the concept of surplus in the Balance of Payments account. (All India 2010)**
**Ans.** Balance of surplus When the receipts of the country on account of autonomous transactions exceed the payments of a country on account of autonomous transactions, this difference is termed as BoP surplus.
BoP Surplus = R>P, where R = Receipts of the country, P = Payment of the country, e.g., if the receipts of the country is Rs. 200 crore and the payments are Rs. 190 crore, then BoP surplus will be (200 -190) = Rs. 10 crore.

## 4 Mark Questions

**13. What is Balance of Payments account? Where are borrowings from abroad recorded in it and why? (Delhi 2011,2009c)**
**Ans. Balance of Payment** The Balance of Payment (BoP) of a country is a systematic record of all economic transactions between its residents and residents of foreign countries.
Balance of Payments account are classified into current account and capital account.
Borrowing from abroad are recorded in the capital account (credit side) of Balance of Payments as it is a foreign liability on the country and it is to be repaid with interest.

**14. What is Balance of Payments? Give meanings of trade balance and current account balance. (Delhi 2011; All India 2011,2009)**
**Ans. Balance of Payment**
Balance of Payment The Balance of Payment (BoP) of a country is a systematic record of all economic transactions between its residents and residents of foreign countries. Balance of Payments account are classified into current account and capital account. Borrowing from abroad are recorded in the capital account (credit side) of Balance of Payments as it is a foreign liability on the country and it is to be repaid with interest.

**Trade Balance** The difference between export and import of goods, i.e. only the visible items of economic transactions is termed as Balance of Trade.
Balance of Trade = Export Goods – Import of Goods
**Current account balance** Current account is that account of BoP, which records exports and imports of visible and invisible items and unilateral transfers.

**15. Giving reasons, state whether the following statements are true or false**
**(i) Current account of Balance of Payment account records only export and import of goods and services.**
**(ii) Foreign investments are recorded in the capital account of Balance of Payments. (All India 2011)**
**Ans.** (i) False, as current account of Balance of Payments account also records unilateral transfers.
(ii) True, as all kind of foreign investments (foreign direct investments and portfolio investments) are included in the capital account of Balance of Payments as they affect the assets positions of the country.

**16. Giving reasons, state whether the following statements are true or false.**
**(i) Excess of foreign exchange receipts over foreign exchange payments on account of accommodating transactions equals deficit in the Balance of Payments.**
**(ii) Export and import of machines are recorded in capital account of Balance of Payments account. (Delhi 2011C)**
**Ans.** (i) False, as accommodating transactions removes both surplus and deficit of Balance of Payments account.
(ii) False, export and import of machine, it will be recorded in current account as it is a producer good exported.

**17. State whether the following statements are true or false. Give reasons for your answer.**
**(i) Difference between value of exports and imports of goods and services are called Balance of Trade.**
**(ii) External assistance is not recorded in Balance of Payments account. (Delhi 2011**1C)
**Ans.** (i) False, because Balance of Trade only records the export and import of visible items, i.e. goods.

(ii) False, because external assistance are included in the current account of Balance of Payments as unilateral receipts..

**19. List the items of the current account of Balance of Payments account. Also define Balance of Trade. (Delhi 2009,2008)**

**Ans.** Components of current account are as follows:
(i) Export and import of goods (visible items).
(ii) Export and import of services (invisible items).
(iii) Unilateral transfers to and from abroad.

**Balance of Trade**
Balance of Payment The Balance of Payment (BoP) of a country is a systematic record of all economic transactions between its residents and residents of foreign countries. Balance of Payments account are classified into current account and capital account. Borrowing from abroad are recorded in the capital account (credit side) of Balance of Payments as it is a foreign liability on the country and it is to be repaid with interest.

**Trade Balance** The difference between export and import of goods, i.e. only the visible items of economic transactions is termed as Balance of Trade.
Balance of Trade = Export Goods – Import of Goods
**Current account balance** Current account is that account of BoP, which records exports and imports of visible and invisible items and unilateral transfers.

**19. Distinguish between Balance of Trade account and current account balance of BoP account.(All India 2009,2008)**

**Ans.** Difference between Balance of Trade and current account balance of BoP account

| Basis | Balance of Trade | Balance on current account |
|---|---|---|
| Meaning | Balance of Trade includes only visible items. It is the difference between exports and imports of goods of a country. . | Balance of current account is the difference between sum of credit items and sum of debit items on current account. |
| Coverage | Balance of Trade does not record any transactions of invisible items and transfers | Balance of current account includes balance of visible items, balance of invisible items and balance of unilateral transfer. |
| Concept | Balance of Trade is a narrow concept and it is only a part of the Balance of Payment account. | Balance of current account includes the Balance of Trade. |
| Financing of deficit | A deficit in Balance of Trade can be meet out by surplus of current account. | Deficit in current account cannot be meet out by using surplus of BoT. |

**20. Distinguish between current account and capital account of Balance of Payments. (All India 2008)**

**Ans.** Current account is that account of BoP, which records exports and imports of visible and invisible items and unilateral transfers. Current account shows the trade position of the country. Whereas capital account shows the assets and liabilities position of the country. It records capital transfer such as loans and investments between one country and the rest of the world, which causes a change in the assets or liability status of the residents of a country or its government.

## 6 Mark Questions

**21. Explain the distinction between autonomous and accommodating transactions in Balance of Payments. Also explain the concept of Balance of Payments deficit in this context. (Delhi 2012)**

**Ans.** Autonomous items, also termed as 'above the line items', are those items, which are related to transactions which are determined by considerations of profit (economic motive). Autonomous transactions are that transaction between the residents of two countries which take place due to the considerations of profit. Autonomous items are not conditioned by the BoP status of the country, i.e. these are independent. Autonomous transactions are not done to establish identity of BoP. i.e. current account and capital account. Accommodating items, also termed as 'below the line items', are those items of BoP that are not determined by considerations of profit but to restore identity of BoP. These are undertaken to maintain balance in the BoP account. These transactions correct the disequilibrium in autonomous items of BoP account. Accommodating transactions are also known as 'below the line items' and include foreign exchange reserve and borrowings to meet BoP deficit.

**BoP Deficit**
When the payments of a country on account of autonomous transactions exceed the receipts of the country on account of autonomous transactions, this difference is termed as BoP deficit.

Deficit in BoP = Receipts on account of autonomous transactions < Payments on account of autonomous transactions Suppose, the receipts of the domestic country is r 200 crore. Where as payments are r 220 crore. Then BoP deficit will be

= 220 – 200 crore = Rs. 20 crore