

Trade and B.O.P (CUET - PG).

1. Balance of Payments uses the _____ system of accounting.

1. Single-entry
2. Double-entry
3. Multiple-entry
4. Annual basis

2. The components of a Balance of Payment account _____.

1. Capital Account
2. Current Account
3. Both a and b
4. None of the above

3. The Balance of Payment account records the inflow of foreign exchange on the _____.

1. Debit side
2. Credit side
3. Both a and b
4. None of the above

4. Balance of trade is the _____.

1. Difference between export and import of services
2. Total of export and import of services
3. Difference between export and import of goods
4. Total of export and import of goods

5. Gifts or grants received from outside the country get recorded under _____ of the _____ account.

1. Credit side, capital
2. Debit side, capital
3. Debit side, current
4. Credit side, current

6. The Current account of the Balance of Payments includes transactions like _____.

1. Imports and exports of goods and services
2. Transfers to abroad and from abroad
3. Income to abroad and from abroad
4. All of the above

7. The Capital account of the Balance of Payments includes transactions like _____.

1. Changes in foreign exchange reserves
2. Investments to and from abroad
3. Borrowings and lendings to and from abroad
4. All of the above

8. Trade Deficit occurs when _____.

1. Export of goods is less than imports of goods
2. Export of goods is more than imports of goods
3. Export of services is less than imports of services
4. Export of services is more than imports of services

9. Which of the following statements is True?

- (a) Depreciation of the foreign currency leads to the fall in exports
- (b) Devaluation of the domestic currency leads to a rise in imports
- (c) Appreciation of domestic currency leads to rise in exports
- (d) Appreciation of foreign currency leads to a rise in imports

10. Foreign exchange transactions that are independent of other activities in the Balance of Payments account are _____ transactions.

1. Capital account
2. Current account
3. Accommodating
4. Autonomous

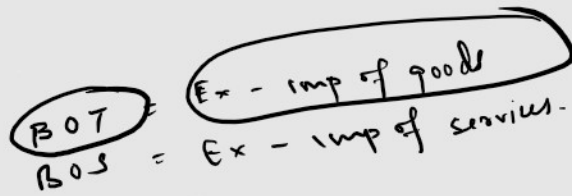
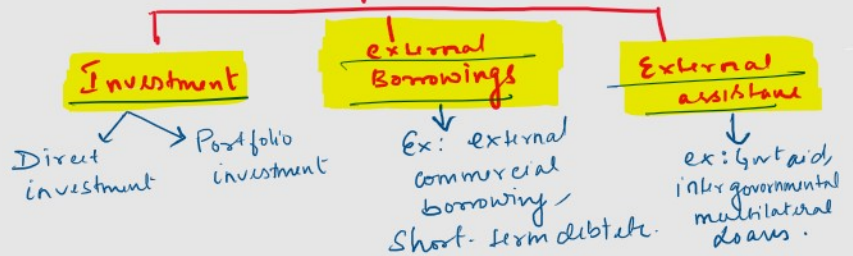
12. The transactions undertaken to cover the deficit or surplus of autonomous transactions are called _____.

1. Accommodating transactions
2. Capital account transactions
3. Current account transactions
4. None of the above

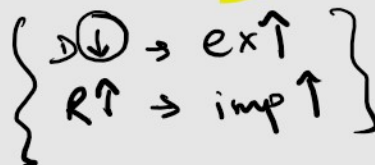
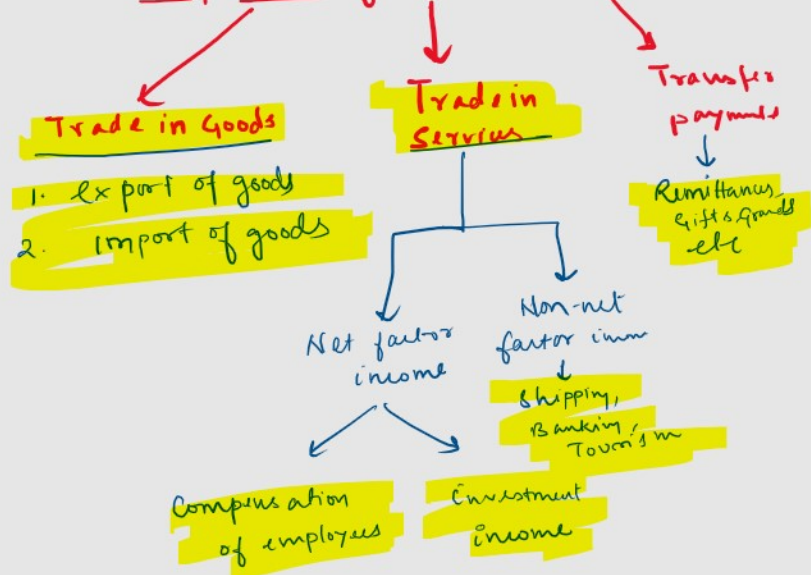
13. The balance of exports and imports of goods is referred to as:

1. current account

Components of Capital Account



Components of Current Account



13. The balance of exports and imports of goods is referred to as:

1. current account
2. Current account balance
3. current account deficit
- ✓ Balance of trade ✓

14. Indicate the correct code of the following statements being correct or incorrect. The statements relate to the type of transactions recorded in the current/capital accounts of the Balance of Payments.

Statement (I) : The capital account consists of long-term capital transactions only. ✓
 Statement (II) : The current account includes all transactions which give rise to or use up national income. ✓

(i) is incorrect and (ii) is correct.

15. In the balance of payment account, the transfer payments are included in which one of the following?

1. Capital Account
2. Service Account
3. Current Account ✓
4. Official Reserve Account

16. Demand for foreign currency depends upon:

- (a) repayment of international loans
- (b) investment in rest of the world ✓
- (c) direct foreign investment in the domestic economy
- (d) both (a) and (b) ✓

17. Devaluation which means fall in value of domestic currency in terms of foreign currency takes place in

- (a) Flexible Exchange Rate regime
- (b) Fixed Exchange Rate regime ✓
- (c) Both (a) and (b)
- (d) Neither

market forces determine exchange rate → Appreciation or Depreciation of currency

Flexible exchange rate

Government interference in the market to determine exchange rate at a

fixed rate → devaluation or Revaluation of currency

Fixed exchange rate

18. The measures taken to improve the negative Balance of Payments include _____.

1. Exchange control
2. Currency devaluation
3. Import substitution
4. All of the above ✓

19. Match and identify the correct pair.

COLUMN 1

COLUMN 2

- | | |
|---|--------------------|
| (1) reduction in the value of domestic currency by the government | (a) devaluation ✓ |
| (2) reduction in the value of domestic currency through market forces | (b) appreciation ✓ |
| (3) increase in the value of domestic currency by the government | (c) depreciation ✓ |
| (4) increase in the value of domestic currency through market forces | (d) revaluation ✓ |

20. If rupee is getting depreciated fast and is considered undesirable by the government, the RBI may be advised to

- ✓ (a) Sell dollars in the foreign exchange market ✓
- (b) Purchase dollars
- (c) Print more currency notes
- (d) Raise tariffs on imports.

21. If in an effort to control depreciation of rupee the RBI puts more dollars in the supply, it may lead to greater inflation, caused by

- (a) Increase in money supply in the economy ✓
- (b) Reduced availability of goods due to increased exports. ✓
- (c) Reduced availability of goods due to reduced imports. ✓
- (d) All of the above. ✓

22. _____ refers to a system in which foreign exchange rate is determined by market forces and central bank influences the exchange rate through intervention.

- (a) Flexible Exchange Rate System
- ✓ (b) Managed Floating Rate System ✓
- (c) Floating Exchange Rate
- (d) Fixed Exchange Rate System

23. If Rs. 150 are required to buy \$ 3, instead of Rs. 80 for \$ 2 earlier, then:

- (a) domestic currency has depreciated ✓
- (b) domestic currency has appreciated ✓
- (c) rupee value of import bill will increase ✓
- (d) both (a) and (c) ✓

Handwritten calculations:
 $3 \rightarrow 150$
 $150 / 3 = 50$
 $2 \rightarrow 80$
 $1 \rightarrow 40$
 $50 > 40$

24. The forward market is especially well-suited to offer hedging protection against

1. translation risk exposure. ✓
- ✓ transactions risk exposure ✓
3. political risk exposure.
4. taxation.

25. All of the following are hedges against exchange-rate risk EXCEPT

1. balancing monetary assets and liabilities.
- ✓ use of spot market ✓
3. foreign-currency swaps.
4. adjustment of funds commitments between countries.

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26. Suppose the expected rate of inflation in India is 10%. whereas that in US is 4%. What is the expected rate of depreciation of Indian Rupee vis-à-vis US dollar, according to the relative purchasing power parity theory?

∴ $\Delta P = \pi$, the rate of inflation.

Relative PPP states that rate of change in the exchange rate is equal to the difference in the rate of inflation.

$$12. \quad \Delta S = \pi_S - \pi_E = 6\%$$