

OPEN STUDENT FOUNDATION

Chapters : 9

Std-12 Economics Practice Sheet Day 9

Date : 24/02/24

Section A

- Choose correct answer from the given options. [Each carries 1 Mark] [9]
- Where the import-export values of tangible-intangible goods and services are recorded? (March-2018)
(A) Balance of trade (B) Budget (C) balance of payments (D) Capital account
 - What is the order of India in total export in the world in 2014? (July-2018)
(A) 29 (B) 19 (C) 39 (D) 15
 - The systematic account of import export for tangible-intangible goods of a country is known as _____ (March-2019)
(A) Balance of trade (B) exchange (C) balance of payments (D) trade size
 - Balance of trade means balance of _____ (July-2019, July-2022)
(A) Current account (B) Capital account (C) tangible trade (D) service trade
 - Which tool has more mobility in the foreign trade in present days? (Aug-2020, March-2022)
(A) Capital (B) Labour (C) entrepreneurship (D) land
 - In which year, economic reforms were done? (July-2019)
(A) 1990 (B) 1991 (C) 1999 (D) 2008
 - How many accounts are in balance of payments? (March-2022)
(A) 2 (B) 3 (C) 4 (D) 5
 - Which region of the world has the most percentage share in import-export with India in the 2014-15 financial year? (March-2023)
(A) Asia (B) African and Asian countries
(C) North America (D) Europe
 - What happens by trade? (July-2022)
(A) Mobility of tools decreases (B) Number of industries decrease
(C) Production process decreases (D) Varieties in production

Section B

- Write the answer of the following questions. [Each carries 2 Marks] [2]
- Difference between balance of trade and balance of payments. (March-2018, July-2018, March- 2020, March-2022)

Section C

- Write the answer of the following questions. [Each carries 3 Marks] [18]
- Difference between internal and international trade (March-2018, March-2020, March-2022, July-2022, March-2023)
 - Reasons for foreign trade (March-2019, March-2020, July-2022)
 - Short Note: Exchange rate. (July-2018, July-2019, Aug-2020)
 - State the factors influencing the balance of payments. (July-2022)
 - Discuss any five factors affecting the nature of International trade. (July-2022)
 - State any four factors affecting the balance of payments. (March-2023)

OPEN STUDENT FOUNDATION

Chapters : 9

Std-12 Economics Practice Sheet Day 9

Date : 24/02/24

Section A

- Choose correct answer from the given options. [Each carries 1 Mark] [9]
- Where the import-export values of tangible-intangible goods and services are recorded? (March-2018)
(A) Balance of trade (B) Budget (C) balance of payments (D) Capital account
⇒ Ans : (C)
 - What is the order of India in total export in the world in 2014? (July-2018)
(A) 29 (B) 19 (C) 39 (D) 15
⇒ Ans : (B)
 - The systematic account of import export for tangible-intangible goods of a country is known as _____ (March-2019)
(A) Balance of trade (B) exchange (C) balance of payments (D) trade size
⇒ Ans : (C)
 - Balance of trade means balance of ____ (July-2019, July-2022)
(A) Current account (B) Capital account (C) tangible trade (D) service trade
⇒ Ans : (C)
 - Which tool has more mobility in the foreign trade in present days? (Aug-2020, March-2022)
(A) Capital (B) Labour (C) entrepreneurship (D) land
⇒ Ans : (C)
 - In which year, economic reforms were done? (July-2019)
(A) 1990 (B) 1991 (C) 1999 (D) 2008
⇒ Ans : (B)
 - How many accounts are in balance of payments? (March-2022)
(A) 2 (B) 3 (C) 4 (D) 5
⇒ Ans : (A)
 - Which region of the world has the most percentage share in import-export with India in the 2014-15 financial year? (March-2023)
(A) Asia (B) African and Asian countries
(C) North America (D) Europe
⇒ Ans : (A)
 - What happens by trade? (July-2022)
(A) Mobility of tools decreases (B) Number of industries decrease
(C) Production process decreases (D) Varieties in production
⇒ Ans : (D)

Section B

- Write the answer of the following questions. [Each carries 2 Marks] [2]
- Difference between balance of trade and balance of payments. (March-2018, July-2018, March- 2020, March-2022)

No.	Topics	Balance of trade	Balance of payments
1	Meaning	An accounting statement showing the value of imports and exports of only tangible (visible) goods during a year is known as balance of trade.	An accounting statement showing the value of imports and exports of tangible (visible) and intangible (invisible) goods during a year.
2	Concept	The concept of balance of trade is conservative or limited.	The concept of balance of payment is extended on broad.
3	Various Accounts	Only credit accounts are recorded in balance of trade.	In addition to credit account, Capital accounts are also recorded in balance of trade.
4	Inclusion	Balance of trade is a part of balance of payments.	Balance of payments is not a part of balance of trade.
5	Understanding	International financial relations can't be totally understood by the balance of trade.	International trade can be totally understood by balance of payments.
6	Example	Tangible goods are iron, steel, cement, clothes, etc....	In addition to tangible goods, intangible. I.e. services like education, transportation, health, bank, communication, etc....

Section C

- Write the answer of the following questions. [Each carries 3 Marks] [18]
11. Difference between internal and international trade (March-2018, March-2020, March-2022, July-2022, March-2023)

No	Topics	Domestic Trade	International Trade
1	Meaning	Activity of trade which takes place within the geographical boundary of a nation is called internal (domestic) trade	Trade activity taking place outside the geographical boundary of a country is called International Trade (Foreign Trade).
2	Currency	Transactions in domestic trade are made only in domestic currency and payment is transferred from one bank to another of the same country.	International trade involves several currencies and exchange rates.i.e dollar (\$) for US and pound (symbol) for UK.
3	Scale	The scale of domestic trade is small as it relates with internal business of the country.	The scale of international trade is much larger as it involves more countries, more variety of goods, more procedures and greater rules etc....
4	Language and Culture	Transactions in domestic trade take place within a common social, cultural and language set up.	In international trade these are very different and hence traders have to be more careful to avoid controversies or hurt sentiments or even to avoid legal offence.
5	Cost	The transport cost in domestic trade is low as the transportation is local and low administrative taxes.	The transport cost in international trade is much higher due to transport duties and high administrative taxes.
6	Competition	Degree of competition is relatively lesser in domestic trade even if there are many producers of the same product as the nature of factors of production and technology in one country is common. The degree of product differentiation is smaller and therefore a limited variety of goods are produced.	Producers/traders compete on the basis of variety and differentiation of the same product. Besides, there is competition among domestic and international sellers in a country to obtain market share for selling a product.
7	Consumer satisfaction	It is not very difficult to satisfy consumers in domestic trade as the society, level of awareness and education, information, preferences, values, tolerance level etc.... in one country are almost similar. In other words, consumers' expectations are known and traders undertake production and adopt sales and promotion methods accordingly.	As the society, level of awareness and education, information, preferences, values, tolerance level etc.... are different in different countries of the world and it is more difficult to satisfy buyers in international trade.
8	Legal and administrative arrangements	Administrative and legal systems and procedures in domestic trade are known to the traders so they face relatively lesser Difficulty in under taking trading activity.	Administrative and legal systems and procedures in international trade are different and unknown to the traders so they face relatively higher difficulty in undertaking trading activity.
9	Transactions, exchange and control	As the Transactions are carried out in common currencies, questions like transactions, exchange and control never arise.	It involves conversion of the trading countries currencies at a determined exchange rate into an inter nationally acceptable currency. these exchange rates are different for each country. Thus, transactions in international trade are complex and costlier than domestic trade.

12. Reasons for foreign trade (March-2019, March-2020, July-2022)

➡ There are four reasons for trade:

- (1) Difference in Factor Endowments in Various Countries
- (2) Cost of Production
- (3) Technological Progress
- (4) Division of Labour and Specialization
- (1) Difference in Factor Endowments in Various Countries

⇒ The availability of production tools of the various countries of the world depend on the resources of that country. Some resources are inaccessible. And the needs of people are unlimited and customised so more production in a short time is required. For this more tools are needed urgently. Thus, any country having scarcity of resources, tools and technologies does trade with the rest of the countries of the world and fulfil their requirement.

(2) Cost of Production

⇒ The production cost depends on the availability of tools and resources. It becomes expensive because of scarcity of tools and high cost.

⇒ If the production cost is high, any country imports from other countries and if it is low, countries do export.

⇒ In short, production cost is an important factor impacting foreign trade.

(3) Technological Progress

⇒ All countries have developed their technologies as per the availability of tools and resources, which is limited. So, they trade with other countries for the same.

(4) Division of Labour and Specialization

⇒ Labour productivity and dexterity in each country is different. Besides, entrepreneurial efficiency is also different. Hence, differences in division of labour and specialisation are found to exist between countries. This means, since labour in some countries is more efficient in production of some types of goods and services, such countries specialise in the production of such goods, while they import those goods and services which they are not able to produce more efficiently.

⇒ If any country attempts to produce goods and services which she is not specialising in then she imports expertise and know how from other countries for helping such production.

13. Short Note: Exchange rate. (July-2018, July-2019, Aug-2020)

⇒ Exchange rate is the price of a foreign currency in terms of domestic currency. In other words, it is the units of home currency required to buy one unit of a foreign currency.

⇒ As an example, the value of INR is 70 INR for \$1, the internationally accepted currency \$1, it means that Indian needs to pay 70 INR to buy \$1.

⇒ When the exchange rate goes higher, the value of Indian currency goes lower in the international market. It means that Indians need to spend more Indian rupee to purchase dollars means foreign currency becomes costlier and so INR is depreciated.

⇒ If the exchange rate goes lower, the value of Indian currency goes higher in the international market. It means that Indians need to spend less Indian rupee to purchase dollars means foreign currency becomes cheaper and INR becomes stronger.

⇒ If the exchange rate for India increases, imports are decreased and exports are increased. Thus, the exchange rate gives the concept of financial status of any country. In short, it can be said that if the exchange rate is high, the value of INR becomes low and if exchange rate is low, the value of INR becomes high.

⇒ When the US \$ price changes from 60 to 65 INR, the importer has to pay 65 INR for \$1 to import for which only 60 INR was required before and thus imports decrease.

⇒ Sometimes the exchange rate changes in the open market, and sometimes the government changes it to impact import-export. As the exchange rate changes, the prices of things also vary.

14. State the factors influencing the balance of payments. (July-2022)

⇒ Balance of Payments is a systematic account of the value of transactions of a country with the rest of the world in goods and services, transfer payments and capital (assets).

⇒ Meaning of balance of payments: An accounting statement showing the value of imports and exports of

tangible (visible) and intangible (invisible) goods during a year.

- ➡ Tangible or visible goods means goods which have a physical existence. Intangible or invisible goods means services.
- ➡ Balance of Payments has (1) a credit entry and (2) a debit entry.
 - (1) **Credit Side:**
 - ⇒ All receipts by the home country from foreigners are recorded in the credit entry
 - (2) **Debit Side:**
 - ⇒ All payments by the home country to foreigners are recorded in the debit entry.
- ➡ Types of balance of Payments : (1) Balanced (2) Unbalanced.
 - (1) **Balanced balance of Payments :**
 - ⇒ Balance of Payments is said to be in balance when the value of entries on the credit side equals that on the debit side.
 - (2) **Unbalanced balance of Payments :**
 - ⇒ Unbalanced balance of payments is unbalanced when the value of entries on the credit side is not equal to entries on the debit side.
- ➡ Accounts of Balance of Payments : (1) Current account and (2) Capital account
 - (1) **Current account :**
 - (A) Trade in merchandise goods (tangible goods)
 - (B) Trade in invisibles or services
 - (A) Trade in merchandise goods (tangible goods):
 - ⇒ Receipts from tangible goods exports are recorded as credit entry and payments for imports are recorded as debit entry. The sum total on this section of the current account is called the balance of trade.
 - ⇒ If the payments for merchandise imports are greater than the receipts from merchandise exports then there is a deficit in the balance of trade. The vice versa situation is called surplus on the balance of trade.
 - (B) Trade in invisibles or services (intangible goods):
 - ⇒ The incomes from invisibles are recorded on the credit side and payments on the debit side.
 - ⇒ Combined balance of (i) and (ii) is called the current account balance.
 - (2) **Capital account:**
 - ⇒ This account records receipts and payments from transactions on assets such as money assets like bonds, shares, gold, capital loans, etc.... and other forms of fixed capital.
 - ⇒ The total of current account and capital account is called the balance of payments.
- ⇒ **Factors Influencing Balance of Payments :**
 - ⇒ Factors influencing balance of payments means those factors which affect the imports, exports, movement of capital, movement of factors of production, investment, lending etc. in a nation. Deficit or surplus in the balance of payments can arise owing to such factors.
 - ⇒ The impact of such factors usually depends upon the level of economic development of a country.
- ➡ Some of these factors can be stated as under :
 - (1) Exchange rate.
 - (2) Prices of tradable goods in home country and in foreign countries.
 - (3) Variety and quality of tradable goods.

- (4) Inevitable imports.
- (5) Level of economic development of the country.
- (6) Legal restrictions on trade.
- (7) Trade supporting facilities and infrastructures like transport, communication etc....

15. Discuss any five factors affecting the nature of International trade. (July-2022)

- ⇒ Nature of international trade means such special features and aspects of trade which gives it a unique identity from other activities.
- ⇒ The nature of international trade is determined by the circumstances affecting trade, policies and laws governing trade. These are :
 - (1) The Geographical and Occupational Mobility of Factors of Production is lesser in International Trade
 - (2) Trade in Many Varieties of Goods
 - (3) More Challenging in Nature
 - (4) Requirement of Diplomatic Efforts
 - (5) Knowledge and Forecasts Regarding the Value of Different Currencies:
 - (6) Joint Effort of Nations and International Organisations
 - (7) Impact of Political and Social ideologies
 - (8) Vast Scale
 - (9) Involves more Permissions and Taxes
 - (10) Involves Higher Degree of Competition
- (1) The Geographical and Occupational Mobility of Factors of Production is lesser in International Trade:
 - ⇒ Labour is less mobile in international trade owing to policy and social reasons. Certain types of huge capital are less mobile, while there are policy restrictions on mobility of some other types of capital. Entrepreneurs are less mobile for the same reasons as labourers. But in present times entrepreneurship has become more mobile. Land has no geographical mobility.
 - ⇒ Hence, owing to lower mobility of factors of production, the size of international trade is restricted to some extent.
- (2) Trade in Many Varieties of Goods:
 - ⇒ Large varieties of goods and services are made available through international trade so as to satisfy the needs of populations with different standards of living and different lifestyles.
 - ⇒ The very success and prosperity of international trade depends upon 'variety'. For example, in countries where there is scarcity of electricity, there will be greater demand for manually operated machines while in countries with abundant supply of electricity there will be greater demand for automatic machines.
- (3) More Challenging in Nature :
 - ⇒ International trade is more challenging for traders as the environment, language, culture, customs, preferences, habits, tastes etc.... of people in different countries is different. Traders have to overcome these barriers in order to trade.
- (4) Requirement of Diplomatic Efforts :
 - ⇒ For the setting up and development of international trade the efforts of traders solely are not enough. The government of every nation has to make diplomatic efforts, hold informal meetings and at the same time nations have to organise trade fairs etc.... For example, in order to promote international trade in Gujarat, the state government organises the 'Vibrant Gujarat Summit' in which representatives of governments and businesses of various countries participate to exchange business infor-

mation as well as to get an idea of the policies of the state, culture of people and other such relevant information.

⇒ Since the political and business establishments and economic policies of all nations are different, diplomatic efforts are essential along with the efforts of businesses towards production, sales and promotion.

(5) Knowledge and Forecasts Regarding the Value of Different Currencies:

⇒ Payments in international trade are to be made in internationally acceptable currencies and every trading country has to convert her national currency into international currency. For this proper information regarding value of various currencies and the changes in their values is essential. If foreign currency is purchased at an expensive rate then the trader may incur a loss. It is for this that traders have to hire experts who can guide in matters of exchange rates.

(6) Joint Effort of Nations and International Organisations:

⇒ International trade can develop only with the joint efforts of governments of various countries of the world and of international organisations like the World Trade Organization. The political systems of all countries must work towards making their policies more conducive for trade, the social and cultural groups must be open to trade, the industry associations must cooperate to enter in trade and enhance trade and so on.

(7) Impact of Political and Social ideologies:

⇒ The size and direction of international trade is greatly influenced by the political and social events taking place in the world. For example, trade relations between nations get disturbed owing to events like world war, on the other hand if leaders of the world engage in promoting trade then nations are diverted away from war and world trade increases.

⇒ The size and direction of a particular nation's trade is determined much by the ideology of that nation, social structure, historical events and its relation with other countries of the world.

(8) Vast Scale:

⇒ The scale of international trade is vast as it involves several countries, several varieties of goods, several rules, international organizations etc....

(9) Involves more Permissions and Taxes:

⇒ In order to carry out international trading activity, traders need several permissions and licences from their respective countries. They have to clear procedures regarding tradable goods and quality of goods; clear the custom procedures; fulfil the requirements of international freight and transport procedures, the quality tests for different countries (food and drug quality tests for different countries are different) etc.... Owing to different quality standards, traders need to have information regarding methods of production in different countries. Production for exports must be made accordingly.

(10) Involves Higher Degree of Competition

⇒ Several countries of the world make attempts to produce and sell a variety of goods and services. Hence the degree of competition among sellers is very high. Similarly, the product or service may be demanded by consumers of several countries and so the degree of competition among buyers is also very high.

⇒ The risk of creating a market and generating demand for a product is very high in the international market. High quality standards have to be maintained, huge promotional expenses as well as sales costs have to be incurred and greater efforts have to be made to satisfy customers of a foreign country. After adhering to all these requirements if the trader is not able to capture enough share of the market demand then she/he may incur a loss.

16. State any four factors affecting the balance of payments. (March-2023)

- Factors influencing balance of payments means those factors which affect the imports, exports, movement of capital, movement of factors of production, investment, lending etc.... in a nation. Deficit or surplus in the balance of payments can arise owing to such factors.
- The impact of such factors usually depends upon the level of economic development of a country.
- Some of these factors can be stated as under :
 - (1) Exchange rate.
 - (2) Prices of tradable goods in home country and in foreign countries.
 - (3) Variety and quality of tradable goods.
 - (4) Inevitable imports.
 - (5) Level of economic development of the country.
 - (6) Legal restrictions on trade.
 - (7) Trade supporting facilities and infrastructures like transport, communication etc.