

I. CHOOSE THE BEST ANSWER:

1. The Statement which discloses a record of transactions between the resident of one country and resident of Foreign Country.
(a) Balance of Payments (b) Balance of Trade
(c) Statement of receipts and payments (d) Accounting Statement
2. The balance of Payment Councils Consists of
(a) Current Account (b) Capital Account
(c) Receipts and Payments Account (d) Both Current Account and Capital Account
3. Foreign Capital long-term loan and Foreign Currency reserve are recorded under
(a) Official Capital (b) Private Capital
(c) Banking Capital (d) Both private and official Capital
4. The term official capital includes.
(a) RBI holdings of foreign currencies
(b) Special drawing rights held by the Government
(c) Both A and B (d) Foreign Investment
5. Balance of Payment surplus indicates.
(a) Exports are more than the Imports
(b) Imports are more than Exports
(c) Exports and Imports are at equilibrium
(d) Exports and Imports are above equilibrium

II. VERY SHORT ANSWER QUESTIONS**1. What do you mean by Balance of payments?**

Balance of payment refers to a systematic record of all economic transactions between the residents of one country and the residents of foreign countries during a particular period of time.

2. What do you mean by Balance of trade?

- ☆ Balance of trade denotes the difference between the value of import and the value of export during a year.
- ☆ If the export of a country exceeds its imports, it shows favorable balance of trade.

3. Define Balance of payments

“The balance of payments for given period is a systematic records of all economic transactions taken place during the period between residents of the reporting countries.”

- International Monetary Fund

4. What is the composition of private capital?

Private capital consists of foreign investments, long term loan and foreign currency deposits

5. Mention the components of banking capital.

Banking capital includes movement into external financial asset and liabilities commercial and co-operative banks authorized to dealing in foreign exchange

6. Mention the components of official capital.

It includes RBI's holdings of foreign currency and special drawing rights (SDR) held by the Government

III. SHORT ANSWER QUESTIONS

1. Why is Balance of payment prepared?

- Balance of payment is the principal tool for analyzing the monetary position of international trade of a country.
- It helps in framing monetary, fiscal and trade policies of country.
- Government keenly observes balance of payment position of its important trade partners in making policy decisions.
- It is reported either for every quarter or for a year.

2. What does Balance of payment disclose?

- ✱ A Balance of Payment surplus indicates that country's exports are more than its imports and its government and residents are savers.
- ✱ They are in position to have enough capital to pay for its domestic production.
- ✱ As a result it boosts the economic growth in the short term.

3. What are the credit items shown in currents accounts?

- ✱ Goods Export(visible)
- ✱ Invisible Exports

- * Transport service sold abroad
- * Banking service sold abroad
- * Insurance service sold abroad
- * Expenses incurred by foreign tourists in India

4. State the components of capital account.

- * Private Capital
- * Banking Capital
- * Official Capital

IV. LONG ANSWER QUESTIONS

1. Write down the structure of capital account

Capital account consists of three components

- * Private Capital
- * Banking Capital
- * Official Capital

i). Private Capital

Private capital consists of foreign investments, long term loan and foreign currency deposits.

ii). Banking Capital

Banking capital includes movement into external financial asset and liabilities commercial and co-operative banks authorized to dealing in foreign exchange.

iii). Official Capital

It includes RBI's holdings of foreign currency and special drawing rights (SDR) held by the Government.

2. Distinguish balance of payment and balance of trade

S. N	Basis	Balance of Payment	Balance of Trade
01	Meaning	It is a systematic record of all economic transactions happened between the resident of one country and resident of foreign countries during a particular period.	Balance of trade is statement showing the net effect of export import of a country
02	Nature of Transaction recorded	It records both the transactions relating to goods and services	It records only transactions relating to goods transactions

03	Capital Transaction	It records capital transactions	It does not record capital Transactions
04	Net position	It always remains balanced in the sense that receipt side is made equal to payment side	It may be at favorable or unfavorable in equilibrium state.
05	Indicator Economic Status	It is true indicator of economic performance of an economy	It is not true indicator of economic relations of country.

3. Highlight the features of balance of trade.

- ✧ It is a systematic record of all economic transactions between one country.
- ✧ It is prepared for a period of three months or twelve months, i.e., usually 12 months
- ✧ It contains all receipts and payments both visible and invisible
- ✧ It includes all economic transactions both recorded on current account and capital account
- ✧ Economic transactions are recorded according to double entry principle of book keeping
- ✧ Accordingly receipts are recorded on credit side and payments are recorded on debit side
- ✧ It indicates a country's position in foreign trade

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