Tutorial: Balance of payments

May 2, 2004

Problem 1: Multiple choice questions

1. If an Indian deposits funds in an American bank, that transaction

   a. is a minus for both India and America in the BOP accounts
   b. is a minus for India and a plus for America in the BOP accounts
   c. is a plus for both India and America in the BOP accounts
   d. is a plus for India and a minus for America in the BOP accounts

2. If TISCO opens a plant in China, this implies

   a. a debit entry for India, and a credit entry for China
   b. a debit entry for China, and a credit entry for India
   c. a debit entry for both India and China
   d. a credit entry for both India and China

3. If a country's current and capital accounts sum to a negative number

   a. its foreign exchange liabilities should decrease
   b. its foreign exchange assets should increase
   c. its foreign exchange liabilities and assets should decrease
   d. its foreign exchange liabilities should increase or its foreign exchange assets should decrease

4. An increase in the French export of wine to India implies

   a. a debit entry for both countries
   b. a debit entry for France and a credit entry for India
   c. a credit entry for both countries
   d. a credit entry for France and a debit entry for India

Problem 2

Assume India imports machinery worth \$1000. And it exports textiles worth \$2000. Make a BOP sheet for India.

Problem 3

If an American firm writes a check on an account in a Canadian bank to pay for imports from Canada, the withdrawal of short-term capital from Canada results in a plus for US and a minus for Canada. The merchandise imports are a minus for the US and a plus for Canada. Do you agree with the statement. Give reasons.

Problem 4

Following are the balance of payments figures for India.

	2002-03	2001-02	2000-01
Current account	19987	3734	-16401
Capital account	58506	50589	46675
Errors & omissions	3523	2269	-2612
Addition to reserves	-82016	-56592	-27547

Source: RBI

1. What year has India had a current account deficit? Does it have a capital account surplus in the same year?

Problem 5

In the April-June 2003 quarter, India recorded a current account deficit of \$1.2 billion. Some observations in this current account deficit include a sharp rise in non-oil imports. (Source: Trade deficit: boon or bane, Business Standard, 2003)

What does the current account indicate about a country's import or export of capital, in the light of the equation

$$S = I + CA$$

where,
S is savings
I is investments
CA is the current account