receipts fall short of the foreign exchange payments in the short period.

Q12 Name two items each relating to current accont BOP and Capital accant BOP.

Ans I (i) Export and import of goods.

(ii) " " " Services (invisibles)

II (i) International sale and purchase of financial assets (like stock and bonds)

(ii) International sale and purchase of real assets (plants and Machinery)

Q13. Define Balance of payment Equilibrium.

Ans13. It is situation when Receipts and payments of a Country on accant of economic transactions with rest of the world are exactly equal to each other, and there is no movement of official reserves.

Q14. When does surplus in the balance of payment occurs?

Ans14. It occurs when receipts of a country on accant of economic transactions with rest of the world exceed its payments and Consequently, there is increase in official reserves.

Q15. Balance of payments always balances. Does it mean a situation of zero net-financial obligation for a Country?

Ans15. It is only the accanting sense that balance of payment always balances. From the practical point of view, it should not be interpreted as a situation of zero net financial interpreted as a situation of zero net financial Obligation for a Country. A negative balance on the Current account is equated with positive balance in the Capital account. But the posi balance in Capital account may have been achieve through loans from rest of the world. All lo are financial obligations to rest of the world.

Q16. State the Components of the current account of balance of payments account.

Ans16. Visible items: Exports and imports of goods such as tea, Jute etc.

Invisible items: Exports and imports of services such as shipping, insurance, banking. Transfer receipts and payments such as gift donations.

Income receipts and payments such as invest income and wages and salaries.

Q17. Where will sale of machinery to abroad be recorded in the Balance of payments Accounts? Give reason.

Ans17. Sale of machinery to abroad is export goods. It will be recorded in current accoun the balance of payments Accounts. It will be treated as a Credit item of the current acc of Balance of payments, as it brings Foreign

Q18 Why high rate of inflation in the domestic economy causes 'deficit' balance of trade.

Ans18. Because high rate of inflation makes domestic goods costlier in relation to goods from rest of the world. This leads to increase in imports and decrease in exports. Implying a deficit balance of trade.

Q19. Has improvement in the exchange rate of the country's currency does not mean improvements in BOP status of the country?

Ans19. Because exports may decrease and imports may increase.

Q20. What is overall Balance?

Ans 20. overall balance = Current account balance
+ Capital account balance
+ Errors and Omissions.

"FOREIGN EXCHANGE RATE"

Q1. What is foreign Exchange?
Ans Foreign exchange refer to all the curre other than the domestic currency of a g country.

Q2. What is foreign Exchange rate?
Ans2. Foreign exchange rate - the price of o currency in terms of another currency, is the rate at which exports and imports a country are valued at a given point time.

Q3. What is fixed exchange rate?
Ans3. When government decides the conversion r it is known as the "Fixed Exchange Rate." which does not vary with the changes in demand and supply of foreign currency.

Q4. What is flexible exchange rate?
Ans. It is the rate determined by the for of demand and supply of foreign exchange and there is no official intervention in its determination.

Q5. Define Devaluation of Domestic currency
Ans5. The deliberate raising of the price foreign currency in terms of domestic curre by the government is called devaluation of domestic currency.

Q6. Ten US dollars are enchanged for fine hundred Indian rupees. What is the enchange for Indian currency?

Ans. If $\$ = 10 = ₹500$

$\therefore$ Foreign Enchange Rate $= \frac{500}{10} = 50$

$\therefore 1\$ = ₹ = 50$

Q7. Enplain sources of supply of foreign enchange.

Ans. (i) Foreigner's purchasing domestic country's goods and services through enports.

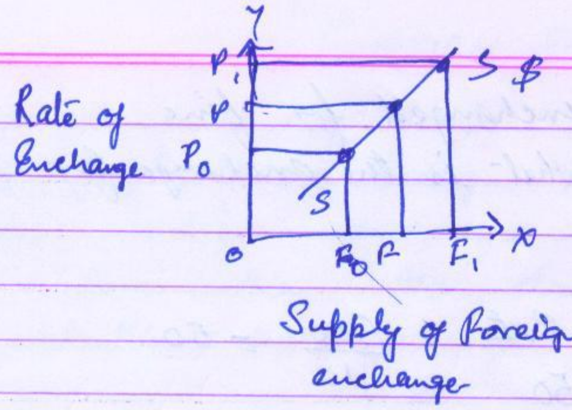
(ii) Direct foreign investment in the domestic country.

(iii) Flow of foreign enchange due to speculative purchases by the non-residents in the domestic country.

(iv) Remittances by the non-residents living abroad.

Q8. Why does a rise in foreign enchange rate cause a rise in its supply?

Ans. There is a direct relation between foreign enchange rate and supply of foreign enchange. Higher the enchange rate, higher the supply of foreign enchange and lower the enchange rate, lower the supply of foreign enchange. Suppose the price of US dollar in India falls from ₹50 to ₹40. It means that earlier, USA could buy ₹50 worth of goods from India by parting one US dollar. Now it can buy only ₹40 worth of goods from India. Indian goods became costlier for USA. Therefore, USA will buy less of Indian goods. This reduces the supply of US dollars to India. So lower the foreign enchange (price of US dollar) lower the supply and vice-versa.



Q9. Do you agree Devaluation and Depriciation of currency are one and the same thing? How do they affect the exports of a country?

Ans9. Devaluation and Depriciation of currency are not one and the same thing. This is because devaluation refers to the fall in the value of domestic currency. Where as depreciation refers to the fall in the value of domestic currency in relation to foreign currency.

Q10. Give two sources of demand for foreign exchange.
Ans. (i) To purchase goods and services from other countries by domestic residents.
(ii) To send gifts and grants for foreign countries. (abroad)
(iii) To make international payments of loans.

Q11. Would the Central bank need to intervene in a managed floating system? Explain why?
Ans11. Under a managed floating rate system the central bank intervenes by entering the market as a bulk buyer or seller. When the floating rate too high, central bank starts selling foreign exchange from its reserve to

bring the rate down. It starts buying foreign exchange, when the rate is too low, in order to raise the rate. This is done in the interest of importers and exporters.

Q12. A big rise in the foreign exchange Rate adversely affect the imports in the country. How can this rise be managed and by whom in the interest of Social welfare?

Ans 12. The central bank tries to influence the rate by "entering" the market as bulk buyer/seller. When it finds this floating rate to be too high, its starts selling FE from its resources to bring down the rate, in order to help the importers especially of items like rare life saving medicines in the interest of social welfare.

Q13 What is Managed floating?

Ans13 It refers to the exchange rate influenced by buying and selling of foreign exchange by the central bank in the foreign exchange market.

Q14. What is BOP surplus?

Ans14. Autonomous payments (AP) < Autonomous receipts

Q15. Give one example each of visible and invisible item.

Ans15. (i) Export of Jute product.
(ii) Software service exports.

Q16. What does a change from $1 = ₹50 to $1 = ₹60 mean?

Ans16. It implies depreciation of Indian Rupees.

Q17. Ten US dollars are exchanged for five hundred Indian rupees. What is the exchange for Indian currency?

Ans17. If $10 = ₹ 500.
∴ Foreign exchange Rate = $\frac{500}{10}$ ₹ 50
∴ 1$ = ₹ 50.

Q18. Distinguish between fixed and flexible exchange rates.

Ans 18 (1) Fixed exchange rate is the rate which is officially fixed in terms of any other currency by the government, where as Flexible exchange rate is that rate which is determined by the forces of demand and supply of foreign exchange.

(2). Fixed ER does not vary with changes in demand and supply of foreign currency, only the government has the power to change it. where as Flexible rate is free to fluctuate according to changes in demand and supply.

Q19. ~~A Carul~~ How many types of Foreign exchange rate are there?

Ans (1) Fixed Exchange rate
(2). Flexible Exchange rate
(3) Managed floating Exchange rate.

Q20. How exports, tourism and buying in the domestic market is encouraged?

Ans20. Depreciation of domestic currency encourages exports, tourism and buying in the domestic market as Indian goods and services become cheaper.