

CHAPTER-6 | Open Economy Macroeconomics

QUIZ
PART-03

1. Balance of Payments (BOP) is defined as:
- A. Difference between exports and imports of goods
 - B. Accounting statement of all economic transactions between residents and the rest of the world
 - C. Only the record of visible items
 - D. Statement of national income (B)

Explanation : BOP is an accounting summary of all economic transactions between residents of a country and the rest of the world during a period.

2. Balance of Trade (BOT) includes:
- A. Only visible items like goods
 - B. Both visible and invisible items
 - C. Only capital transfers
 - D. Invisible items and unilateral transfers (A)

Explanation: BOT measures the difference between exports and imports of visible goods only.

3. Which of the following is not included in Balance of Payments (BOP)?
- A. Current Account
 - B. Capital Account
 - C. National Income Account
 - D. Unilateral Transfers (C)

Explanation: BOP includes current and capital accounts along with transfers; national income account is separate.

4. Which of the following is recorded under Invisible Items of BOP?
- A. Machinery Exports
 - B. Shipping and Banking Services
 - C. Raw Material Imports
 - D. Foreign Aid (B)

Explanation : Invisible items include services such as banking, insurance, tourism, and shipping.

5. Which of the following is an example of a Capital Account transaction?
- A. Export of goods
 - B. Import of services
 - C. Foreign investment in India
 - D. Net remittances from abroad (C)

Explanation: Capital account records international asset transactions, including FDI, FII, borrowings, and aid.

6. Current Account includes which of the following?
- A. Exports and imports of goods and services, and transfer payments
 - B. Borrowings from abroad
 - C. Foreign Direct Investment
 - D. Capital repayments (A)

Explanation: The current account records trade in goods and services and unilateral transfers like gifts and remittances.

7. An unfavourable Balance of Trade can be corrected by:
- A. Capital Account surplus in BOP
 - B. Increasing domestic taxation
 - C. Reducing foreign investment
 - D. Ignoring the deficit (A)

Explanation: A BOT deficit can be offset by surplus in other components of BOP, such as capital inflows.

8. Which of the following is recorded as a debit in the Capital Account?
- A. Sale of Indian assets to foreigners
 - B. Purchase of foreign assets by residents
 - C. Foreign aid received
 - D. Export of software services (B)

Explanation: Purchase of foreign assets represents an outflow of capital, hence recorded as a debit item.

9. Autonomous items in BOP are also known as:
- A. Below the line items
 - B. Above the line items
 - C. Neutral transactions
 - D. Transfer payments (B)

Explanation: Autonomous items, driven by economic motives like profit, are called above the line items in BOP accounting.

10. Why is BOP always balanced in the accounting sense?
- A. Because exports always equal imports
 - B. Due to government interventions
 - C. Double entry system ensures every deficit in autonomous items is matched by accommodating items
 - D. Because current account surplus always exists (C)

Explanation : BOP follows double entry principles where deficits in autonomous transactions are adjusted by accommodating items.