

BALANCE OF PAYMENTS

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Contents

- Balance of payments – Components – Equilibrium and disequilibrium in BOP – Methods of correcting BOP deficit – Adjustment mechanisms – Automatic, price and income adjustments

Balance of Payments

1. The Balance of Payments of a country records

- A) Only exports and imports of goods
- B) All economic transactions between residents and the rest of the world
- C) Only capital transactions
- D) Only visible trade

Answer: B

2. The Balance of Payments account has how many main components?

- A) One
- B) Two
- C) Three
- D) Four

Answer: B

3. Which of the following items is included in the Current Account of BoP?

- A) Foreign Direct Investment (FDI)
- B) Loans received from abroad
- C) Income from investment
- D) Sale of assets

Answer: C

4. Which of the following transactions is recorded in the Capital Account?

- A) Export of software services
- B) Private remittances
- C) Purchase of foreign securities
- D) Tourists' expenditure

Answer: C

5. Balance of Trade (BoT) refers to:

- A) Difference between total exports and total imports of goods only
- B) Difference between current and capital account
- C) Difference between exports and imports of goods and services
- D) None of the above

Answer: A

6. A BoP surplus means:

- A) Imports exceed exports
- B) Exports exceed imports
- C) Total inflow > Total outflow of foreign exchange
- D) Total outflow > Total inflow

Answer: C

7. A BoP deficit can be financed by:

- A) Increasing exports
- B) Reducing imports
- C) Borrowing from IMF or using forex reserves
- D) Printing more domestic currency

Answer: C

8. In India, the BoP data are published by:

- A) Ministry of Finance
- B) Reserve Bank of India
- C) NITI Aayog
- D) Ministry of Commerce

Answer: B

9. Which of the following is a visible item in BoP?

- A) Software exports
- B) Tourism receipts
- C) Merchandise exports
- D) Interest on foreign loans

Answer: C

10. Which of the following is an invisible item in BoP?

- A) Oil imports
- B) Machinery exports
- C) Shipping services
- D) Gems exports

Answer: C

11. In the BoP, Private Remittances are part of:

- A) Capital Account
- B) Current Account
- C) Errors and Omissions
- D) Financial Account

Answer: B

12. When a country's currency is depreciated, its BoP tends to:

- A) Worsen
- B) Improve
- C) Remain unchanged
- D) None

Answer: B

13. Special Drawing Rights (SDRs) are issued by:

- A) World Bank
- B) IMF
- C) WTO
- D) ADB

Answer: B

14. Which of the following is not a part of the Current Account?

- A) Investment income
- B) Transfers
- C) FDI inflows
- D) Services

Answer: C

15. Errors and Omissions in BoP represent:

- A) Accounting mistakes
- B) Statistical discrepancies
- C) Illegal transactions
- D) Unrecorded trade

Answer: B

16. When BoP is in equilibrium:

- A) Current Account = 0
- B) Capital Account = 0
- C) Net inflow = Net outflow of foreign exchange
- D) Exports = Imports

Answer: C

17. If the BoP shows a deficit, it means:

- A) Exports > Imports
- B) Imports > Exports
- C) Total inflow > Total outflow
- D) Services surplus

Answer: B

18. In India, the Current Account deficit (CAD) indicates:

- A) Shortfall in capital inflows
- B) Excess of imports over exports on the current account
- C) Shortage of reserves
- D) Fiscal deficit

Answer: B

19. Which of the following leads to BoP surplus?

- A) Large current account deficit
- B) Increase in foreign investment inflows
- C) High import bill
- D) Outflow of FDI

Answer: B

20. Which of the following best describes “Autonomous transactions” in BoP?

- A) Done for balance adjustment
- B) Done for economic motives (profit, investment, etc.)
- C) Errors and omissions
- D) IMF credits

Answer: B

21. Accommodating transactions in BoP refer to:

- A) Trade in services
- B) Adjustments made to finance BoP imbalance
- C) Exports and imports
- D) None

Answer: B

22. Which of the following is a credit item in BoP?

- A) Import of crude oil
- B) Payment of interest abroad
- C) Export of software
- D) Purchase of gold from abroad

Answer: C

23. Which of the following can cause BoP disequilibrium?

- A) High exports
- B) Increase in foreign capital inflow
- C) Inflation in the domestic economy
- D) Depreciation of domestic currency

Answer: C

24. The term “Hot Money” refers to:

- A) Long-term foreign investment
- B) Short-term speculative capital movement
- C) FDI inflows
- D) IMF assistance

Answer: B

25. Which of the following measures improves BoP position?

- A) Increase in imports
- B) Currency appreciation
- C) Export promotion
- D) Increase in foreign travel

Answer: C

26. BoP is in equilibrium when:

- A) Current Account = Capital Account
- B) Exports = Imports
- C) Total foreign exchange inflow = Total outflow
- D) Trade balance = 0

Answer: C

27. A BoP deficit is a situation where:

- A) Imports exceed exports
- B) Total payments > total receipts
- C) Only the Current Account is negative
- D) Capital inflows decline

Answer: ✓ B

28. Which of the following causes BoP Disequilibrium?

- A) Increase in exports
- B) Domestic inflation
- C) Currency depreciation
- D) Increase in remittances

Answer: ✓ B

29. Structural disequilibrium in BoP occurs due to:

- A) Temporary fall in exports
- B) Changes in economic structure
- C) Wars or natural disasters
- D) Cyclical fluctuations

Answer: ✓ B

30. Cyclical disequilibrium in BoP is caused by:

- A) Changes in trade cycles
- B) Market speculation
- C) Capital flight
- D) Tariff changes

Answer: ✓ A

31. Which of the following remedies helps correct BoP deficit?

- A) Currency appreciation
- B) Export promotion
- C) Increasing imports
- D) Rising domestic prices

Answer: ✓ B

32. Expenditure-switching policy for BoP correction means:

- A) Raising foreign exchange reserves
- B) Switching expenditure from imports to domestic goods
- C) Reducing capital account transactions
- D) Increasing gold purchases

Answer: ✓ B

33. Devaluation improves BoP because:

- A) Imports become cheaper
- B) Exports become expensive
- C) Exports become cheaper and competitive
- D) Foreign capital inflow increases automatically

Answer: ✓ C

34. BoP disequilibrium can be corrected through:

- A) Higher domestic inflation
- B) Import liberalization
- C) Foreign exchange borrowing
- D) Reduction in exports

Answer: ✓ C

35. Persistent BoP deficit leads to:

- A) Currency appreciation
- B) Accumulation of forex reserves
- C) Depletion of foreign exchange reserves
- D) Increased gold reserves

Answer: ✓ C

36. Which is a sign of BoP equilibrium?

- A) CAD is very high
- B) Foreign reserves remain stable
- C) Export-import gap widens
- D) Heavy capital outflows

Answer: ✓ B

37. Disequilibrium caused by sudden capital movements is called:

- A) Structural
- B) Cyclical
- C) Secular
- D) Capital-account disequilibrium

Answer: ✓ D

38. If the Current Account is in deficit but Capital Account surplus is larger:

- A) BoP is in deficit
- B) BoP is in equilibrium
- C) BoP is in surplus
- D) Cannot be determined

Answer: ✓ C

39. Devaluation is a tool of:

- A) Monetary policy
- B) Fiscal policy
- C) Exchange rate policy
- D) Trade policy

Answer: ✓ C

40. Which represents a disequilibrium situation in BoP?

- A) Foreign exchange reserves rising
- B) Equal inflows and outflows
- C) Persistent CAD
- D) Balanced trade

Answer: ✓ C

41. 'Autonomous transactions' may cause BoP disequilibrium because:

- A) They aim at balancing payments
- B) They are done for profit and investment motives
- C) They are controlled by government
- D) They increase reserves

Answer: ✓ B

42. A surplus in BoP indicates:

- A) Country is using forex reserves
- B) More foreign currency is coming in
- C) Imports are higher
- D) Government deficit is low

Answer: ✓ B

43. Increase in external commercial borrowings (ECBs) generally leads to:

- A) BoP deficit
- B) BoP surplus (temporarily)
- C) Decrease in exports
- D) Rise in inflation

Answer: ✓ B

44. Which policy worsens BoP?

- A) Import substitution
- B) Export subsidies
- C) Currency appreciation
- D) Tariff increase

Answer: ✓ C

45. A country facing BoP disequilibrium may adopt:

- A) Deflationary policy
- B) Devaluation
- C) Import restrictions
- D) All the above

Answer: ✓ D

46. 'Secular disequilibrium' in BoP refers to:

- A) Long-term imbalance
- B) Short-term fluctuations
- C) Seasonal factors
- D) Data discrepancies

Answer: ✓ A

47. Rise in global oil prices may result in:

- A) BoP surplus
- B) BoP deficit for oil-importing countries
- C) Equilibrium in BoP
- D) Higher exports

Answer: ✓ B

48. Which of the following does NOT cause BoP disequilibrium?

- A) Changes in world demand
- B) Technological changes
- C) Natural disasters
- D) Stable exchange rates

Answer: ✓ D

49. Errors & omissions in BoP indicate:

- A) BoP equilibrium
- B) Statistical discrepancy
- C) Capital account surplus
- D) Devaluation effects

Answer: ✓ B

50. Persistent BoP surplus leads to:

- A) Currency appreciation pressure
- B) Forex reserve depletion
- C) Decrease in capital inflow
- D) Higher import bill automatically

Answer: ✓ A

THANK YOU