

Economics

Class 12 - Economics

Maximum Marks: 90

Attempt all questions

- ## Economics

account in BoP.

Statement II: Autonomous transactions are independent of the state of country's BoP.

- a) Statement II is true and statement I is false. b) Both the statements are true.
c) Both the statements are false. d) Statement I is true and statement II is false.

15. **Statement 1:** Capital Account has direct effect on income, output and employment of the country. [1]

Statement 2: Capital Account is used to finance deficit in current account or absorb surplus of current account.

- a) Both the Statements are true. b) Statement 2 is true and Statement 1 is false.
c) Statement 1 is true and Statement 2 is false. d) Both the Statements are false.

16. **Statement I:** External assistance is recorded in the capital account of the Balance of Payments. [1]

Statement II: The Central Bank may finance a deficit in balance of payments by reducing reserves of foreign currency.

- a) Statement II is true and statement I is false. b) Statement I is true and statement II is false.
c) Both the statements are false. d) Both the statements are true.

17. **Assertion (A):** Import of machines is recorded in current account. [1]

Reason (R): All imports and exports of goods are recorded in the current account, because it is simply import/export of a good.

- a) Both A and R are true and R is the correct explanation of A. b) Both A and R are true but R is not the correct explanation of A.
c) A is true but R is false. d) A is false but R is true.

18. **Assertion (A):** Balance of payment is determined considering all economic transactions. [1]

Reason (R): Balance of payment offers a more comprehensive picture of the economic transactions of a country with the rest of the world.

- a) Both A and R are true and R is the correct explanation of A. b) Both A and R are true but R is not the correct explanation of A.
c) A is true but R is false. d) A is false but R is true.

19. Match the statements given under A with the correct options given under B [1]

(A)	(B)
(a) Balance of Trade	(i) Borrowings and lendings to and from abroad
(b) Surplus in BOP	(ii) Accommodating Items
(c) Capital Account	(iii) Unrequited Transfers

(d) Credit Side	(iv) Difference between exports and imports of goods
(e) Below the line items	(v) When autonomous receipts are more than the autonomous payments
(f) One-way transactions	(vi) All inflows of foreign exchange

20. Match the following: [1]

(a) Balance of trade	(i) Balance on current account BOP + balance on capital account BOP
(b) Current account BOP	(ii) Export of goods - import of goods
(c) Invisible balance	(iii) Trade balance + invisible trade
(d) Balance of payments	(iv) Balance of non factor services + balance of income + balance of transfers

21. Match the following: [1]

(a) Visible items	(i) Shipping and Banking
(b) Invisible items	(ii) Donation or pensions
(c) Unilateral transfer	(iii) Expenditure on advertisement
(d) Miscellaneous income	(iv) Export and import of goods

22. Name any two invisible items of the current account of the balance of payments. [2]

23. What are invisible items? [2]

24. When will balance of trade show surplus? [2]

25. What is the meaning of deficit in Balance of Payments? [2]

26. What is meant by the balance on the current account? [2]

27. Where is 'borrowings from abroad' recorded in the Balance of Payments Account? Give the reasons. [3]

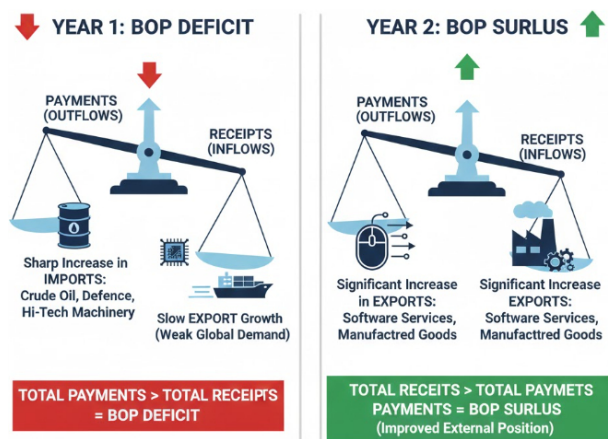
28. Where will [3]

a. Remittances from family members from abroad and

b. Borrowings from abroad be recorded in the Balance of Payments? Give reasons.

29. **Refer to the given information carefully:** [4]

In a particular financial year, a country recorded a sharp increase in imports of crude oil, defence equipment and high-technology machinery. During the same year, export growth remained slow due to weak international demand. As a result, the total payments to foreign countries exceeded the total receipts. In a later year, the situation changed when exports of software services and manufactured goods increased significantly, while imports were controlled. This led to higher foreign exchange inflows and improvement in the country's external economic position.



Answer the following questions on the basis of the above case:

- i. Explain the concept of Balance of Payments deficit with reference to the situation described. (3)
- ii. Identify the Balance of Payments position indicated in the later year. (1)

30. **State whether the given statement is True or False:** [5]
- (a) Autonomous transactions take place in capital account only. [1]
 - (b) Deficit in balance of trade indicates deficit in balance of payments also. [1]
 - (c) A country with trade deficit cannot have current account surplus in its Balance of Payment. [1]
 - (d) Current account records receipts and payments of transactions relating to visible items only. [1]
 - (e) Faced with an adverse balance of payments, the government should drastically devalue the rupee. [1]
31. **Fill in the blanks:** [5]
- (a) Balance of _____ is the difference between the sum of credits and the sum of debits on capital account. [1]
 - (b) Export of machinery is recorded on the credit side of _____ account. (current, capital) [1]
 - (c) Balance of _____ is narrow concept as compared to balance of payment. [1]
 - (d) _____ (Autonomous/ Accommodating) transactions are determined by the gap in the Balance of payments. [1]
 - (e) In Current Account, when value of credit items are more than debit items, it indicates net _____ of foreign Exchange. [1]
32. **Fill in the blanks:** [5]
- (a) _____ refer to the transactions that are undertaken to cover deficit or surplus in autonomous transactions. [1]
 - (b) _____ is that account which records all such transactions between residents of a country and rest of the world which cause a change in the asset or liability status of the residents of a country or its government. [1]
 - (c) _____ is the difference between sum of credits and sum of debits on current account. [1]
 - (d) _____ is a systematic record of all the economic transactions between one country and rest of the world. [1]
 - (e) _____ means difference between the sum of credits and sum of debits. [1]

Question No. 33 to 37 are based on the given text. Read the text carefully and answer the [5]

questions:

The growing strength of India's BoP was observed in the post-reform period, since the crisis of 1991 continued in 2005-2006. This growing strength was inspite of a widening current account deficit to the tune of US dollar 9.2 million that is equivalent to 1.1 percent of GDP in 2005-2006. Rising foreign investment, together with a sharp revival of inflows of non-resident deposits, maintained a strong balance in the capital account vis-a-vis high level of reserves. Given such robust, external position of RBI had deemed it opportune to revisit the issue of full capital account convertibility.

In this scenario, Indian companies hand holdings with international agencies (taxing loans and equity partnership) plans to make huge investments in retails and infrastructure. Also, many companies are boosting up their foreign country operations. They are less perturbed about the rising inflation rate or the other tight money measures adopted by the government. This could be due to favourable consolidation exposure and the opportunity in covering their risk in currency future market.

33. Current account of BoP records which of the following transactions?

- a. Transactions which are done for profit motive
- b. Transactions which have no impact on the capital reserve of the country
- c. Transactions which bring BoP in the state of equilibrium
- d. Both transactions which are done for profit motive and transactions which have no impact on the capital reserve of the country

a) Option (d)

b) Option (c)

c) Option (a)

d) Option (b)

34. If government increase tariff on import of goods, how it will impact the state of BoP?

- a) There will be no impact on the state of BoP
- b) Can't be predicted
- c) This will lead to outflow of foreign exchange
- d) This will lead to inflow of foreign exchange

35. _____ transaction of BoP is carried by the central bank to bring equilibrium.

- a) Neither autonomous nor accommodating
- b) Both autonomous and accommodating
- c) Accommodating
- d) Autonomous

36. **Assertion (A):** Post the economic reforms of 1991, India's BoP has improved many folds.

Reason (R): Devaluation of currency during the new economic reforms improved the exports surplus of the country.

- a) Both A and R are true and R is the correct explanation of A.
- b) Both A and R are true but R is not the correct explanation of A.
- c) A is true but R is false.
- d) A is false but R is true.

37. Indian companies coming in collaboration with foreign companies will lead to a/an _____ for foreign exchange reserve.

- a) increase
- b) Either increase or decrease
- c) no change
- d) decrease

Question No. 38 to 42 are based on the given text. Read the text carefully and answer the questions:

[5]

A lower trade deficit along with strong FDI and portfolio flows in F/Y 19 January-March quarter may help the external sector balance sheet and prop up both current account as well as the overall balance of payments numbers. This could reflect in a lower current account deficit in the balance of payments for the quarter ended March. Trade balance, an important component of the current account, is estimated at a deficit of 35.6 billion for Q4 compared to 40.6 billion in the same period a year ago, thanks to lower crude prices and slowdown in gold and other imports. Other factors influencing the current account are software services income and remittances by overseas Indians. Market estimates for F/Y 19 March quarter current account deficit is at 8.1 billion versus 13.2 billion for March'18 quarter.

In the capital account, thanks to some bidding for defaulting companies by Arcelor Mittal which are expected to have bought in some funds, FDI inflows in March is projected to be almost double the amount in the previous comparable period of March'18. Also, external commercial borrowing flows in the latest quarter are almost double the amount of previous comparable quarter ending March'18. In addition, forex resources raised through the swap agreements with the commercial banks are expected to add another 5 billion through the foreign investment route. The overall balance of payments surplus is estimated higher at 17 billion for the latest March quarter compared to \$ 13 billion surplus in the March'18 quarter.

"Fall in trade deficit, strong flows boost balance of payments no's in Q4" -The Economic Times - May 15th, 2019.

38. Which of the following is not the benefit of a lower trade deficit?

- | | |
|--|---|
| a) Increase the Capital Account deficit. | b) Prop-up the Current Account. |
| c) Help the external sector balance sheet. | d) Increase the Balance of Payment numbers. |

39. FDI inflows in March is a type of _____.

- | | |
|------------------------------|-------------------------------|
| a) Automated transactions | b) Accommodating transactions |
| c) Accumulating transactions | d) Autonomous transactions |

40. The Forex resources has surged in India. What effect does it have on the country?

- | | |
|-------------------------------|-------------------------------|
| a) Balance of Trade surplus | b) Balance of Trade deficit |
| c) Balance of Payment deficit | d) Balance of Payment surplus |

41. FDI inflows is recorded in which of the following accounts of Balance of Payment:

- | | |
|----------------------------|-------------------------------|
| a) Capital Account | b) Depends on the type of FDI |
| c) Foreign Reserve Account | d) Current Account |

42. BOP account always balances when _____ account is a part of capital account.

- | | |
|---------------------|---------------------|
| a) all of the above | b) exports |
| c) imports | d) official reserve |

43. How is balance of trade different from balance of payments? State the items not included in balance of trade.

[6]

44. **Read the following text carefully and answer the questions that follow:**

[6]

A country's Balance of Payments does not always remain in a state of equilibrium. Disequilibrium in Balance of Payments occurs when total receipts and total payments are not equal. Such disequilibrium may arise due to several economic, political, and structural factors. Cyclical changes in income and employment affect exports and imports of a country. Rapid population growth, industrialization, inflationary pressures, and changing consumer preferences also influence the Balance of Payments. Technological backwardness and low productivity reduce export competitiveness, leading to persistent deficits. External shocks such as global recessions, wars, and pandemics can also disturb the Balance of Payments position of a country. Developing countries often face chronic deficits due to heavy dependence on imports and limited export capacity. To correct such imbalances, countries adopt various measures such as export promotion, import substitution, exchange rate adjustments, and foreign borrowing. Government intervention through fiscal and monetary policies also plays an important role in correcting Balance of Payments disequilibrium. A stable Balance of Payments is essential for maintaining exchange rate stability and long-term economic growth.

- i. What is meant by disequilibrium in Balance of Payments? (3)
- ii. State any two causes of disequilibrium in Balance of Payments. (3)

Question No. 45 to 50 are based on the given text. Read the text carefully and answer the questions:

[6]

Balance of payment is a systematic record of all economic transactions in a period between one country and the rest of the world. It also shows the relationship between one country's total payment to all other countries and its total receipts from them. It is, thus, a statement of payment and receipts on international transactions. It may also be important to note that the Balance of payment is different from the Balance of trade because BOT includes only the difference between the value of visible export and import. On the other hand, BOP is a more comprehensive concept because it covers both visible as well as invisible items. The current account of the BOP statement relates to real and short-term transactions. It contains receipts and payments on account of exports of visible and invisible items. These are income-generating transfers and are not merely financial transactions.

45. **Assertion (A):** Balance of trade because BOT includes only the difference between the value of visible export and import.

Reason (R): The current account of the BOP statement relates to real and long-term transactions.

- | | |
|---|---|
| a) Both A and R are true and R is the correct explanation of A. | b) Both A and R are true but R is not the correct explanation of A. |
| c) A is true but R is false. | d) A is false but R is true. |

46. In which of the following categories are the transactions of the balance of trade recorded?

- | | |
|----------------------|--------------------|
| a) Capital transfers | b) Invisible items |
| c) Visible items | d) All of these |

47. Current account records transactions relating to:-

- | | |
|----------------------|---------------------------------|
| a) current transfers | b) non-factor and factor income |
| c) All of these | d) export and import of goods |

48. Which of the following are not included in the balance of trade:

- a) Borrowing from rest of the world
- b) All of these
- c) Payment of interest and dividend
- d) Expenditure by the tourists

49. **Statement 1:** The current account and the capital account are the two main accounts in the BoP.

Statement 2: Transfer payments are not included in the BoP.

- a) Both the statements are false.
- b) Statement 1 is true and Statement 2 is false.
- c) Both the statements are true.
- d) Statement 2 is true and Statement 1 is false.

50. **Assertion (A):** BOT is also known as Trade Balance.

Reason (R): It is said to be in balance when exports of goods are equal to the imports of goods.

- a) Both A and R are true and R is the correct explanation of A.
- b) Both A and R are true but R is not the correct explanation of A.
- c) A is true but R is false.
- d) A is false but R is true.

Question No. 51 to 56 are based on the given text. Read the text carefully and answer the questions:

[6]

The overall balance is finally reflected in the Official Reserves Account of the RBI. Because, RBI is the custodian of forex reserves of the country, and all forex transactions in the country are routed through the RBI. If the overall balance is positive, it causes an increase in official reserves; if the overall balance is negative, it causes a decrease in official reserves. Here, comes an important observation that needs to be carefully noted: Sometimes, the Official Reserves Account is shown as a part of the capital account BoP, rather than a separate account. If official reserves are shown as a part of the capital account BoP, then BoP always balances. Because (for purpose of balancing BoP accounts), an increase in the official reserves is indicated by a negative sign, while a decrease is indicated by a positive sign. In case, Official Reserves are not shown as a part of the capital account, the Official Reserves Account is separately presented and classified as Below the Line.

51. When the balance of payments balances:

- i. current account + capital account = zero
- ii. official reserves account is a part of the current account
- iii. official reserves account is a part of capital account

- a) Both i and iii
- b) Only i
- c) Only ii
- d) Only iii

52. An increase in the _____ is indicated by a negative sign in the BoP accounts.

- a) current account balances
- b) official reserves
- c) capital account balances
- d) surplus balance

53. BOP surplus leads to an/a _____ in official reserves.

- a) increases
- b) decreases
- c) both increase and decrease
- d) equal

54. **Assertion (A):** In case, Official Reserves are not shown as a part of the capital account, the Official Reserves Account is separately presented and classified as Below the Line.

Reason (R): In such situations, the current and capital accounts together may show a surplus or deficit BoP.

- | | |
|---|---|
| a) Both A and R are true and R is the correct explanation of A. | b) Both A and R are true but R is not the correct explanation of A. |
| c) A is true but R is false. | d) A is false but R is true. |

55. **Statement 1:** The official reserve transactions are more relevant under a fixed exchange rate.

Statement 2: The reserve bank buys foreign exchange when there is a deficit.

- | | |
|--|--|
| a) Statement 1 is true and Statement 2 is false. | b) Both the statements are false. |
| c) Both the statements are true. | d) Statement 2 is true and Statement 1 is false. |

56. **Assertion (A):** The official reserve transactions are seen as the accommodating item in the BoP.

Reason (R): They are made to bridge the gap in the BoP.

- | | |
|---|---|
| a) Both A and R are true and R is the correct explanation of A. | b) Both A and R are true but R is not the correct explanation of A. |
| c) A is true but R is false. | d) A is false but R is true. |