INDIAN SCHOOL AL WADI AL KABIR

Class: XII	Department: Commerce
Worksheet: 1	Topic: Open Economy

1. In which of the following categories are the transactions of balance of trade recorded?
   (a) Visible items
   (b) Invisible items
   (c) Capital transfers
   (d) All of these

2. Current account records transactions relating to:
   (a) Export and import of goods
   (b) Non-factor and factor income
   (c) Current transfers
   (d) All of these

3. Which of the following items relate to BoP on capital account?
   (a) Foreign investment
   (b) Loans
   (c) NRI remittances
   (d) All of these

4. Which of the following are not included in balance of trade?
   (a) Payment of interest and dividend
   (b) Expenditure by the tourists
   (c) Borrowing from rest of the world
   (d) All of these

5. Surplus in BoP occurs when:
   (a) Receipts = payments
   (b) Reciprocal payments
   (c) Receipts > payments
   (d) All of these

6. Balance of payments is in disequilibrium when:
   (a) Current account balance + capital account balance is not equal to zero
   (b) Current account balance + capital account balance is some positive number
   (c) Current account balance + capital account balance is some negative number
   (d) All of these

7. Direct foreign investment is a source of:
   (a) Demand for foreign exchange
   (b) Supply of foreign exchange

(c) Both (a) and (b)
(d) None of these

8. When the exchange rate rises due to managed floating, it is called:
(a) Devaluation
(b) Appreciation
(c) Depreciation
(d) Revaluation

9. Which of the following functions are performed in a foreign exchange market?
(a) Transfer function
(b) Credit function
(c) Hedging function
(d) All of these

10. If Rs. 120 are required to buy $ 1, instead Rs. 100 earlier:
(a) domestic currency has appreciated
(b) domestic currency has depreciated
(c) rupee value of import bill will increase
(d) both (b) and (c)

ASSERTION AND REASONING QUESTIONS:

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

1. Assertion (A): Appreciation of domestic currency means a rise in the price of domestic currency.
Reason (R): Appreciation leads to increase in Exports.

2. Assertion (A): Buying foreign goods is expenditure from our country and it becomes the income of that foreign country.
Reason (R): The purchase of foreign goods or imports decreases the domestic demand for goods and services in our country.

QUESTIONS:

1. Define the foreign exchange market.
2. What is a flexible exchange rate?
3. Differentiate between fixed and flexible exchange rates.
4. Describe the differences between autonomous and accommodating payment balance transactions.
5. India is taking huge leaps in the index of Ease of Doing Business, as a result many MNCs are shifting their production base to India. In the light of the above statement, comment upon the flow of foreign exchange and its likely impact on the Indian Economy.

6. Giving valid reasons whether the following statements are true or false:
   (a) Dividend received from investment abroad is recorded on the credit side of the capital account.
   (b) Depreciation of the Indian currency will lead to promotion of Indian exports.
7. Distinguish between Current Account Deficit and Current Account Surplus.
8. State, giving valid reasons whether the following statements are true or false:
   (i) Trade deficit is always a great cause of worry for an economy.
   (ii) Depreciation of currency has same effect on exports as devaluation of currency.
   (iii) "Indians investing in assets abroad" will be recorded under debit side of capital account in Balance of Payments.
9. There exists a positive relation between supply of foreign currency and foreign exchange rate. Do you agree with given statement. Justify with valid reason.
10. "Balance of Payment (BOP) is always balanced in the accounting sense." Defend or refute the given statement with valid reasons.

CASE BASED QUESTIONS

Read the following case study paragraph carefully and answer the questions on the basis of the same.

India's trade deficit with China dips to $48.66 billion in 2019-20. In 2018-19, Exports to China in the last financial year stood at $18.9 billion, and the trade deficit stood at $53.56 billion. Chinese FDI has dipped to $163.78 million in 2019-20 from $229 million in the previous fiscal.

1. What does "Trade Deficit" mean?
   a. The value of exports of goods and services is more than the value of imports of goods and services.
   b. The value of imports of merchandise is more than the value of exports of merchandise.
   c. Negative balance on account of trade in goods, services and transfers.
   d. Foreign exchange payments on account of invisible items are in excess over the receipts of invisible items.

2. "India's trade deficit with China dips to $48.66 billion in 2019-20." _____ in imports from China have caused this.
   a. Increase
   b. Decrease
   c. No change
   d. None of the above

3. How much was the Imports of goods from China in 2018-19?
   a. $53.56 billion
   b. $34.66 billion
   c. $48.66 billion
   d. $72.46 billion