



Q1. Differentiate between balance of trade and current account balance.

Ans:

Points of difference	Balance of trade	Current account balance
Definition	It is the difference between the values of exports and imports of goods of a country.	It is the difference between the values of exports and imports of goods, services and unilateral transfers of a country.
Components	1. Export of goods 2. Import of goods	Export and import of goods, export and import of services, unilateral transfers.
Nature of transactions	It records transactions related to visible items (i.e. goods) only.	It records the transactions related to visible items (goods) as well as invisible items (services) and unilateral transfers.

Q2. What are official reserve transactions? Explain their importance in the balance of payments.

Ans: The transactions carried by monetary authority of a country, which cause changes in official reserves, are termed as official reserve transactions (ORT). These transactions are carried through purchase or sale of currency in the exchange market for foreign currencies or other assets. The reserves are drawn by selling foreign currencies in exchange market during deficits and foreign currencies are purchased during surplus. When the official reserves increase or decrease, it is called overall balance of payments surplus or deficit respectively.

Importance of ORT in balance of payments:

- i. Purchase of a country's own currency is a credit item in the balance of payments; whereas, sale of the currency is a debit item.
- ii. It helps to adjust the deficit and surplus in balance of payments.

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