

CHAPTER -17-BALANCE OF PAYMENTS ACCOUNT

ASSERTION- REASON QUESTIONS

- | Sl. No. | Question |
|---------|---|
| 1 | <p>Assertion (A): A country always tries to balance the BOP i.e., balance in current account equals to balance in capital account.</p> <p>Reason (R): Balanced BOP indicates stable economic relation with rest of the world.</p> <p>(A) Both Assertion and reason are true and reason is correct explanation of assertion.</p> <p>(B) Assertion and reason both are true but reason is not the correct explanation of assertion.</p> <p>(C) Assertion is true, reason is false.</p> <p>(D) Assertion is false, reason is true.</p> |
| 2 | <p>Assertion (A): Accommodating items of trade are undertaken to maintain the balance in the BOP account.</p> <p>Reason (R): Accommodating items are net consequences of autonomous transactions that are undertaken to correct disequilibrium in autonomous items of BOP.</p> <p>(A) Both Assertion and reason are true and reason is correct explanation of assertion.</p> <p>(B) Assertion and reason both are true but reason is not the correct explanation of assertion.</p> <p>(C) Assertion is true, reason is false.</p> <p>(D) Assertion is false, reason is true</p> |
| 3 | <p>Assertion (A): Purchase of second-hand machinery from abroad is not recorded in balance of payment.</p> <p>Reason (R): Sale and purchase of second-hand goods from abroad are not included in the estimation of national income.</p> <p>(A) Both Assertion and reason are true and reason is correct explanation of assertion.</p> <p>(B) Assertion and reason both are true but reason is not the correct explanation of assertion.</p> <p>(C) Assertion is true, reason is false.</p> <p>(D) Assertion is false, reason is true</p> |
| 4 | <p>Assertion (A): Increased lending abroad are recorded on the debit side of the capital account.</p> <p>Reason (R): Lending affect the assets and liabilities of the economy and involves outflow of income.</p> <p>(A) Both Assertion and reason are true and reason is correct explanation of assertion.</p> <p>(B) Assertion and reason both are true but reason is not the correct explanation of assertion.</p> <p>(C) Assertion is true, reason is false.</p> <p>(D) Assertion is false, reason is true</p> |
| 5 | <p>Assertion (A): All transactions recorded in Balance of Payment are autonomous transactions.</p> <p>Reason (R): Autonomous transactions are recorded in both current and capital account of BoP.</p> |

- (A) Both Assertion and reason are true and reason is correct explanation of assertion.
 (B) Assertion and reason both are true but reason is not the correct explanation of assertion.
 (C) Assertion is true, reason is false.
 (D) Assertion is false, reason is true
- 6 Assertion: When there is a trade deficit and current account deficit, there will always be BoP deficit.
 Reason: When there is a trade deficit and current account deficit but a capital account surplus (i.e., net capital inflow), there may be a balanced BoP or BoP surplus.
 (A) Both Assertion and reason are true and reason is correct explanation of assertion.
 (B) Assertion and reason both are true but reason is not the correct explanation of assertion.
 (C) Assertion is true, reason is false.
 (D) Assertion is false, reason is true
- 7 Assertion (A): Difference between value of exports and imports of goods and services is called trade balance.
 Reason (R): Trade balance is the difference between value of exports of goods and imports of goods only. It does not include exports and imports of services.
 (A) Both Assertion and reason are true and reason is correct explanation of assertion.
 (B) Assertion and reason both are true but reason is not the correct explanation of assertion.
 (C) Assertion is true, reason is false.
 (D) Assertion is false, reason is true
- 8 Assertion (A): In balance of payments, repayment of loans by Indian Government to US Government will be recorded on the credit side of current accounts.
 Reason (R): Repayment of loans by Indian government to US Government will be recorded in the capital account on the debit side as it will lead to outflow of foreign exchange.
 (A) Both Assertion and reason are true and reason is correct explanation of assertion.
 (B) Assertion and reason both are true but reason is not the correct explanation of assertion.
 (C) Assertion is true, reason is false.
 (D) Assertion is false, reason is true
- 9 Assertion (A): Profits received from investments abroad is recorded in capital Account.
 Reason (R): Profits received from investments abroad is recorded in the current accounts since it is an investment income (factor income), It will be recorded on the credit side of the current account since it leads to inflow of foreign exchange
 (A) Both Assertion and reason are true and reason is correct explanation of assertion.
 (B) Assertion and reason both are true but reason is not the correct explanation of assertion.
 (C) Assertion is true, reason is false.
 (D) Assertion is false, reason is true
- 10 Assertion (A): Import of machines is recorded in current account.
 Reason (R): All imports and exports of goods are recorded in the current account.
 Read the following statements-
 Assertion (A) and Reason (R), and select the correct alternative in each case.

- (A) Both Assertion and reason are true and reason is correct explanation of assertion.
 (B) Assertion and reason both are true but reason is not the correct explanation of assertion.
 (C) Assertion is true, reason is false.
 (D) Assertion is false, reason is true
- 11 Assertion (A): Current account is in excess of balance of payments.
 Reason (R): Receipts on current account are more than payments on current account.
 (A) Both Assertion and reason are true and reason is correct explanation of assertion.
 (B) Assertion and reason both are true but reason is not the correct explanation of assertion.
 (C) Assertion is true, reason is false.
 (D) Assertion is false, reason is true
- 12 Assertion (A): Current account of balance of payments is balanced.
 Reason (R): Receipts in the current account are equal to payments in the current account.
 (A) Both Assertion and reason are true and reason is correct explanation of assertion.
 (B) Assertion and reason both are true but reason is not the correct explanation of assertion.
 (C) Assertion is true, reason is false.
 (D) Assertion is false, reason is true
- 13 Assertion (A): Capital account is in equilibrium when capital inflows are equal to capital outflows.
 Reason (R): Excess of capital account occurs when capital inflows are less than capital outflows.
 (A) Both Assertion and reason are true and reason is correct explanation of assertion.
 (B) Assertion and reason both are true but reason is not the correct explanation of assertion.
 (C) Assertion is true, reason is false.
 (D) Assertion is false, reason is true
- 14 Assertion (A) : Alternatively, a country cannot use its foreign exchange funds to balance its balance of payments deficit.
 Reason (R) Current account deficit of balance of payments is not adjusted against capital account surplus.
 (A) Both Assertion and reason are true and reason is correct explanation of assertion.
 (B) Assertion and reason both are true but reason is not the correct explanation of assertion.
 (C) Assertion is true, reason is false.
 (D) Assertion is false, reason is true
- 15 Assertion (A): Current account is a statement of transfer payments in the trade of goods and services.
 Reason (R): Capital account is a statement of all international transactions of assets.
 (A) Both Assertion and reason are true and reason is correct explanation of assertion.
 (B) Assertion and reason both are true but reason is not the correct explanation of assertion.
 (C) Assertion is true, reason is false.
 (D) Assertion is false, reason is true
- 16 Assertion (A): 'Indians Investing in assets abroad will be recorded under debit side of

capital account in Balance of Payments.’

Reason (R): Indians investing in assets abroad will lead to an outflow of foreign currency; it will be recorded under debit side of capital account in balance of payments.

- (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 but Reason (R) is not the correct explanation of Assertion (A)
(C) Assertion (A) is true but Reason (R) false.
(D) Assertion (A) is false but Reason (R) is true.
- 17 Assertion (A): A country with trade deficit cannot have current account surplus in its Balance of Payments.
Reason (R): Trade deficit occurs when value of goods / visible imported is more than the value of goods / visible exported. Current Account Surplus in this situation will arise when the deficit on trade account is less than the surplus on account of invisibles.
(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 but Reason (R) is not the correct explanation of Assertion (A)
(C) Assertion (A) is true but Reason (R) false.
(D) Assertion (A) is false but Reason (R) is true.
- 18 Assertion (A): Trade deficit is always a great cause of worry for an economy,
Reason (R): Trade deficit is a lesser cause of worry if it reflects a rise in investment which will build the capital stock and increase the future output in an economy.
(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 but Reason (R) is not the correct explanation of Assertion (A)
(C) Assertion (A) is true but Reason (R) false.
(D) Assertion (A) is false but Reason (R) is true.
- 19 Assertion (A): 'Make in India' Programme will have favourable effect on Balance of Payments position of India.
Reason (B): 'Make in India' will increase supply (inflow) of foreign exchange in India, causing improvement in the balance of payment position.
(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 but Reason (R) is not the correct explanation of Assertion (A)
(C) Assertion (A) is true but Reason (R) false.
(D) Assertion (A) is false but Reason (R) is true.
- 20 Assertion (A): 'Import of Pulses' will have favourable effect on Balance of Payments position of India.
Reason (R): Import of pulses will lead to outflow of foreign exchange from the country, causing adverse effect on balance of payment position.
(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 but Reason (R) is not the correct

- explanation of Assertion (A)
(C) Assertion (A) is true but Reason (R) false.
(D) Assertion (A) is false but Reason (R) is true.
- 21 Assertion A: Accommodating transactions are undertaken to make equilibrium in BOP account.
Reason R: Accommodating items are also called above the line items.
(A) Both Assertion and reason are true and reason is correct explanation of assertion.
(B) Assertion and reason both are true but reason is not the correct explanation of assertion.
(C) Assertion is true, reason is false.
(D) Assertion is false, reason is true.
- 22 Assertion A: 'Borrowings from abroad' is recorded in the credit side of capital account of the balance of payments account.
Reason R: 'Borrowings from abroad' leads to the receipts of foreign exchange from rest of the world.
(A) Both Assertion and reason are true and reason is correct explanation of assertion.
(B) Assertion and reason both are true but reason is not the correct explanation of assertion.
(C) Assertion is true, reason is false.
(D) Assertion is false, reason is true.
- 23 Assertion A: Balance of Trade refers to difference between the amount of exports and imports of visible items (goods).
Reason R: Balance of Trade is a wider concept as it includes the amount of exports and imports of visible items.
(A) Both Assertion and reason are true and reason is correct explanation of assertion.
(B) Assertion and reason both are true but reason is not the correct explanation of assertion.
(C) Assertion is true, reason is false.
(D) Assertion is false, reason is true
- 24 Assertion (A): 'Make in India' Programme will have favourable effect on Balance of Payments position of India.
Reason (R): 'Make in India' will increase supply (inflow) of foreign exchange in India, causing improvement in the balance of payment position.
(A) Both Assertion and reason are true and reason is correct explanation of assertion.
(B) Assertion and reason both are true but reason is not the correct explanation of assertion.
(C) Assertion is true, reason is false.
(D) Assertion is false, reason is true
- 25 Assertion (A): Mr. Roy sends Rs. 95,000 as a birthday gift to his son living in England.
Reason (R): It will be recorded in debit side of Balance of Payments of India as it leads to outflow of foreign currency.
(A) Both Assertion and reason are true and reason is correct explanation of assertion.
(B) Assertion and reason both are true but reason is not the correct explanation of

- assertion.
(C) Assertion is true, reason is false.
(D) Assertion is false, reason is true.
- 26 Assertion (A): Balance of trade is also referred to as Balance of payments.
Reasoning (R): Balance of trade includes the value of imports and exports of visibles only.
(A) Both Assertion and reason are true and reason is correct explanation of assertion.
(B) Assertion and reason both are true but reason is not the correct explanation of assertion.
(C) Assertion is true, reason is false.
(D) Assertion is false, reason is true.
- 27 Assertion (A): Trade balance of BOP shows deficit of Rs. 500 crore.
Reason (R): Export of goods worth Rs. 1100 crore and import of goods worth Rs. 1600 crore are recorded in the current account of balance of payments.
(A) Both Assertion and reason are true and reason is correct explanation of assertion.
(B) Assertion and reason both are true but reason is not the correct explanation of assertion.
(C) Assertion is true, reason is false.
(D) Assertion is false, reason is true.
- 28 Assertion (A): Autonomous items cause movements of goods and services across the borders.
Reason (R): Accommodating items cause to clear the imbalance in BOP.
(A) Both Assertion and reason are true and reason is correct explanation of assertion.
(B) Assertion and reason both are true but reason is not the correct explanation of assertion.
(C) Assertion is true, reason is false.
(D) Assertion is false, reason is true.
- 29 Assertion (A): Autonomous transactions are independent of the state of BOP account.
Reason (R): Autonomous items are also known as above the line items
(A) Both Assertion and reason are true and reason is correct explanation of assertion.
(B) Assertion and reason both are true but reason is not the correct explanation of assertion.
(C) Assertion is true, reason is false.
(D) Assertion is false, reason is true.
- 30 Assertion (A): Current account transactions bring a change in the current level of country's income.
Reason (R): Current account includes all items expressing change in stock.
(A) Both Assertion and reason are true and reason is correct explanation of assertion.
(B) Assertion and reason both are true but reason is not the correct explanation of assertion.
(C) Assertion is true, reason is false.
(D) Assertion is false, reason is true.
- 31 Assertion (A): Balance of Trade includes only Merchandise Transactions.
Reason (R): Unfavourable Balance of Payments can be met out of favourable Balance of Trade.
(A) Both Assertion and reason are true and reason is correct explanation of assertion.

- (B) Assertion and reason both are true but reason is not the correct explanation of assertion.
 (C) Assertion is true, reason is false.
 (D) Assertion is false, reason is true
- 32 Assertion (A):TheBoP reflect performance of our economy in relation to rest of the world.
 Reason (R): BoP is an accounting statement that provide a systematic record of all the economic transactions (inflow and outflow) between Residents of a country and the rest of the world in a given period of time.
 (A) Both Assertion and reason are true and reason is correct explanation of assertion.
 (B) Assertion and reason both are true but reason is not the correct explanation of assertion.
 (C) Assertion is true, reason is false.
 (D) Assertion is false, reason is true
- 33 Assertion (A):The decrease in official reserves(foreign exchange reserves) appears as a credit item in BOP.
 Reason (R):Any withdrawal from official reserves is recorded in the credit side of BoP because there is inflow of foreign exchange to BoP from official reserves.
 (A) Both Assertion and reason are true and reason is correct explanation of assertion.
 (B) Assertion and reason both are true but reason is not the correct explanation of assertion.
 (C) Assertion is true, reason is false.
 (D) Assertion is false, reason is true
- 34 Assertion (A):Portfolio investment is not a component of capital account of BoP.
 Reason (R) :Portfolio investment refers to purchase of an asset from the rest of the world which does not give full control of asset.
 (A) Both Assertion and reason are true and reason is correct explanation of assertion.
 (B) Assertion and reason both are true but reason is not the correct explanation of assertion.
 (C) Assertion is true, reason is false.
 (D) Assertion is false, reason is true
- 35 Assertion (A): Current Account transactions bring a change in the current level of a country's income.
 Reason (R): Current Account includes all items expressing change in stock.
 (A) Both Assertion and reason are true and reason is correct explanation of assertion.
 (B) Assertion and reason both are true but reason is not the correct explanation of assertion.
 (C) Assertion is true, reason is false.
 (D) Assertion is false, reason is true

Answer

Q.No.	Answer
1	(A)
2	(A)
3	(D)
4	(A)
5	(D)
6	D
7	D
8	D
9	D
10	A
11	A
12	A
13	C
14	C
15	B
16	A
17	D
18	D
19	A
20	D
21	C
22	A
23	C
24	A
25	A
26	D
27	A
28	B
29	B
30	C
31	C
32	A
33	A
34	D
35	A

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