

9/7/2020

NOTES

India's Foreign Trade

Absolute Advantage \rightarrow Efficiency/Productivity of available resources ^{all goods}
 Comparative Advantage \rightarrow ~~Real~~ Opportunity Cost
 \downarrow
 Comparison

Adam Smith \rightarrow *Specialization
 *Invisible Hand

	Bake Cakes	Make Pizzas
Ms. Gray	2 cakes/hr off. cost \rightarrow 3 Pizzas 1 cake \rightarrow 1/3 Pizza	6 cakes/hr 1 cake \rightarrow 1/6 Pizza
Mr. Pinson	4 cakes/hr off. cost \rightarrow 1 cake \rightarrow 2 Pizzas 1 Pizza \rightarrow 1/2 cake	8 Pizzas/hr

Absolute Advantage
 (Mr. Pinson)
 in both cases

2016
 MARCH

Courage is rightly
 esteemed the first of
 human qualities.

Productivity of available resources

MON	TUE	WED	THU	FRI	SAT	SUN
	Orange	Apple	3	4	5	
China	12	10				
India	10	8	10	11	12	
	14	15	16	17	18	19
	21	22	23	24	25	26
	28	29	30	31		

29/7/2020

India's Foreign Trade

$$\text{Trade Balance} = \text{Value of Exports} - \text{Value of Imports}$$

* Elasticity are instrumental in determining whether depreciation would be good or bad for trade ^{balance in} economy.

Marshall-Lerner Condition

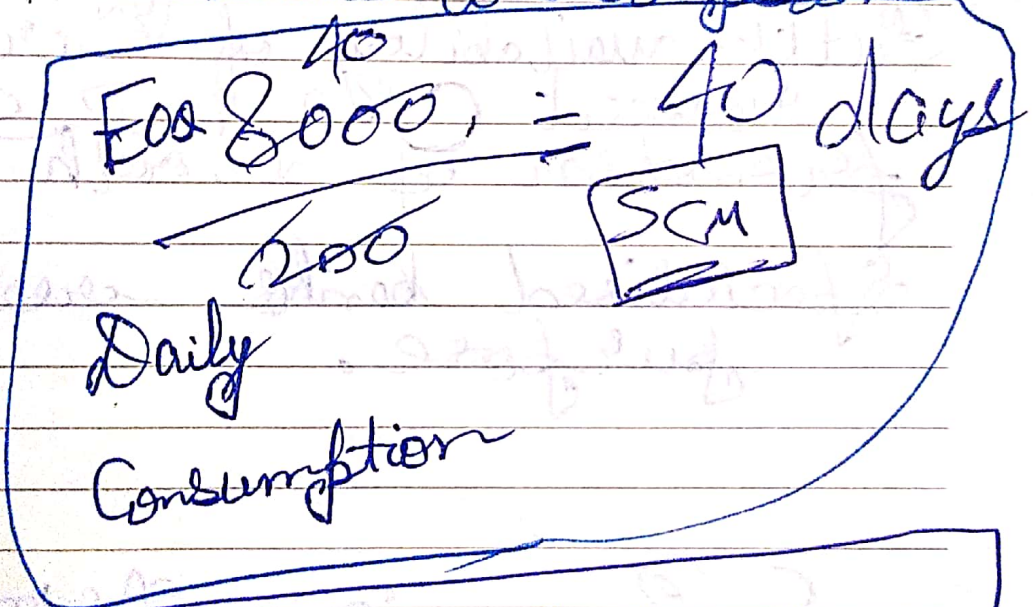
- (1) Sum of elasticity of both import & export > 1 , positive impact.
(seen on overall basis, both elasticities complement with each other).

India's Foreign Trade

~~How~~ How protectionist approach is beneficial if we see current trends that there are retaliatory moves and counter effect for the same?

↳ Go for free trade as long as domestic industries are competent enough.

↳ Free trade is beneficial, protectionism not good for econ.



API → Active Pharmaceutical Ingredients

MF → Growth
 World Bank → Development
 China supplies API to India.

Yong Kipper war → Oil shock (1979-80)

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MARCH

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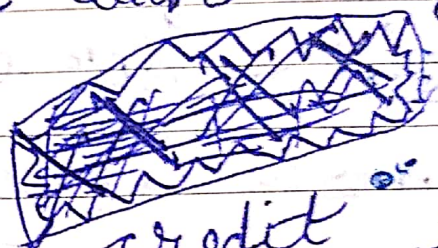
EXIM, NABARD, SIDBI

IFT

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→ Overseas Banking Units →

promotion of trade with major trading partners.



Better availability of credit facilities reduced C/P R & S/L R for promotion of smooth trade.

Specialised banks created for this purpose.

{ Recession, shrinkage of stock market

16/9/2020

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Policy reforms after 1991

Free trade policy → outward oriented policy
(Min. restrictions)

Protectionism → Inward looking policy
(lot of restr. w.r.t. trade & goods)

Trade Barriers

- (1) Tariff Barriers
- (2) Non-Tariff Barriers

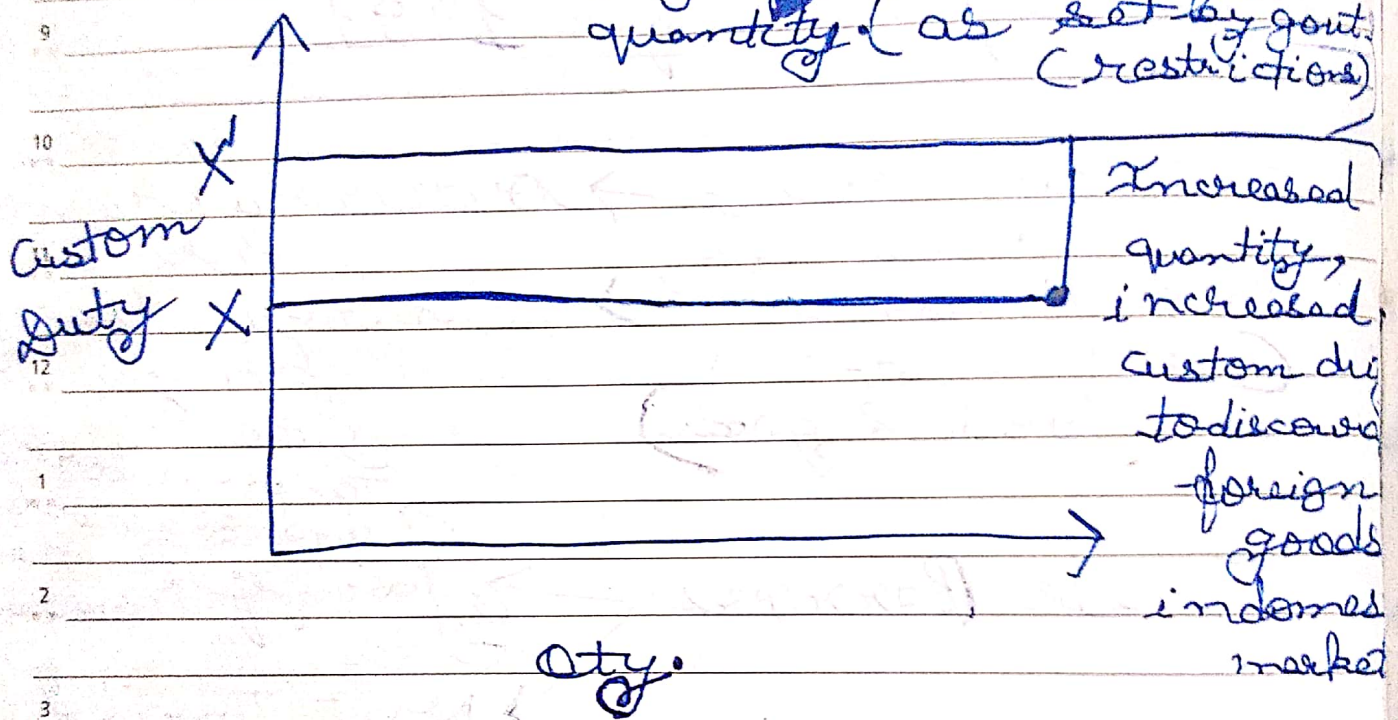
(Quantitative Restrictions)

outlets, Embargoes,
Import Licensing

(1) Quota Restriction on quant. of goods exported or imported.

(ii) Tariff Quota

Additional custom duty on goods imported beyond a level of quantity (as set by govt. restrictions)



Anti-

(iii) Dumping Duties

A
China

B
India

Toys

₹10

Exports to India at ₹7 + (3) → Anti-Dumping Duty

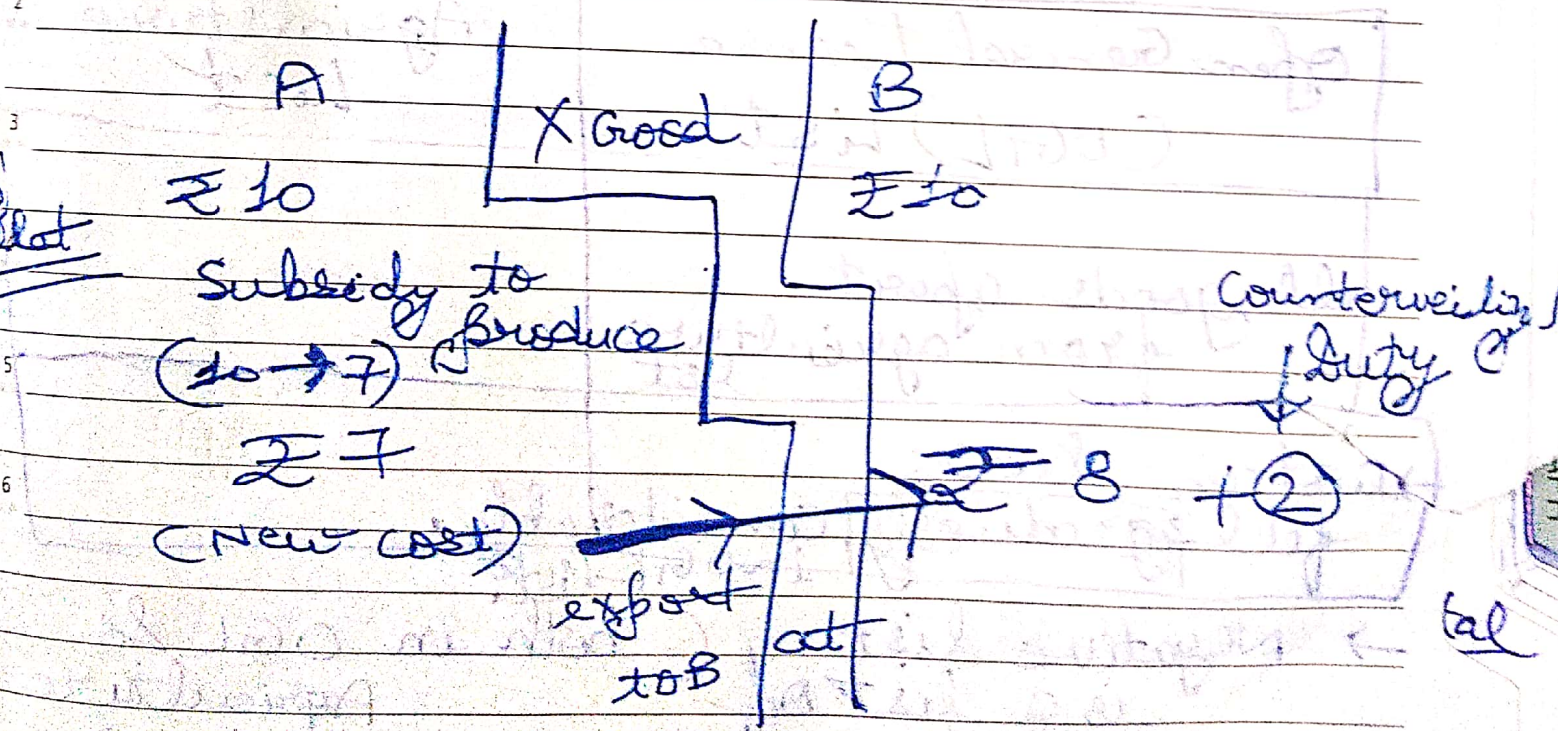
Due to higher efficiency, better technology etc.

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2016
MONDAY
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14
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China's cheaper goods will be flooded in Indian market. Govt. imposes anti-dumping duty to offset the negative market impact to safeguard domestic producers.

(iv) Countervailing measures



To offset cost adv. due to subsidy provided by country A.
To safeguard domestic producers,

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28	29	30	31				

ensure competition and keep prices near to domestic producers.

23/9/2020

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Post 1991, Trade Reforms

(1) Custom duties fell greatly.
Peak rates fell alot.

Open General license
(OGL) list

Agriculture
list

all goods apart
from agriculture
list

Custom Duties

fell gradually considerably
of in OGL list.

→ Negative list (both in OGL & Agriculture list)
is a list of items that a country is prohibited to import or export.
→ Negative list shrank.

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WEDNESDAY
 MARCH

(2) Moved from a fixed exchange rate system, gradually moved to managed floating.

(3) Current Account Convertibility / Flexibility.

Large negative list, high custom duties, quantitative restrictions

Dispute Settlement Board
 After 2001, custom duties further reduced. Dispute Settlement Board in favour of US that India ~~does~~ ^{imposes} extensive custom duties and trade barriers and is not obeying principles of WTO.

(4) We had considerable export promotion schemes.

(1) Duty Drawback Scheme
 Exporter of certain selected items gets concessional rates on taxes, custom duties etc.

(2) Export ~~Promotion~~ ~~Scheme~~ ~~for~~ ~~Good~~ / Capital Goods

Scheme (EPCG) Goods

Under EPCG, if you import capital goods (machinery) or domestically procure them, govt. provides concession on taxes & import duties of these items to the exporter.

This scheme is valid valid upto 6 years when the exporter gets a return on the exports which is 6 times of these concessions otherwise the amount won't be reimbursed.

(iii) Focused Product Scheme

Duty Credit Scrib, if you are an exporter of a product which is labour intensive.

→ 3% of total value of goods exported. (Duty Credit Scrib) as concession to your taxes etc.

→ The main aim was to promote export of domestic goods and improve employment opportunities as it is labour intensive.

Eg: → Carpets, etc.
textiles

25/9/2020

exported

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How FTP has performed?
 over the tenure

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Foreign Trade Policy (2015-20)

Objectives :->

465 475 Bn\$

(1) Double India's export from 465 Bn\$ to 900 Bn\$.

(2) India's share in the global exports rises from 2% to 3.5%.

Features of the FTP :->

(1) METS (Merchandise Exports from India Scheme)

(2) SEIS (Service Exports from India Scheme)

(Certain services from company located in India).

Subsued

1. Focus Product Scheme
2. Focus Market Scheme
3. Market-linked Focused Product Scheme
4. Apni Infrastructure Investment Scrib
5. Focused on Agri. Produce (VKGUY)

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(1) MEIS →

(discount)

It had 3 reward rates for the export of notified goods to notified countries. 2%, 3% & 5%

This percentage was % of the value of goods in terms of foreign exchange.

(2) SEIS → Provides reward rates for the export of notified goods to notified countries.

These rewards rates would be applicable to all the service providers within India ~~territory~~ territory (either India or outside India).

It replaced the existing Service from India Scheme (which only provided rewards to Indian service providers within India territory).

⇒ 3% & 5% (Reward Rates)

Special Provisions (applicable to both MEIS & SEIS)

DA Duty Credit Schemes (transferable) for payment of penalties, tariffs, import & custom duties.

* Ensure flexibility to exporters & service providers.

APRIL
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1
6

Old EPCG Concession 100
New EPCG 100

Export Value
1600 2016
~~150~~ 20
SUNDAY
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original ₹ 7.5%

New EPCG Scheme said that it will reduce export obligation by 25%. This reduction is only given in case when the capital goods are ~~procured~~ domestically procured.

Original EPCG remains same, ~~only a modification is done~~ only a modification is done to align with the Make in India Scheme.

→ This policy was in align with Make in India Scheme.

→ Aim was to boost production of domestically produced capital goods.

any or foreign company).

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						6

Ease of Doing Business/Trade Facilitation

- (4) Development of an online procedure for digital uploading documents by Chartered accountants, companies secretaries
- (5) Creation of importer/exporter profile to eliminate repeated submission of permanent records for each application such as Pan Card, trade license, ~~etc~~ manufacturing license etc.

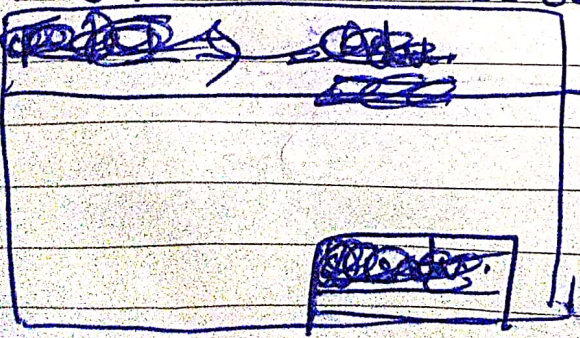
Foreign Capital

Capital Account Components

- Foreign Investment
 - * Foreign Direct Investment
 - * Foreign Portfolio Investment

• External Assistance

• Commercial Borrowings



- Non-resident Indian deposits

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30/9/2020

OECD → Organisation for Economic Cooperation & Development

TUESDAY, MARCH 22

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Invest India

OECD Definition,
 FDI is the category of international ~~being interest~~ investment that reflects the objective of a resident entity in one economy to obtain a lasting interest in an enterprise resident in ~~another~~ another economy.

Lasting Interest ⇒ Investment where an individual has acquired at least 10% of voting power in another organisation.
 (directly from promoters in huge quantity).

*FDI also includes reinvestment, knowledge transfers, processes, skills, culture apart from capital movements.

* FDI

- FDI classified into two types: →
- (1) Greenfield FDI → organ.
 - (2) Brownfield FDI

Company having strong competitive advantage

23

WEDNESDAY
MARCH

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Moat → To guard / protect (barriers to entry)

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(Maximum control in org. decisions)

(1.) → Greenfield FDI: → An organisation

creates a subsidiary and builds its operations from the scratch. It provides highest degree of control to the investor, gives autonomy.

→ egs

Mergers & Acquisitions

(2.) Brownfield FDI: → Where an

organization, instead of starting a subsidiary, invests internationally by the way of cross border mergers, acquisitions, joint ventures or either by the way of leasing.

eg: → Harley Davidson - Hero Moto Corp.

Our technology your domestic knowledge. It helps financial stressed companies.

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5/10/2020
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2016
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Automatic & Govt. Route

Which sectors FDI is prohibited?

- 1) Lottery Businesses
- 2) Gambling, Betting, Casinos etc.
- 3) Chit fund companies
- 4) Manufacturing of cigars, cigarettes & tobacco products.

* Sectors closed for FDI :->

- 1) Atomic Energy
 - 2) Railway operation
- (Not even 1% of FDI allowed)

Automatic Route :-> Under this route, there is no need for approval from government for doing FDI in certain sectors.

Govt. Route :-> Under this route, an approval is required from government for doing FDI under certain sectors.

Advantages of FDI: →

- (1) creation of Job / (Increased employment opportunities)
Increased employment & economic growth
- (2) Human Resource Development
(Culture & knowledge transfers that improves skills of human capital)
- (3) Development of Backward areas of the country & push it into industrial centres.
- (4) Provision of finance & technology.
(Provided by a company to a domestic company (recipient) that improves its productivity & operations)
- (5) Increase in exports
(Creation of export centred/units that boosts export oriented)
- (6) Exchange Rate Stability / Improved Capital
(Constant flow of FDI leads to good reserve of forex in central bank to face foreign shocks).
- (7) Creation of Competitive Market
(FDI creates comp. environment, breaks down monopolies & provides range of products which are

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SATURDAY
MARCH

2016
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Disadvantages of FDI :->

- (1) Disappearance of small-scale industries
rise in
- (2) Contribution to pollution level.

~~Disadvantages~~

- (1) Cultural Erosion
(Adapt to different culture alien to them).
(Cultural shock experiences by local people)

6/10/2020

IFT (Revision)

- (1) why trade \rightarrow specialisation
- (2) Free trade vs Protectionism
- (3) Fluctuation in exchange rate impact competitive advantage
- (4) J-curve
- (5) Elasticity on Exports & Imports
- (6) Marshall Lerner Condition

competitive in price etc.

1A/10/2020

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Foreign aid is voluntary transfer of resources from one country to another

Transfers from developed to developing countries (flow of capital)

(robust dev in developed, low dev in developing)

Speed of no robust industrial base

Two forms

(1) Loan

(2) Grant

Loan further in two aspects

Basis of repayment

(1) Soft loan
↓

(2) Hard loan

8 If repayment of aid requires
a foreign currency → hard loan

10 domestic currency → soft loan
(home)

12 World Bank ⇒ Hard loans
IMF ⇒ Soft loans

2 US one of major contributors to foreign
aid.
3 (diplomatic reasons)

4 ⇒ to strengthen military resources
of allied nation.

5 an
6 ⇒ to get some sort of com.
dipl infl countr
to derive some kind of
commercial benefits/profit in
long run

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2016
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WEDNESDAY
 MARCH

Kinds of Foreign Aid :->

(1) Bilateral Aid
 Assistance given by govt. of one country to govt. of another country.
 Developed & Developing

(Humanitarian, Political & Strategic)

→ to assist, promote economic growth, stability & development etc.

(2) Multilateral ~~Trade~~ Aid

Assistance provided by many countries to pool funds in some international org.
 World Bank, IMF, United Nations

→ reduce poverty in developing & underdeveloped nations or tackle any developmental affect.
 Consists of minority of US's foreign aid

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THURSDAY
MARCH

Pro Bono ⇒ Nothing in return

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21	22	23	24	25	26	27	6
28	29	30	31				

3.) Project Aid

8

Aid for a certain project.

9

Specifically for virtue of that

10

Mostly charitable & no novelty or generosity

11

eg → Edu. for underprivileged

4.) Military Aid (Never charitable)

1

Aid for buying military resources

2

5.) Voluntary Aid

3

Order without borders ⇒ org.

4

Provide services to

5

countries badly affected

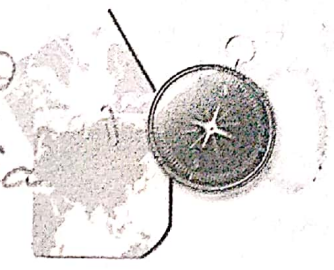
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by wars, pandemic etc.

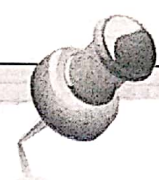
2016
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Reparation from British Govt. to India

You can never conquer the mountain. You can only conquer yourself.



(Tiny portion in from GDP)



MON	TUE	WED	THU	FRI	SAT	SUN
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<p><u>Advantages</u></p> <p>(1) Better I R</p>						
11	12	13	14	15	16	17
<p>(2) Maintain peaceful harmony</p>						
<p>(3) Donating countries engage in</p>						
<p>(4) Better working relationship with</p>						
18	19	20	21	22	23	24
<p><u>Disadv</u></p>						
<p>(1) Focused on only one sector, i.e., new technologies, unequal distribution</p>						
25	26	27	28	29	30	
<p>(2) Increased Dependence</p>						

I FT

WTO

* Trade Opening → Freer trade

* Forum → govt. of various nations deliberate on: →

- (1) Trade Agreements
- (2) Trade Disputes
- (3) Trade Problems

* Birth of WTO → out of negotiations

* Rules & Regulations → GATT

* Uruguay Round (1986-94) of GATT

↳ Examination of WTO

* Countries → facing trade problems

↳ lowered

→ open markets

→ During pandemic, WTO may impose

trade barriers to slower trade for health reasons

→ Generally, undertaken by developing countries

* WTO → formed to protect them
→ open trade in consultation
→ trade barriers with WTO (trade barriers)

* Trade flow as freely as possible

→ so long there are no undesired side-effects

* Economic development of Global Scenario

Facts of WTO

1* Geneva, Switzerland

2* January, 1995

3* Created by → Uruguay Round
Negotiations

(1986-94)

4* Memberships → 164 members
(98% of world trade)
under its ambit

Functions of the WTO

- (1) Administering WTO trade agreements
- (2) Forum for Trade Negotiations
- (3) Settling trade disputes
- (4) Monitoring trade policies
- (5) Providing technical assistance & training to developing countries
- (6) Cooperation with other international organisations

Broad Principles of WTO

(1) Non-Discrimination

(A country should not discriminate while dealing with its trade partners, parity is ensured).

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(2) More open → lowering trade barriers

(3) Predictable & transparent
* Foreign Companies, Investors & Govt. → Confident

* Trade Barriers → are not raised arbitrarily

* Predictability → Investment is encouraged, jobs are created & competition that benefits consumers.
↓ stability

(4) More competitive ↔ better innovation, cheaper products

(5) Discourage unfair practices such as export subsidies & dumping products at rate below the market levels!

(5) More beneficial for less developed countries

Inclusive Growth

(1) Flexibility → special privilege transition

(6) Protect the Environment

~~20/10/2020~~

22/10/2020

TUESDAY
APRIL

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Agreement on Agriculture (AOA)

- Aspects of AOA (What WTO wants its member states)
- (1.) Market Access ⇒ Reduce import duties
(or any sort of duties that restrict market access)
 - (2.) Export Competition ⇒ Reduce Export Subsidies
 - (3.) Domestic Support ⇒ Reduce (Amber Box) Subsidies
(Trade Distorting Subsidies)

AOA classifies subsidies into two parts :->

- (1.) Domestic Subsidies
- (2.) Export Subsidies

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WEDNESDAY
 APRIL

Domestic Subsidies

(1.) Prod. capacities of domestic markets is enhanced

(2.) Mostly Third World Nations, Developing Nations
 → Keep farmers happy, vote bank

(3.) To increase food production, food security

Export Subsidies

(1.) Incentives to Export

(First World)
 (2.) MNC → Corporational Farmers lobby
~~to be happy~~
 (Content of Happy)

(3.) To capture "foreign markets" by flooding markets with cheaper agricultural products and hence more share in it.

Domestic Subsidies

Export Subsidies

AOA classification of subsidies
→ Fine

AOA

- (1) GREEN → Box
- (2) BLUE → Box
- (3) AMBER → Box

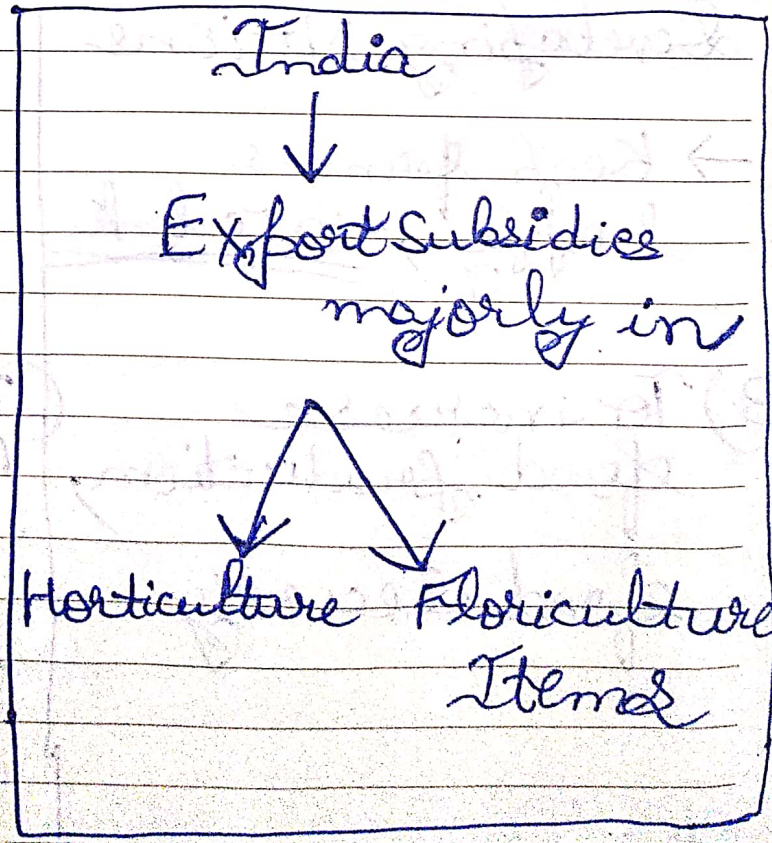
(1) Developed countries
reduce export
subsidies by 36%

(2) Developing
reduce by 24%

(3) least Developed
→ Not
Applicable

Relaxed

Reduce



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31/10/2020
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FRIDAY
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2016
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Green Box

(1) Subsidies that don't disrupt trade.

(2) Very minimum damage to trade balance.

Eg: → (i) Agriculture research, development extension & services

(ii) Farmers training programs

(iii) Pest-disease control programs

(iv) Flood/Drought relief money paid to farmers

Amber Box

(1) Subsidies disturb trade

Eg: → Subsidies for fertilizers, seeds, power & irrigation

(2) They distort trade because they encourage excessive production

therefore, country in consideration
 their agriculture products become
 cheaper in international markets.

* WTO wants to limit these subsidies.

Blue → ?

~~Answer to the question~~

12

Institution

Key Idea

- (1) World Bank (Development) → cheap loans for development projects in the third world countries
- (2) IMF (Growth) → Balance of Payment & Exchange Rate Stabilization
- (3) WTO → Smooth Trade / Free Trade
 Reducing Barriers

4/11/2020

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04
APRIL

I.F.T.

BOP →

a systematic record of all economic transactions between residents of a given country & the residents of the rest of the world in an accounting period (a year).

↗
International Economic

LDCs → least developed countries
 ^{suffers}
(adverse BOP)

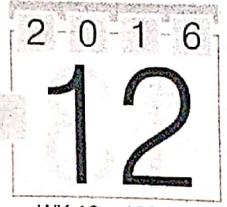
BOP → Impacted by ~~Accounting~~ export, import, trade policies, tariffs, exchange rate mechanism

Monetary & Fiscal policies ~~are not~~ focused affects BOP

(not much focused in curriculum).

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1	9	10	11	12	13	14	15
6	16	17	18	19	20	21	22
	23	24	25	26	27	28	29

TUESDAY
APRIL



BOP → Transactions ^{which} includes all the foreign receipts of & payments by a country ~~including~~ during a year.

Receipts (Credit Side) → Includes all earnings & borrowings of forex (Credit Items)

Payment → all spending & lending of forex (Debit Items)

* Leads to financial inflows & financial outflows. (Debit & Credit Items)

BOT+3 → Balance of Payment

2016
13

WEDNESDAY
APRIL

WK 16 • 104-262

M	T	W	T	F	S	S
4	5	6	7	8	9	10
11	12	13	14	15	16	17
18	19	20	21	22	23	24
25	26	27	28	29	30	6

BOP Components

- (1.) Goods Account } Balance of Trade
- (2.) Services Account } Balance of Trade
- (3.) Unilateral Transfers Account
- (4.) Long-term Capital Account
- (5.) Short-term Capital Account
- (6.) International liquidity Account

(Current A/c)

- (1.) Goods Account → Includes value of merchandise exports & value of merchandise imports.
(Visible Items)

↳ Tangible Real Goods

Receipts from Exports > Payments from Imports ⇒ Surplus/Good Balance/Positive Goods Balance

→ Basic Balance

BOP + BOP = Balance
(Cur) (Capital)

MAY 4+5
M T W T F S
2 30 31
4 5 6 7
8 9 10 11 12 13 14
15 16 17 18 19 20 21 22
23 24 25 26 27 28 29

THURSDAY
APRIL

Payments of 14
Coverd
14+6
= BOP Accounting Balance

Payments (Imports) > Receipts (Exports) ⇒ Negative Goods Balance / Unfavourable Balance

(Current A/c)

(2) Services Account → Invisible Items

* No part of entry for services A/c items, since Services Account included → they are invisible

(a) Transportation, Banking & Insurance Receipts & Payments from & to the foreign countries.

(b) Tourism, Travel services & tourist purchases of goods & services received from foreign visitors to home country and paid out in foreign countries by the home country citizens.

(c) Expenses of students studying abroad & receipts from foreign students studying in the home country.

Receipts > Payments ⇒ Surplus; Payments > Receipts ⇒ Unfavourable

(d) Expenses of diplomatic & military personnel from overseas who are stationed or located in the home country.

(e) Interests, Profits, Dividends and Royalties received from foreign countries & paid out to foreign countries.

These items are referred as Investment Incomes.

Included in
Services A/C,
Short term
Capital A/C,
Long-term
Capital A/C

Receipts & Payments arising out of these items

↳ Capital Services

forms a major chunk of developed & developing countries

(lot of investment done by them; earn profit, interest out of it)

7/11/2020

MAY	M	T	W	T	F	S	S
30	31					1	
2	3	4	5	6	7	8	
9	10	11	12	13	14	15	
16	17	18	19	20	21	22	
23	24	25	26	27	28	29	

To be asked
 Monetary & Fiscal
 Items
 limits to Amber Box

SATURDAY
 APRIL

IFT-016
 16
 WK 16 • 107-259

Real economic variables factors in prices. (economic worthiness) (adjusted to inflation)

Nominal economic variable do not factor in prices. (what you earn (inflation not adjusted) actually)

$$\text{Real Interest Rate} = \text{Nominal Interest Rate} - \text{Inflation}$$

₹ 100 $\xrightarrow[\text{After 1 year}]{\text{Investment}}$ ₹ 107 (with interest) (nominal interest)

$\xrightarrow[\text{6\%}]{\text{Inflation}}$ ₹ 106 (after inflation)

107 - 106 = 1 (real interest rate) (Bangalore)

(Delhi) A (₹ 200) (income) B (₹ 100) (income)
 Same level of consumption \Rightarrow Basket of Goods \Rightarrow ₹ 20/- per good \Rightarrow ₹ 10/- per good
 Items purchased \Rightarrow 10 10

A is richer offer nominal income

* As for real income, both A & B are at same level, as they ^{can} purchase same amount of goods.

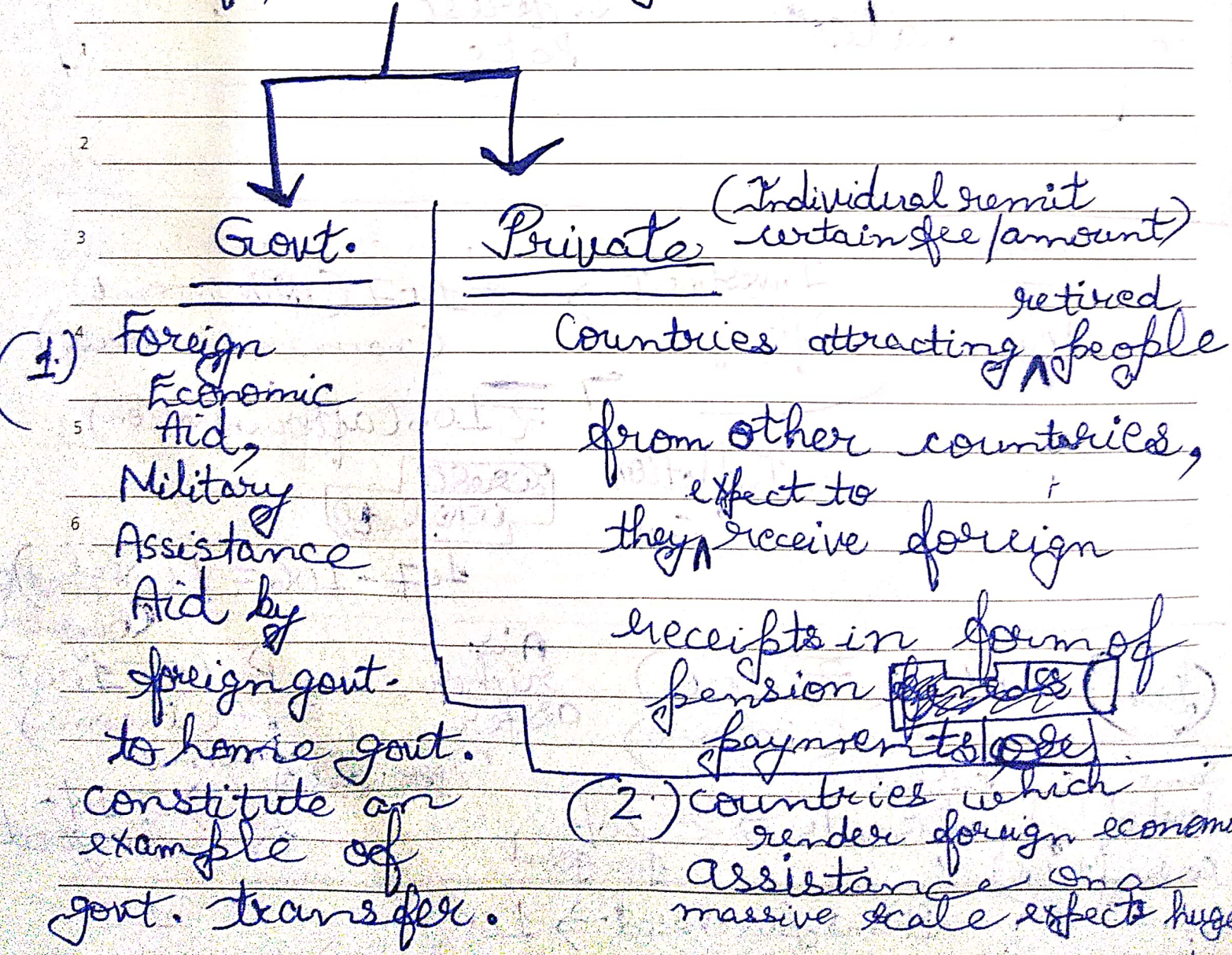
10/11/2020

IFT

→ No Refayment Obligation / Conditionality

3) Unilateral Transfers A/C

(a) Gift, Grants, Reparation



05	M	T	W	T	F	S	S
MAY							
2	30	31					1
0	2	3	4	5	6	7	8
1	9	10	11	12	13	14	15
6	16	17	18	19	20	21	22
	23	24	25	26	27	28	29

MONDAY
APRIL

2016
18
WK 17 • 109-257

Unreciprocated Transfers / Unilateral Transfers

- Flows only ~~in~~ in one direction with no reverse transaction.
- There is no repayment obligation attached to these transfers.
- They don't come in Borrowings & lendings.

→ They come under the ambit of gift, grants, etc. exchange by people from one country to rest of world.

4°) Long term Capital A/C

→ Amount of Capital into or out of the country in accounting period in a year.

→ Period of greater than 1 year

Long-term Capital comes under long-term Capital A/C

deficits in their unilateral transfers account.

Components :->

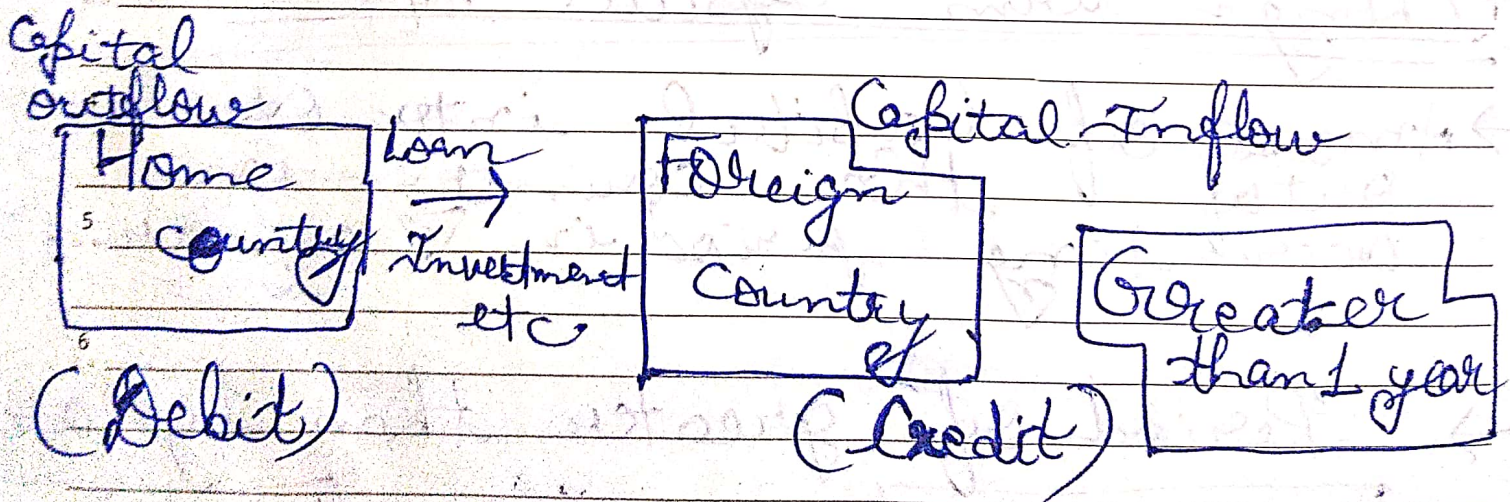
(1) Private Direct Investment → FDI

(2) Private Portfolio Investment → FPI

↳ Securities, Shares, Bonds etc.

↳ normally induced by capital gains, rate of return is more attractive in a country's financial asset than another.

(3) Government loans to/from foreign government



Returns from capitals like interest, profits, dividends & interest payments from one country back to home country is debited from

Least Developed / Developing →

Surpluses in
long-term Capital A/C
2016

Debit to Foreign Country

WEDNESDAY
APRIL

20

WK 17 • 111-255

	M	T	W	T	F	S	S
05							
MAY							
2	30	31				1	
0	2	3	4	5	6	7	8
1	9	10	11	12	13	14	15
6	16	17	18	19	20	21	22
	23	24	25	26	27	28	29

capital services A/C (Foreign Country)
and credited to capital services A/C
(Home country)

11/11/2020

IFT

(5.) Short-term Capital A/C

↳ Capital A/C less than 1 year

↳ represents bank transfers
that finance trade &
commerce

(1) Hard to keep track all short-term
capital movements → in & out of
country

(2) Many Countries → X Short-Term

(3) Rough estimates

unrecorded transactions

Imperfection in Estimation

Short-Term Capital

Statistical or

Recording Error

(4) Errors & Omissions
(includes)
Illegal, Smuggling,
Secret Capital Movement

Some countries

2016
21
17 • 112-254

THURSDAY
APRIL

M	T	W	T	F	S	S
				1	2	3
4	5	6	7	8	9	10
11	12	13	14	15	16	17
18	19	20	21	22	23	24
25	26	27	28	29	30	

Task

India's BOP → Separate Short-term Capital A/c

(c) International liquidity A/c

↳ Records net changes in foreign reserves.

↳ Used to Balance the A/c.

	M	T	W	T	F	S	S
MAY							
2	28	31					1
3	1	2	3	4	5	6	7
4	8	9	10	11	12	13	14
5	15	16	17	18	19	20	21
6	22	23	24	25	26	27	28

27/11/2020

FRIDAY
APRIL

2016
22
WK 17 • 113-253

IFT

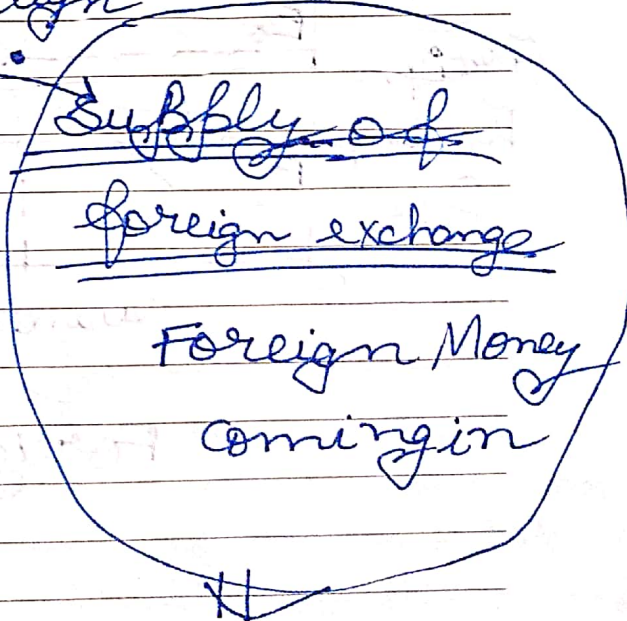
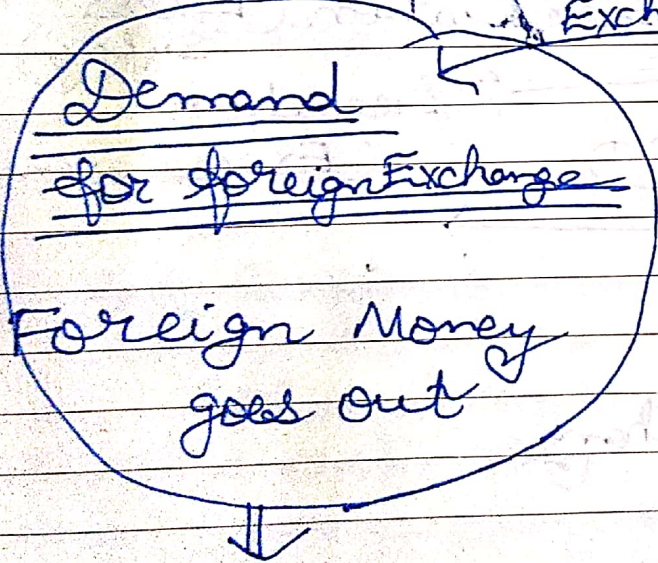
Foreign Exchange via India

PPP → Purchasing Power Parity

$1 \$ = ₹ 5$

McD Burger = 20\$ (USA)
= ₹ 100 (India)

Rate of Foreign Exchange



(1) Foreign currency is needed to carry out transaction in foreign country or purchase of foreign goods (Import)

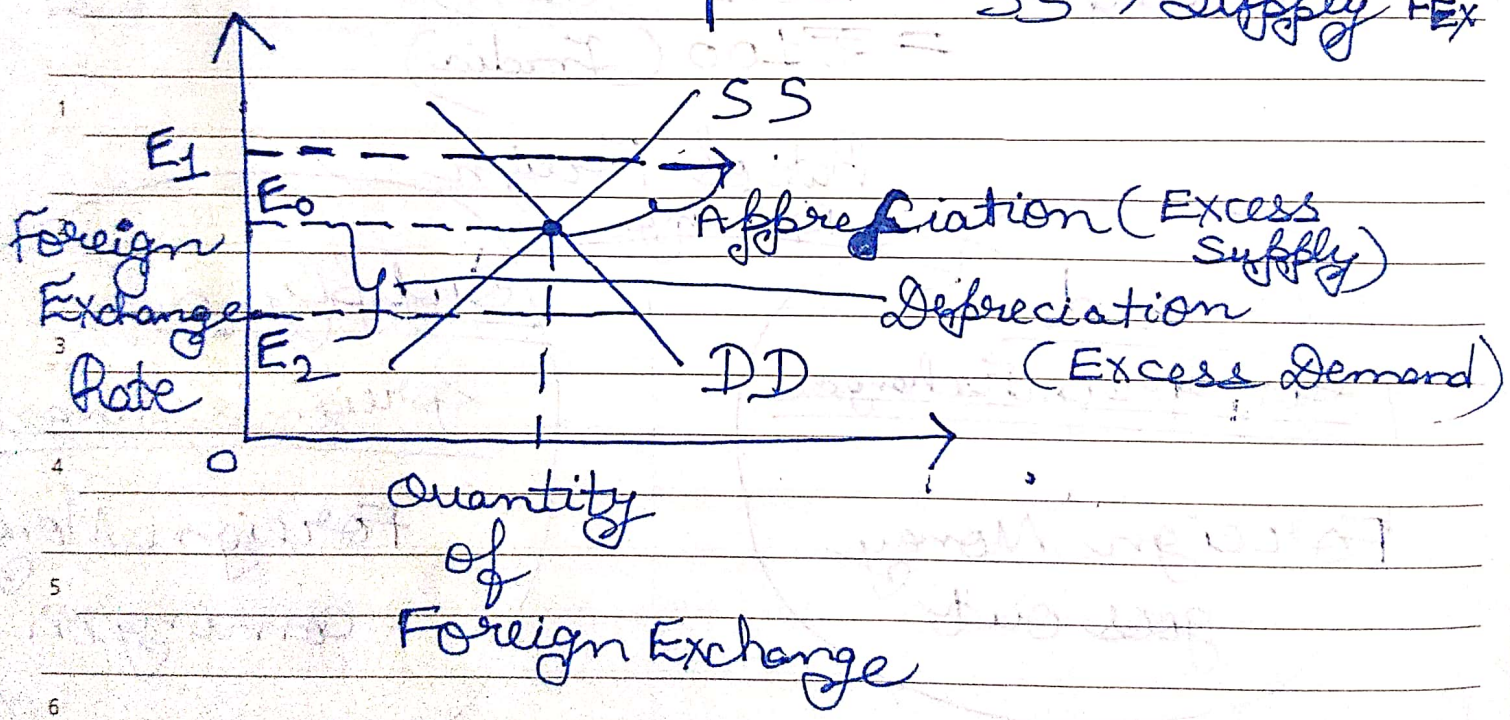
The source of foreign currency available to (Exports)

Demand

(2.) Foreign country assets / shares / Bonds

(2.) Foreign investors investing in Indian stocks (Assets, Bonds FDI, FII)

DD → Demand FEX
 SS → Supply FEX



05	M	T	W	T	F	S	S
MAY							
2	30	31					1
0	2	3	4	5	6	7	8
1	9	10	11	12	13	14	15
6	16	17	18	19	20	21	22
	23	24	25	26	27	28	29

2-0-1-6
24
 WK 17 • 115-251

SUNDAY
 APRIL

Types of Exchange Rate Regimes

- (1.) Fixed
- (2.) ~~Fluctuating~~ Fluctuating / Floating
- (3.) Managed Floating

Fixed vs. Floating
 Complete Govt. Intervention vs. Market Driven

(1.) Stability of Adv. Exchange Rate vs. (1.) Fluctuation

Disadv.

(1.) Heavy Burden on Govt. to maintain this Exchange Rate
 (2.) Investors avoid as true economic value is not reflected leads to BoP crisis (India → 1991)

(1.) Easier access for funds/loans from IMF & other institution if exchange rate is market driven

2016
25
WK 18 • 116-250

MONDAY
APRIL

Find: →

- (1) Adjusted Peg System
- (2) Crawling Peg System
- (3) Clean Floating
- (4) Dirty Floating

M	T	W	T	F	S	S
						APRIL
				1	2	3 2
4	5	6	7	8	9	10 0
11	12	13	14	15	16	17 0
18	19	20	21	22	23	24 1
25	26	27	28	29	30	31 0

Managed Floating →

Transition Exchange Rate Management

(1992-1993)

LERMS (Liberalised Exchange Rate Management System)

Partial Convertibility of Rupee

Dual Exchange Rate Policy

