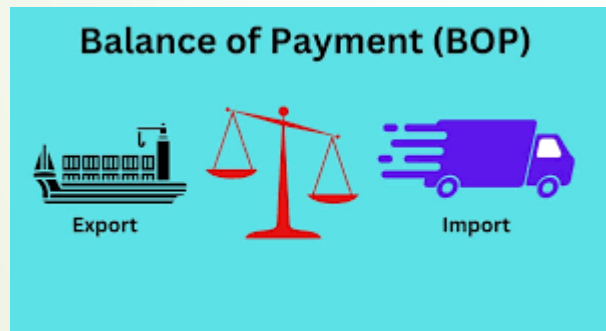


Vivekanand College, Kolhapur (Autonomous)

Department of BBA

Subject- International Business

Topic- Balance of Trade and Balance of Payment




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Balance of Trade and Balance of Payment

- ▶ For analyzing the performance of the company and its future prospects, we study the financial statement of the company, i.e. Balance sheet.
- ▶ In the same way for analyzing the performance and prospect of the country the financial statement referred is Balance of Payment (BoP).
- ▶ It shows recording of all transactions taking place in a particular financial year.
- ▶ It is an accounting statement that provides a systematic record of all the economic transactions between resident of a country and the rest of the world in a given period of time.

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- ▶ Positive side (credit side) include surplus items like incomes form exports or the receipts of loans and investments and negative side (debit side) includes deficit items like expenses on imports or to invest in foreign countries.
 - ▶ The BoP account record all transactions between the residents of the country concerned and other countries and the residents includes all individuals, businesses, government and their agencies and international organizations.
 - ▶ Definitions- given by Souderton and Reed- “Balance of Payment is an accounting statement that records all economic transactions between the resident of a country and the resident of other countries within a given time, usually one year.”



Disequilibrium in Balance of Payment-

- It is an accounting statement that provides a systematic record of all the economic transactions between resident of a country and the rest of the world in a given period of time.
- BoP is a double entry accounting record, then apart from errors and omission, it must always in balance.
- The BoP deficit or surplus indicate imbalance in the BoP.

Disequilibrium in Balance of Payment-

- This imbalance is interpreted as BoP disequilibrium.
- A country's balance of payments is said to be in disequilibrium when its receipts (credits) are not equal to its payments (debits).
- **BoP Deficit-** A deficit or an unfavorable balance exists when the value of debit items exceeds the value of credit items.
- **BoP Surplus-** A surplus or a favourable balance exists when the value of credit items exceeds the value of debit items.



Types of Disequilibrium-

- 1. Short run disequilibrium-** it is a disequilibrium that prevails for year or for few quarters. Such deficits occur due to a sudden increase in demand for foreign goods and services. (failure in monsoon, natural calamities). Such disturbance does not require major policy decisions. They can be corrected through short-term borrowings.
- 2. Long run disequilibrium-** disequilibrium that prevails continuously for a long period of time. The IMF terms such a disequilibrium as Fundamental Disequilibrium. It caused by continuous excess demand for foreign exchange rather than the supply. Main causes – excess import for planned economic development, continuous growth in population, increase in prices of import goods. (crude oil)



Types of Disequilibrium-

- 3 Cyclical disequilibrium-** this type of disequilibrium caused by the trade cycles in the economy. During prosperity period, imports increase and export may increase during recession or depression due to decline in prices.
- 4 Structural disequilibrium-** it arises due to structural changes in the economy affecting demand and supply relations in commodity and factor markets. Export of a country may decline if in the rest of the world demand is diverted for other commodities. Also affect on demand for raw material due to technological changes.