Class 12. Naahar Public School

Sub : Economics. Mucro Revision -5. Marks :30

Question 1.

The price of one currency in terms of another is known as _____

(A) Foreign exchange rate

(B) Trade rate

(C) Interest rate

(D) Balance of Payment

2.

The market where the national currencies are traded for one another is known as _____

(A) Domestic exchange market

(B) Foreign exchange market

(C) Bazaar

(D) Shop

3

Hybrid in management of fixed and flexible exchange rate is known as _____

(A) Managed to float

(B) Crawling Peg

(C) Wider Bands

(D) None of these

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When was the gold standard abandoned?

(A) 1930’s

(B) 1920’s

(C) 1940’s

(D) 1950’s

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Trade of visible items between the countries is known as _____

(A) Balance of Payment

(B) Balance of Trade

(C) Deficit Balance

(D) All of these

6

When the import and export of visible items are equal, the situation is known as _____

(A) Balance of Trade

(B) Balance of Payment

(C) Trade Surplus

(D) Trade Deficit

7

When there is a favourable balance of trade?

(A) X > M

(B) X = M

(C) X < M

(D) None of these

8. The price of one currency in terms of another is known as _____

(A) Foreign exchange rate

(B) Trade rate

(C) Interest rate

(D) Balance of Payment

9. The market where the national currencies are traded for one another is known as _____

(A) Domestic exchange market

(B) Foreign exchange market

(C) Bazaar

(D) Shop

10. All currencies other than domestic currency

a. foreign currency b. foreign exchange c. both a and b d. None of these

Very Short Answers 14

1. What is mean by balance of trade?

Balance of Trade The difference between export and import of goods, i.e. only the visible items of economic transactions is termed as Balance of Trade.

Balance of Trade = Export of Goods – Import of Goods

Balance of Trade does not include the export and import of invisible items (services) or capital transfers.

2. Name the components of BoP Account?

(i)Current account

(ii) Capital account

(iii) Official international reserve accounto

3. Define current account of Bop?

Current Account of BoP Current account is that account of BoP, which records exports and imports of visible and invisible items and unilateral transfers.

4. Components of Current Account?Explain

(i) Export and import of visible items

(ii) Exports and imports of invisible items

(iii) Unilateral transfer to and from rest of the world.

5. What is mean by Capital Account of BoP

It records capital transfer such as loans and investments between one country and the rest of the world, which causes a change in the assets or liability status of the residents of the domestic country or its government.

6. Explain Bop. surplus and Bop deficit

BoP Surplus When the receipts of the country on account of autonomous transactions exceed the payments of a country on account of autonomous transactions, this difference is termed as BoP surplus.

BoP Surplus = R > P, where R = Receipts of the country, P = Payment of the country.

. BoP Deficit When the payments of a country on account of autonomous transactions exceed the receipts of a country on account of autonomous transactions, this difference is termed as BoP deficit.

BoP Deficit = Receipts on account of autonomous transactions < Payments on account of autonomous transactions or

Bop Deficit = R<P

Where, R = Receipts

P = Payments .

Disequlibrium in BoP

BoP is said to be in state of disequilibrium when there is either surplus or deficit in BoP.

7. Define foreign exchange rate. and floating exchange rate?

Ans. Foreign exchange rate refers to the rate at which one currency can be exchanged for the other currency in foreign exchange market, e.g. if Rs. 58 is paid to buy one US dollar, then Rs./$ exchange rate will be 58 i.e. Rs.58 per dollar.

Ans. The rate of exchange which is determined by the market forces of demand and supply of foreign currencies in the foreign exchange market, is termed as flexible exchange rate system.

8. What is a fixed exchange rate? (Ail India 2013)

or

Give the meaning of fixed foreign exchange rate.(All India 2012,2009,2008; Delhi 2009)

Ans. Fixed exchange rate is the system under which the central authority or government maintains their exchange rate fixed either against gold or some other foreign currency, (say USD)

9. . What is foreign exchange? (All India 2011; Delhi 2009c)

or

Give meaning of foreign exchange. (Delhi 2009c)

Ans.Foreign exchange refers to the reserve of foreign currency with a country, e.g. currency of US and UK are the foreign exchanges for India.

Short Answers 6

1. What is the meaning of deficit in Balance of Payments? (Delhi 2014,2010)

or

How is Balance of Payment ‘deficit’ measured? Explain(Foreign 2014)

Ans. When the payments of a country on account of autonomous transactions exceed the receipts of the country on account of autonomous transactions, this difference is termed as BoP deficit.

Deficit in BoP = Receipts on account of autonomous transactions < Payments on account of autonomous transactions Suppose, the receipts of the domestic country is r 200 crore. Where as payments are r 220 crore. Then BoP deficit will be

= 220 – 200 crore = Rs. 20 crore

2. Distinguish between current account and capital account of the Balance of Payments account on the basis of its components.(Compartment 2014)

Ans. Current account of BoP measures the transaction of export and import natures which do not affects the assets and liabilities positions of a country whereas, capital of BoP includes of Investment and borrowing nature which has direct import on assets and liabilities of a country.

Current account includes export and imports of visible and invisible items and unilateral transactions to and from abroad, while capital account includes:

(a)Investment to and from abroad,

(b) Borrowings and landings to and from abroad

(c) Official reserves which contains foreign currency, SDRs and gold.

Explain the effect of appreciation of domestic currency on imports. (Delhi 2013)

Ans. Domestic currency appreciates when there is a fall in foreign exchange rate, the domestic economy can now buy more quantity of goods and services from foreign countries with the same amount of domestic currency. As a result imports rise.

e.g. When Rs. / $ exchange rate falls from 55 to 50, it leads to currency appreciation and this will help in buying more and more units of foreign goods as a result demand for foreign goods will rise. i.e. imports will rise.

14.Explain the effect of depreciation of domestic currency on exports. (All India 2013)

Ans. Domestic currency depreciates when there is a rise in foreign exchange rate. Depreciation has an expansionary effect on Aggregate Demand and output. Depreciation increases the demand for domestically produced goods by reducing their relative price. This will lead to increase in exports and hence fall in imports, as now foreign country can buy greater units in the domestic country with same amount of their currency.