

Q. 1

PAGE NO.	1		
DATE			

Ans-6

Disequilibrium in Balance of payment in developing countries arises owing to a large number of causes or factors operating simultaneously. Types of Disequilibrium differ from country to country which may arise, either for a short period or for a long periods.

There are some causes producing disequilibrium in Balance of payment in Developing countries -

1.) Trade Cycles

Trade Cycles refer to fluctuation in economic activities specially in employment, output and income, price, profit etc. Cyclical fluctuation, their phases and amplitudes, differences in different countries, generally produce cyclical disequilibrium.

2.) Huge Developmental And investment programmes:-

Huge development and investment programmes in the developing economies are the root causes of the disequilibrium in the balance of payment of these countries.

Then propensity to import goes on increasing for want of capital for rapid industrialisation, while exports may not be boosted up to that extent as there is in the primary producing countries.

Q. Jan

PAGE NO. 2

DATE

3) Change Expand Demand

A vast increase in the domestic production of foodstuffs, raw materials, substitute goods, etc. in advanced countries has decreased their need for imports from the agrarian underdeveloped countries. Thus, expand demand has considerably changed, resulting in a structural disequilibrium in these countries.

~~Similarly~~

4) Population Growth

High population growth in poor countries also had adversely affected their balance of payment position. It is easy to see that an increase in population increases the need of these countries for imports and decreases the capacity to export.

5) Change in National Income

Another cause is the change in the country's national income. If the national income of a country increases, it will lead to an increase in imports thereby creating a deficit in its balance of payment, other things remaining the same. If the country is already at full employment

Q. 1

PAGE NO.	3
DATE	

level, an increase in income will lead to inflationary rise in price which may increase its imports and thus bring disequilibrium in the BOP.

6) Price Change:-

Inflation or deflation is another cause of disequilibrium in the balance of payment. If there is inflation in the country, price of exports increase. As a result, exports fall. At the same time, the demand for imports increase. Thus, increase in export prices leading to decline in exports and rise in imports result in adverse balance of payment.

7) Political Condition:-

Political Condition of a country is another cause of disequilibrium in BOP. Political instability in a country creates uncertainty among foreign investors which leads to the outflow of capital and reduces its inflow. This causes disequilibrium in BOP of the country. Disequilibrium BOP also occurs in the event of war or fear of war with some other country.

Q. 1

There is a great relevance of Export promotion and Import Substitution. In controlling the deficit in the Balance of Payments.

Export promotion:- A Country may boost its exports by reducing or abolishing export duties, providing export subsidy, encouraging export promotion and marketing through monetary, fiscal institutional and physical incentives and facilities. &

For example:- Government of India offers liberal loans and other facilities to export-oriented units. It has set up Export processing zones.

Import Control:- Imports are controlled by imposing on increasing import duties, fixing import quotas, import licensing and prohibiting altogether the import of certain non-essential items.

Import policy (Import quotas).

Under this mechanism, the government fixes a maximum quantity or value of a commodity to be imported. This in turn reduces and the

Q. 1

PAGE NO. 5

DATE

deficit is reduced and thereby the balance of payments, the position is improved. This measure has the immediate effect of checking imports as the marginal propensity to import become zero once the quota limit is reached. To correct disequilibrium in BOP import quotas are assumed to be better than import duties. The quota has the immediate effect of restricting imports as the marginal propensity to import become zero, once the quota-limited is reached. Thus, the effect of quotas on quantitative restriction (QR) of imports is explicit.