



**INDIAN SCHOOL AL WADI AL KABIR**  
**MACRO ECONOMICS**  
**5. OPEN ECONOMY**

1. Balance of Payments of an economy records\_\_\_\_\_ for a fiscal year.
  - a) income and expenditure of the government
  - b) inflow and outflow of funds of the government
  - c) inflow and outflow of foreign exchange to/from the economy
  - d) inflow and outflow of loans to/from the rest of the world
2. Identify which of the following is not an example of 'invisible item' under Current Account of the Balance of Payments transactions: (Choose the correct alternative).
  - a) Air and sea transport
  - b) Postal and courier services
  - c) Education-related travel
  - d) Merchandise linked transactions
3. Two friends Mira and Sindhu were discussing the exchange rate systems.  
'Under this system, the exchange rates are determined by the market forces of demand and supply. However, deliberate efforts are made by the competent authority to keep the exchange rates within a specific range'.  
The above-mentioned statement was given by Sindhu, identify the type of exchange rate system was she talking about.
  - a) Fixed Exchange Rate
  - b) Floating Exchange Rate
  - c) Managed Floating Exchange Rate
  - d) Managed Fixed Exchange Rate
4. Under the Balance of Payments structure of a nation, the two main categories of accounts for the classification of the transactions are\_\_\_ and \_\_\_\_
  - i. current account
  - ii. unilateral transfer account
  - iii. capital account
  - iv. loan account

Identify the correct alternatives from the following:

Alternatives:

- a) i and ii
  - b) i and iii
  - c) iii and iv
  - d) iv and i
5. From the following given sets of statements in column I and II, choose the correct pair of statements.

Column I	Column II
A. Exports of goods and services	i. Excess of Exports of goods over the Imports of goods
B. Trade Surplus	ii. An element of invisible items
C. Current Transfers to rest of the world	iii. Recorded as a positive item in the BOP

D. Portfolio Investments	iv. Foreign Institutional Investors
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Alternatives:

- a) A-i
  - b) B-ii
  - c) C-iii
  - d) D-iv
6. Suppose that the Balance of Trade (BOT) of a nation, exhibits a surplus of ₹ 20,000 crores. The import of merchandise of the nation is half of the exports of merchandise to the rest of the world.  
The value of exports would be ₹ \_\_\_\_\_ crores.
- a) 30,000
  - b) 40,000
  - c) 24,000
  - d) 35,000
7. 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
8. 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
9. 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
10. The trade of visible and invisible items is known as \_\_\_\_\_
- a) Balance of Payments
  - b) Balance of Trade
  - c) Deficit of interest
  - d) Profit

### **QUESTIONS:**

1. What is a flexible exchange rate?
2. What are foreign exchange and foreign exchange rate?
3. What is meant by the appreciation of currencies?
4. Distinguish between the autonomous and accommodating transactions of the balance of payment account.
5. Differentiate between fixed and flexible exchange rates.
6. How is the exchange rate determined under flexible exchange rate regime?
7. When will balance of trade shows a deficit?
8. Recently the government of UK decided to relax the visa norms to Indian visitors.

How does these decisions affect the demand for foreign exchange?

9. What do you mean by managed floating? How far it is a mixture of fixed exchange rate and flexible exchange rates?
10. The current account is differentiated from capital account. Do you agree? Give explanation.
11. Differentiate between devaluation and depreciation.
12. Compare balance of trade (BOT) and balance of payments (BOP).
13. What is the balance of visible items in the balance of payments account called?
14. What determines the flow of foreign exchange into the country?
15. "The Indian economy has witnessed a sharp turnaround during 2023-24 with FDI inflows of US \$70.9Bn and net FPI inflows of US \$ 32.4 Bn."
  - a. Distinguish between the above-mentioned economic variables.
  - b. In which of the BOP will the given variables be entered why?

### **CASE STUDY:**

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

Foreign Exchange Rate is the price of one currency in terms of another. It links the Currencies of different countries and enables comparison of international costs and prices. People demand foreign exchange because:

- i) They want to purchase goods and services,
- (ii) They want to send gifts abroad
- (iii) They want to purchase financial assets

Rise in price of foreign exchange will increase the cost (in terms of rupees) of purchasing a foreign good. This reduces demand for imports and hence demand for foreign exchange also decreases, other things remaining constant.

1. Which of the following is not a source of demand of foreign exchange?
  - (a) Export of goods and services
  - (b) Import of goods and services
  - (c) Foreign travel
  - (d) Higher studies abroad
2. Increase in exchange rate implies that the price of foreign currency in terms of domestic currency has increased. This is called..... of domestic currency.
  - (a) Depreciation
  - (b) Appreciation
  - (c) Devaluation
  - (d) Pegged Exchange Rate
3. Exchange rate is determined by the market forces of demand and supply.
  - (a) Flexible exchange rate
  - (b) Fixed exchange rate
  - (c) Export of goods and services
  - (d) Pegged Exchange Rate
4. Flexible Exchange Rate System is also known as:
  - (a) Pegged Exchange Rate System
  - (b) Export of goods and services
  - (c) Dirty Floating
  - (d) Floating Exchange Rate