

DEPARTMENT OF ECONOMICS
QUESTION BANK & MODEL ANSWER

FOR

TYBCOM (2019-20)

SEMESTER – VI

Note: These notes are brief notes and not an explanatory answer, students will have to explain the points in detail. Manan Prakashan's book on the syllabus is referred

MODULE – III: BALANCE OF PAYMENTS AND INTERNATIONAL ECONOMIC ORGANISATION

Questions with answers.

1. What is Balance of Payments? Discuss its structure.

Ans: Structure of BoPs:

Sr. No.	Receipts (Credits)	Payments (Debits)
1	Export of goods	Import of goods
Trade Account Balance Receipts+ Payments		
2	Export of services	Import of services
3	Interests, profits, dividends and private transfers	Interests, profits, dividends and private transfers
4	Unilateral receipts	Unilateral Payments
5	Current Account Balance (1+2+3+4)	
6	Foreign Investments	Investments abroad
7	Short term borrowing	Short term borrowing
8	Medium and long term borrowing	Medium and long term borrowing
9	Capital Account Balance (6+7+8)	
10	Statistical Discrepancy (Errors and Omissions)	
11	Overall Balance= Current Account Balance + Capital Account Balance+ Statistical discrepancy (5+9+10)	
12	Changes in reserves(-)	Changes in reserves (+)
Total Receipts + Total Payments		

- **Note:** meanings of the terms in the above table are explained below.

2. Explain different types of disequilibrium in the BoPs.

Ans: i) Short term, ii) Long term, iii) Cyclical and iv) Structural disequilibrium. (Meanings are given below in point on concepts)

3. Discuss the causes of disequilibrium in BoPs.

Ans: causes of disequilibrium in BoPs.

- A. Increase in Imports:
 - i. Import of essential goods and services
 - ii. Development programmes
 - iii. Population growth
 - iv. Demonstration effect
- B. Decline in Exports:
 - i. Low income elasticity of demand
 - ii. Discovery of substitutes
 - iii. Protectionist trade policy
- C. Cyclical Transmission
- D. Capital flight
- E. Structural adjustments
- F. Globalization

4. Examine the measures to correct the disequilibrium in BoPs.

Ans: Measures to correct disequilibrium in BoPs are:

- A. Expenditure reducing Policing
 - i. Tight money policy
 - ii. Contractionary money policy
- B. Expenditure switching policies
 - i. Devaluation
 - ii. Revaluation
- C. Direct measures:
 - i. Imposition of tariffs
 - ii. Imposition of quotas
 - iii. Export promotion
 - iv. Import substitution
 - v. Financial controls.

5. Write a note on:

i. WTO and its Agreements

Ans:

- A. Principles of WTO: Non-discrimination, free trade, predictability and transparency, promoting fair competition, encouraging development and economic reforms.
- B. Functions of WTO: Administrative functions, negotiations, execution of rules and procedures, administering the trade policy review mechanism, achieving greater economic coherence.
- C. WTO structure: it headed by a director general who has four deputies from different member nations. Its ruling body is the General Council comprising each member country's permanent envoys. It sits in Geneva on an average of once in month its supreme authority is Ministerial Conference.

D. WTO Agreements: TRIPs, TRIMs and GATS.s

ii. TRIPs

Ans: Trade Related Intellectual Property Rights (TRIPs) it takes number of forms such as, patent, trademarks, geographical indications, industrial designs, copyrights, lay-out designs, etc. TRIPs agreement provides norms and standards for all areas of intellectual property including copyrights and related rights, trademarks etc. each country is required to build adequate procedures and remedies into its domestic laws to ensure the effective enforcement of IPRs. Its impact on developing countries- i) Rise in prices where IPR is strengthened ii) favorable effect on supply innovations, iii) transfer of technology may hinder in developing countries due to weak protection.

iii. TRIMs

Ans: Trade Related Investment Measures (TRIMs). Investment decisions influence trade policy, employment policy etc. it prohibits investment measures inconsistent with national treatment or prohibition of quantitative restrictions. TRIMs make following provisions to promote world trade. I) Based on Bops of the country, the developing countries are permitted to deviate from complying the TRIMs temporarily, ii) Each member country is required to eliminate TRIMs within two years from the date of entry into WTO agreement, however the time period is extendable for 5 years for developing countries and 7 years for least developing countries.

iv. GATS

Ans: General Agreement on Trade in Services (GATS) is the first and only set of multilateral rules governing international trade in services. GATS agreement has two main requirements, i. e. Non-discrimination and Transparency.

Objectives of GATS:

- i. To create a multilateral framework of principles and rules for trade in services, including the elaboration of possible disciplines for individual sectors.
- ii. To expand trade in services under the conditions of transparency and liberalization.
- iii. To promote economic growth of all trading partners

Concepts:

1. **Balance of Payments (BOP):** BoP of a country is a systematic record of all economic transactions between the residents of the reporting country and residents of foreign countries during a given period. It is a record which is maintained in a double entry book-keeping method.
2. **Trade Account Balance:** it is the difference between exports and imports of goods, usually referred as visible or tangible items.

3. **Current Account Balance:** it includes the trade account balance plus income received and paid in the form of interest, profits and dividends for lending or investing in other countries, remittances from citizens working abroad and foreigners working in the reporting country, unilateral receipts or payments such as, gifts, donations etc.
4. **Capital Account Balance:** it records all receipts and payments that involve residents of country exchanging either assets or liabilities to residents of other countries plus foreign investment, FDI, Portfolio investment (acquisition of foreign assets in foreign countries), External assistance, Short-term borrowing, Medium and long-term borrowing plus statistical discrepancy (errors and omissions).
5. **Equilibrium in BoPs:** Balance of Payments always balances in a technical sense or accounting sense. When total credits and debits of all accounts balance, we say the balance of payments balances.
6. **Disequilibrium in BoPs:** it is shown by classifying the items into autonomous and accommodating transactions. Thus, if the autonomous receipts are less than autonomous payments, the Bops is said to be in deficit. It is in surplus when such receipts are more than the payments.
7. **Short-run disequilibrium:** which prevails for a year or few quarters. Such disequilibrium occurs due to sudden increase in demand for foreign goods and services.
8. **Long-run disequilibrium:** which prevails for longer time or chronic and persistent. It is also called as 'Fundamental disequilibrium'. It is caused by i) Excess imports, ii) rise in population, iii) increase in import prices, iv) decline in demand for exports.
9. **Cyclical disequilibrium:** this type of disequilibrium occurs due to cyclical changes, like recession, depression etc.
10. **Structural disequilibrium:** it arises due to structural changes in the economy affecting demand and supply relations in commodity and factor markets.

Please Note: the above mentioned are not detailed answers, the students have to explain all the terms and their significance in detail manner as per marks assigned for the question during examination.

Also refer to the class notes given at the time of lectures.