

# QB365 Question Bank Software Study Materials

## Balance of Trade and Balance of Payments Important 2,3 & 5 Marks Questions With Answers (Book Back and Creative)

11th Standard

Commerce

Total Marks : 75

### 2 Marks

12 x 2 = 24

1) What do you mean by Balance of Payment?

**Answer :** 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. For example: one year.

2) What do you mean by Balance of Trade?

**Answer :** Balance of Trade denotes the difference between the value of Imports and the value of exports during the year.

3) What is the composition of Private Capital?

**Answer :** Private Capital consists of Foreign Investments, long-term loans, and Foreign Currency Deposits.

4) What is favourable Balance of Trade?

**Answer :** When the money value of Export is greater than the money value of Imports it is called favourable Balance of Trade.

5) What are invisible items?

**Answer :** (i) The invisible items are those which are not recorded at the ports.  
(ii) These items include shipping, insurance, debt repayment, payment of interest, expenditure by tourists; etc.

6) What are the four components of Balance of Payments?

**Answer :** (i) Current Account  
(ii) Capital Account  
(iii) Unilateral Payment Account  
(iv) Official Reserves Assets Account.

7) What are all the contents of Balance of Payments?

**Answer :** Balance of payments contains a classified record of all receipts and payments arising from goods exported, services rendered and capital received by residents in a country and payment made by them in account of goods imported.

8) Necessary for Global Village concept.

**Answer :** The current account, capital account and financial account together make up the overall balance of payments, which accounts for all of the international inflows and outflows for a given Nation. The current account, as mentioned, capture the balance of trade meaning the purchases and sale of goods and services.

9) What are the components of Capital Account?

**Answer :** **Capital account consists of three components:**  
(i) Private Capital  
(ii) Banking Capital  
(iii) Official Capital

10) What are the components of Balance of Payments?

**Answer :** **The components of Balance of Payments are:**  
(i) Current Account.  
(ii) Capital Account.  
(iii) Unilateral Payments Account

(iv) Official Settlement Account.

11) What are measuring deficit (or) surplus in Balance of Payments?

**Answer :** The measuring deficit (or) surplus in Balance of Payments are:

- (i) Basic Balances
- (ii) Net Liquidity Balances
- (iii) Official Settlement Balance.

12) What are the differences between balance of payments and balance of trade.

**Answer :** 1. Capital transactions

2. Net position

Nature	Credit items	Debit items
Capital transactions	It records capital transactions	It does not record capital transactions
Net position	It always remains balanced in the sense that receipt side made equal to payment side.	It may be at favourable or unfavourable or in equilibrium state.

**3 Marks**

7 x 3 = 21

13) What are the credit items shown in current accounts(any 3)?

**Answer : Credit Items :**

- i. Goods Export (visible)
- ii. Invisible exports
  - (1) Transport service sold abroad
  - (2) Banking services sold abroad
  - (3) Insurance service sold abroad
  - (4) Income received on Loan and Investment made in Foreign Countries.
  - (5) Expenses incurred by Foreign tourists in India.

14) State the Components of capital account.

**Answer : The Capital Account consists of three components :**

- (i) Private Capital
- (ii) Banking Capital
- (iii) Official Capital

15) Why is Balance of Payment prepared?

**Answer :** Balance of payment is the principal tool for analyzing the monetary position of international trade of a country just like Receipt and Payment account of enterprise revealing the net effect of cash movements during in an enterprise to a particular period.

16) What does Balance of Payment Disclose?

**Answer :** A balance of payment surplus indicates that country's exports are more than its imports and its government and residents are savers.

17) What are the Debit items shown in Current Accounts?

**Answer :** The following are the debit items of Current Account.

- (i) Goods Import Visible, and
- (ii) Invisible Imports includes
  - (1) Transport services purchased from Foreign Countries.
  - (2) Banking services purchased from Foreign Countries.
  - (3) Insurance services purchased from Foreign Countries.
  - (4) Visit our tourists to Foreign Countries.
  - (5) Other services purchased from Foreign Countries.
  - (6) Interest paid on loan in home country.

18) What are all the elements of current account balance?

**Answer :** The current account balance includes two items

- (i) Visible trade - Import and export of goods.
- (ii) Invisible trade - Invisible service items like banking, shipping, insurance, travel and transportation.

19) What are the credit items shown in the official capital account?

**Answer :** The credit items shown in official account are:

- (i) Foreign Short Term investments in home country
- (ii) Foreign Long Term investments in home country
- (a) Direct investment in the home country
- (b) Foreign investments in securities of home country
- (c) Foreign Government loans to home country

**5 Marks**

6 x 5 = 30

20) Distinguish between balance of payment and balance of trade.(any 5)

**Answer :**

Sl.No	Basis	Direct Taxes	Indirect Taxes
1	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 a statement showing net effect of Export and Import of a Country.
2	Nature of Transactions recorded	It records both the transactions relating to goods and services.	It records only transactions relating to merchandise i.e. goods.
3	Capital Transaction	It records Capital transactions	It does not record Capital transactions
4	Structure	It includes balance of Trade, balance of services, balance of unilateral transfers and balance of Capital transactions	It is a part of Current Account of Balance of payments.
5	Net position	It always remains balanced in the sense that receipt side is made equal to payment side.	It may be at favourable or unfavourable or in equilibrium state
6	Indicator of Economic Status	It is a true indicator of Economic performance of an Economy.	It is not a true indicator of Economic prosperity or Economic relations of country.
7	Correcting unfavourableness	Unfavourable balance of payment leads to deficit in balance of payment situation.	Unfavourable balance of trade can be converted into favourable balance of payment.

21) Write any five features of Balance of Payments.

- Answer :** (i) It is a systematic record of all economic transactions between residents of one country and rest of the world.  
(ii) It includes all transactions in goods (visible items), services (invisible) and assets (flow of capital) during a period of time.  
(iii) It is constructed on double entry system of accounting. Thus, every international transaction will result in credit entry and debit entry of equal size.  
(iv) All economic transactions that are carried out with the rest of world are either credited or debited.  
(v) In accounting sense total debit will always be equal to total credits, i.e., balance of payments will always be in equilibrium. But in economic sense, if receipts are larger than payments, there is surplus in BOP. Similarly, if payments are larger than receipts, there is deficit in BOP.

22) Write down the Structure of Capital Account.

**Answer : Capital Account:**

The Capital Account consists of three Components.

- (i) Private Capital
- (ii) Banking Capital
- (iii) Official Capital

**(i) Private Capital:**

Private Capital consists of Foreign Investments, long-term loans and Foreign Currency deposits.

**(ii) Banking Capital:**

It includes movement into external financial Asset and Liabilities, commercial and Co-operative banks authorised to deal in Foreign Exchange.

**(iii) Official Capital:**

It includes RBI's holdings of Foreign Currencies and Special Drawing Right (SDR) held by the Government.

23) What is the result revealed by the Balance of Payment?

**Answer :** A Balance of Payment surplus indicates that country's exports are more than its imports and its government and residents are savers. The country can even lend to other countries which in turn buy its products. As a result it boosts the economic growth in the short term. The country achieves higher economic growth due to higher exports in the long run. It builds strong domestic market. This protects the economy from exchange rate fluctuations.

A Balance of Payment deficit points to the fact that countries. import is more than the export. This situations forces the country to borrow from other countries to pay for its imports. It creates economic development in the short term.

24) What are the differences between credit item and debit items of current account of balance of payment.

**Answer :**

Credit items	Debit items
1. Goods Export (visible)	Goods impor
Invisible exports	Invisible exports
a. Transport service sold abroad	a. Transport services purchased from foreign countries.
b. Banking service sold abroad	b. Banking services purchased from foreign countries.
c. Insurance service sold abroad	c. Insurance services purchased from foreign countries.
2.d. Income rectirred on loan and im/estrnt made in foreign countries.	d. Visit of our tourists to foreign countries.
e. Expenses incr:rred by foreign tourists in India	e. Other services purchased from foreign countries.
	f. Interest paid on loan in home country.

25) What are the features of balance of payments?

**Answer : Features of Balance of Payments:**

**The main features of balance of payments are as follows:**

1. It is a systematic record of all economic transactions between one country and certain other countries of the world.
2. It is prepared for a period of three months or twelve months, i.e., usually 12 months
3. It contains all receipts and payments both visible and invisible.
4. It includes all economic transactions both recorded on current account and capital account.
5. Economic transactions are recorded according to double entry principle of book keeping.
6. Accordingly receipts are recorded on credit side and payments are recorded on debit side.
7. It indicates a country's position in foreign trade.
8. BOP shows a favourable or surplus position when the total receipts from foreign countries exceed the total payment to foreign countries.
9. When the receipts from foreign countries are less than the payment to foreign countries. BOP is said to be unfavorable or in deficit.
10. BOP position shows the economic health of nation just like the thermometer indicates the temperature of human body.
11. Favourable BOP indicates economic prosperity while unfavourable balance of payments shows economic weakness of a country.