SSC

SMIT SIR COMMERCE

GSEB | ENGLISH MEDIUM

ECONOMICS

STANDARD 12

CHAPTER 9

Foreign Trade

Complete Concept Notes | Textbook-Based | Board Exam Preparation

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Learn the Concept. Understand the Logic. Write Better Answers.

How These Notes Are Built

These notes are rebuilt from your Chapter 9 source and preserve the textbook sequence from domestic/foreign trade through Balance of Payments and exchange rate.

- Domestic and international trade are explained separately before comparison.
- All four reasons for international trade are explained with examples.
- All ten textbook features affecting the nature of international trade are covered.
- India's size, composition and direction of foreign trade are presented in clean tables.
- Balance of Trade, Balance of Payments, Current Account and Capital Account are separated clearly.
- The textbook hypothetical BoP example is simplified step by step.
- Exchange rate is explained through rupee appreciation/depreciation logic.
- Historical trade figures are clearly marked as textbook-era data.

TEXTBOOK DATA NOTE

This chapter uses historical World Trade Report 2013/2015, EXIM Bank and Economic Survey 2015-16 data. These figures are retained for board-exam fidelity and should not be presented as current trade statistics.

Chapter at a Glance

Section	Topic	Core Idea
9.1	Domestic vs Foreign Trade	Trade within boundary vs across national boundary
9.2	Reasons for Trade	Factor endowments, cost, technology, specialization
9.3	Nature of International Trade	10 special features
9.4	Domestic vs International	7-point comparison
9.5-9.7	World & India's Trade	Magnitude, share, size, composition, direction
9.8	Balance of Payments	Current + capital account
9.9	Exchange Rate	Price of foreign currency in domestic currency

EXAM IMPORTANT

The chapter's logic is: Countries trade because they differ -> international trade has special challenges -> India's trade changes in size/composition/direction -> all external transactions are recorded in BoP -> exchange rate affects imports and exports.

Learning Objectives

- define domestic and international trade.
- explain all four reasons for international trade.
- explain all ten factors affecting the nature of international trade.
- differentiate domestic and international trade on seven bases.
- interpret the historical world-trade growth table.
- explain India's share, size, composition and direction of foreign trade.
- define Balance of Trade and Balance of Payments.
- explain Current Account and Capital Account.
- classify BoP as balanced, deficit or surplus.
- explain the exchange rate and its effect on imports and exports.

Introduction - What is Foreign Trade?

A country's geographical boundary does not prevent it from using goods, services or technology produced elsewhere. Countries regularly exchange products, services, capital, technology and know-how across borders.

Examples from the source: Korean refrigerators, Japanese televisions, German cars, American tractors, British footwear and petroleum from Gulf countries.

KEY TERM - INTERNATIONAL / FOREIGN TRADE

Exchange of goods, services, resources, capital, technology, know-how and similar items across national boundaries.

9.1 Domestic Trade and International Trade

KEY TERM - DOMESTIC / INTERNAL TRADE

Trade that takes place within the geographical boundary of one country.

KEY TERM - INTERNATIONAL / FOREIGN TRADE

Trade that takes place across the geographical boundary of a country.

Trade itself means a commercial activity involving exchange of goods, services, resources, capital, technology, know-how, intellectual property and similar economic items.

REMEMBER THIS

Domestic = inside one nation. International = between nations.

9.2 Reasons for International Trade

No.	Reason
1	Difference in Factor Endowments
2	Difference in Cost of Production
3	Difference in Technological Progress
4	Division of Labour and Specialization

1. Difference in Factor Endowments

Countries possess land, labour, capital, resources and skills in different proportions. No country has every factor needed for every product.

Example: A country rich in petroleum may export crude oil while importing machinery it cannot produce efficiently.

2. Difference in Cost of Production

Differences in resource availability make production costs different across countries. Scarce factors are expensive, raising domestic production cost.

Example: If a machine is much cheaper to produce abroad, importing it may cost less than producing it domestically.

3. Technological Progress

Countries do not possess the same level or type of technology. Some become experts in particular products or processes.

Example: A country may import specialised electronics or industrial technology from a technologically stronger producer.

4. Division of Labour and Specialization

Countries specialise in goods and services in which their labour, entrepreneurs and resources are relatively efficient and trade for the rest.

Example: A country may specialise in software services while importing products it produces less efficiently.

EXAM IMPORTANT

Four reasons = Factors -> Cost -> Technology -> Specialization.

9.3 Factors Affecting the Nature of International Trade

International trade differs from domestic trade because it operates across different governments, currencies, cultures, legal systems and markets.

1. Lesser Geographical and Occupational Mobility of Factors

Labour and entrepreneurs face social, legal and policy barriers when moving across countries. Land is geographically immobile. Some forms of capital also face restrictions.

2. Trade in Many Varieties of Goods

International trade offers very large varieties of goods and services to consumers with different tastes and standards of living.

3. More Challenging in Nature

Different languages, cultures, customs, habits, preferences and market practices make foreign trade more difficult.

4. Requirement of Diplomatic Efforts

Governments support trade through diplomatic relations, meetings, summits and trade fairs. The source cites Vibrant Gujarat Summit as an example.

5. Knowledge of Different Currencies

International transactions require conversion between currencies, so traders need knowledge of exchange rates and currency changes.

6. Joint Effort of Nations and International Organizations

Trade grows through cooperation among governments and bodies such as the WTO.

7. Impact of Political and Social Ideologies

Wars, political tensions or friendly relations can expand or disturb trade between countries.

8. Vast Scale

International trade involves many countries, goods, rules, contracts and institutions, so its overall scale is much larger.

9. More Permissions and Taxes

Traders face licenses, customs procedures, quality standards, freight formalities and other regulatory requirements.

10. Higher Degree of Competition

International sellers and buyers compete strongly, requiring high quality, promotion and selling expenditure.

9.4 Domestic Trade vs International Trade

Basis	Domestic Trade	International Trade
Scale	Smaller; within one country	Much larger; many countries/rules
Currency / Payment	Domestic currency and banking system	Several currencies, exchange rates and international payment arrangements
Language / Culture	Relatively common environment	Major differences in language, culture, customs and law
Transport Cost	Lower	Higher
Competition	Relatively lower	Very high
Consumer Satisfaction	Preferences easier to understand	Preferences vary widely across countries
Administrative / Legal System	Known and relatively simpler	Different permits, licenses, taxes and quality rules

EXAM IMPORTANT

This 7-point table is a major long-answer topic. Use a table instead of paragraph writing.

9.5 Magnitude of World Trade in Present Times

The source notes that world trade expanded dramatically as transport and communication costs fell.

TEXTBOOK DATA NOTE

World Trade Report 2013 historical context: since the mid-1800s, world population rose around six-fold, world output around 60-fold and world trade more than 140-fold.

The source also states that developing economies increased their participation in world trade and that Asia became increasingly important.

Average Annual Growth of World Trade - Textbook Table

TEXTBOOK DATA NOTE

Historical textbook data.

Time Period	World Trade Growth
1950-1973	7.88%
1973-1985	3.65%
1985-1996	6.55%
1996-2000	6.89%
2000-2011	5.00%
2015-2016	2.8%

SMIT SIR'S NOTE

The exam point is the long-run expansion of world trade, not only memorising every percentage.

9.6 India's Share in Global Trade

The source notes that India's share in world trade remained relatively small compared with the size of world trade, though India's exports and trade participation increased.

TEXTBOOK DATA NOTE

Textbook figure: India's total trade share in world trade in 2014-15 was about 2.07%.

India's Share in Global Merchandise Exports

TEXTBOOK DATA NOTE

Historical EXIM Bank data.

Financial Year	Share in Global Merchandise Exports (%)	Rank
2005	0.9	29
2010	1.5	19
2012	1.6	19
2013	1.7	19
2014	1.7	19

Interpretation: India's export share rose and its global rank improved from 29 to 19 in the source period.

9.7 Size, Composition and Direction of India's Foreign Trade

Concept	Meaning
Size	Total value/volume of merchandise exports and imports
Composition / Nature	What kinds of goods India imports and exports
Direction	Which countries/regions India trades with

9.7.1 Size of India's Foreign Trade

KEY TERM - SIZE OF FOREIGN TRADE

Total value and volume of merchandise imports and exports of a country.

TEXTBOOK DATA NOTE

Historical Economic Survey of India 2015-16 data.

Item	1991-92	1998-99	2014-15
Merchandise Exports	17.9	33.2	310.5
Merchandise Imports	19.4	42.4	448.0
Balance of Trade	-1.5	-9.2	-137.5

Source conclusion: Both exports and imports increased strongly after 1991, but imports remained higher than exports, so the merchandise trade balance stayed in deficit.

Balance of Trade - The First Key Distinction

KEY TERM - BALANCE OF TRADE

Value of merchandise exports minus value of merchandise imports.

EXAM IMPORTANT

Balance of Trade = Merchandise Exports - Merchandise Imports

Deficit: Imports > Exports.

Surplus: Exports > Imports.

SMIT SIR'S NOTE

Balance of Trade covers only visible / tangible merchandise goods. It does not include the complete external transactions of the economy.

Trade as a Share of India's GDP

TEXTBOOK DATA NOTE

Historical World Trade Report 2015 data.

Year	Trade as % of India's GDP
1981	12
1991	13.9
2001	19
2011	41.8
2014	38.3

Interpretation: The trade-GDP ratio rose strongly over the long period, showing greater integration with the world economy.

9.7.2 Composition of India's Merchandise Imports

Composition means the types of goods that make up India's imports.

- Food imports: Source says share fell from 19.1% in 1961 to 3.9% in 2014-15.
- Capital-intensive goods: Source says share fell from 31.7% in 1960-61 to 9.8% in 2014-15.
- New items: Source says share rose from 2.2% in 1960-61 to 46.5% in 2014-15.

SMIT SIR'S NOTE

The chapter interprets lower food-import share as evidence of greater self-reliance in foodgrains.

Developmental and Maintenance Imports

Developmental Imports: Capital goods, machinery, technology and know-how imported to support economic development.

Maintenance Imports: Inputs such as spare parts, petrol and intermediate goods required to keep existing industrial activity running.

REMEMBER THIS

Developmental imports build capacity. Maintenance imports keep capacity operating.

Composition of India's Merchandise Exports

TEXTBOOK DATA NOTE

Historical textbook data.

Export Category	1960-61	2014-15
Primary Sector	44.2%	12.3%
Tea/Coffee	19.3%	0.2%
Jute	21%	0.2%
Readymade Garments	0.1%	5.4%
Manufactured Goods	45.3%	66.7%
Petroleum Products	1.1%	18.5%

Interpretation: India's export structure shifted away from traditional primary goods toward manufactured and non-traditional exports.

Traditional vs Non-Traditional Exports

Traditional Exports	Non-Traditional / Expanding Exports
Tea	Readymade garments
Coffee	Petroleum products
Jute	Manufactured goods
Other primary-sector products	Other newer export items

REMEMBER THIS

Textbook trend: Traditional primary exports declined; manufactured/non-traditional exports increased.

9.7.3 Direction of India's Foreign Trade

KEY TERM - DIRECTION OF FOREIGN TRADE

Trade relations of a country with different countries and regions of the world.

The source describes a shift away from heavy dependence on traditional partners such as England and the USA toward wider trade with developing countries and Asian economies.

TEXTBOOK DATA NOTE

Textbook historical facts: imports from England fell from 19% in 1960-61 to below 2% after 2007; imports from USA fell from 29% to below 8% after 2007.

Direction of India's Trade - 2014-15

TEXTBOOK DATA NOTE

Historical EXIM Bank / Economic Survey 2015-16 data.

Region	Share in Imports (%)	Share in Exports (%)
Asia	59	50
Europe	16	18
North America	6	14
Africa	8	11
Latin America	7	5
CIS & Baltic Regions	2	1
Others	2	1

Key source conclusion: Asia was the largest regional partner, with 59% of imports and 50% of exports in 2014-15.

OPEC and India's Trade Direction

KEY TERM - OPEC

Organization of Petroleum Exporting Countries.

The source links the increase in India's imports from OPEC with rising crude-oil requirements during industrialisation.

SMIT SIR'S NOTE

Remember: OPEC in this chapter is mainly connected with petroleum imports.

9.8 Concept of Balance of Payments

Simple Meaning: Balance of Payments is a systematic record of all economic transactions between residents of a country and the rest of the world during a period.

KEY TERM - BALANCE OF PAYMENTS - BOP

Accounting statement recording transactions in goods, services, transfers and capital/assets between a country and the rest of the world.

Credit Entry: Receipts from foreigners.

Debit Entry: Payments to foreigners.

REMEMBER THIS

Credit = money comes in. Debit = money goes out.

Visible and Invisible Transactions

Type	Meaning	Example
Visible / Tangible	Physical merchandise goods	Cars, machines, foodgrains
Invisible / Intangible	Services / non-physical transactions	Transport, tourism, banking services

SMIT SIR'S NOTE

Balance of Trade covers merchandise goods. Balance of Payments is broader and includes both visible and invisible transactions plus capital items.

9.8.1 Types of Balance of Payments

Position	Condition
Balanced	Credit side = Debit side
Deficit	Payments > Receipts
Surplus	Receipts > Payments

The source also notes that under the double-entry bookkeeping system the accounts ultimately balance, though economically we still speak of a BoP deficit or surplus.

9.8.2 Accounts of Balance of Payments

The chapter divides BoP into Current Account and Capital Account.

Account	Main Items
Current Account	Merchandise goods + services/invisibles + related current receipts/payments
Capital Account	Transactions involving assets, loans, bonds, shares, gold and capital flows

Current Account

1. Trade in Merchandise Goods: Exports are credit; imports are debit. Their difference is the Balance of Trade.

2. Trade in Invisibles / Services: Service receipts are credit and service payments are debit.

The combined result is called the Current Account Balance.

EXAM IMPORTANT

Current Account = Goods + Services / Invisibles in the textbook framing.

Capital Account

The capital account records receipts and payments arising from transactions involving assets and capital.

- Bonds and shares
- Gold
- Long-term loans
- Short-term loans
- Other capital / fixed-asset transactions

EXAM IMPORTANT

BoP = Current Account + Capital Account.

Balance of Trade vs Balance of Payments

Basis	Balance of Trade	Balance of Payments
Coverage	Merchandise exports and imports only	All external economic transactions
Goods / Services	Visible goods only	Visible + invisible/services + capital
Accounts	Part of Current Account	Current Account + Capital Account
Scope	Narrow	Broad
Possible Position	Deficit / surplus	Deficit / surplus in economic sense; accounting statement balances by double entry

9.8.3 Factors Influencing Balance of Payments

- Exchange rate
- Prices of tradable goods at home and abroad
- Variety and quality of tradable goods
- Inevitable imports
- Level of economic development
- Legal restrictions on trade
- Transport, communication and other trade-supporting infrastructure

SMIT SIR'S NOTE

All these factors affect imports, exports, investment, lending and capital movement - so they can change the BoP position.

Textbook BoP Example - Step 1: Current Account

TEXTBOOK DATA NOTE

Simplified from the textbook's hypothetical Table 9.7.

Current Account Item	Credit (Rs. crore)	Debit (Rs. crore)
Merchandise	200	300
Services	100	200
Investment Income	100	200
Unilateral Transfers	200	100
Total Current Account	600	800

Current Account Balance = 600 - 800 = -200 crore.

Textbook BoP Example - Step 2: Capital Account

Capital Item	Credit / Receipt	Debit / Payment
Long-term borrowing / lending	200	80
Short-term borrowing / lending	100	60
Sale / purchase of gold	100	50

The textbook example shows a capital-account surplus that offsets the current-account deficit, together with errors and omissions, so total receipts and payments finally match.

REMEMBER THIS

A current-account deficit can be financed by a capital-account surplus.

Why BoP 'Always Balances' in Accounting

Every international transaction has matching debit and credit implications under double-entry bookkeeping.

So while one account may show a deficit and another may show a surplus, the full accounting statement is brought into balance through capital flows, reserve changes and balancing items such as errors and omissions.

COMMON MISTAKE

Do not say 'BoP can never have a deficit' just because the accounting statement balances. The chapter still discusses economic deficit/surplus positions.

9.9 Concept of Exchange Rate

KEY TERM - EXCHANGE RATE

Price of a foreign currency in terms of domestic currency; units of home currency needed to buy one unit of foreign currency.

Textbook example: US $1 = Rs. 60 means Rs. 60 is required to buy one US dollar.

Tourists, importers, exporters and international investors need exchange rates to convert one country's currency into another.

Rise and Fall in Exchange Rate - Indian Rupee Example

Movement	Example	Value of Rupee	Likely Trade Effect in Textbook
Exchange Rate Rises	$1 = Rs.60 -> Rs.65	Rupee falls / weakens	Imports tend to fall; exports tend to rise
Exchange Rate Falls	$1 = Rs.60 -> Rs.55	Rupee rises / strengthens	Imports tend to rise; exports tend to fall

REMEMBER THIS

If more rupees are needed for $1, the rupee has weakened.

Exchange Rate - Easiest Logic

Rupee weakens: Foreign goods become more expensive for Indian buyers, so imports tend to fall. Indian goods become relatively cheaper for foreign buyers, so exports tend to rise.

Rupee strengthens: Foreign goods become relatively cheaper for Indians, so imports tend to rise. Indian goods become relatively more expensive abroad, so exports tend to fall.

EXAM IMPORTANT

Rise in quoted exchange rate for India -> Rupee value falls. Fall in quoted exchange rate -> Rupee value rises.

Important International Institution

KEY TERM - WTO

World Trade Organization - international organization associated in the chapter with facilitating and regulating international trade.

The source emphasises that international trade develops through joint efforts of national governments and international organisations.

Master Comparison - Trade Concepts

Concept	What It Measures / Means
Domestic Trade	Exchange within national boundary
International Trade	Exchange across national boundary
Size of Trade	Value/volume of exports + imports
Composition	Kinds of goods traded
Direction	Countries/regions traded with
Balance of Trade	Merchandise exports - merchandise imports
Current Account	Goods + services/invisibles
Capital Account	Capital/asset transactions
Balance of Payments	Current + capital external transactions
Exchange Rate	Domestic-currency price of foreign currency

Common Mistakes Students Make

COMMON MISTAKE

Wrong idea: Foreign trade means only goods trade.
Correct idea: The source includes goods, services, resources, capital, technology and know-how.

COMMON MISTAKE

Wrong idea: International trade and domestic trade use the same currency system.
Correct idea: International trade requires currency conversion and exchange-rate knowledge.

COMMON MISTAKE

Wrong idea: Balance of Trade and Balance of Payments are the same.
Correct idea: BoT covers merchandise only; BoP is broader.

COMMON MISTAKE

Wrong idea: Current Account contains only merchandise goods.
Correct idea: It includes goods plus invisibles/services in the chapter.

COMMON MISTAKE

Wrong idea: Capital Account includes only physical machinery.
Correct idea: It includes financial/capital assets, loans, bonds, shares and gold.

COMMON MISTAKE

Wrong idea: If India's exchange rate rises from Rs.60/$ to Rs.65/$, the rupee became stronger.
Correct idea: More rupees per dollar means the rupee weakened.

COMMON MISTAKE

Wrong idea: A falling export share of tea/jute means India's total exports must have fallen.
Correct idea: It may reflect a change in composition toward manufactured/non-traditional exports.

COMMON MISTAKE

Wrong idea: Historical 2014-15 trade data are current.
Correct idea: They are textbook-era figures and should be labelled as such.

How to Write Major Answers in the Exam

Q1. Explain Reasons for International Trade

Best structure: Factor Endowment -> Cost -> Technology -> Specialization.

Q2. Explain Nature / Features of International Trade

Best structure: Write all 10 textbook features with one explanation each.

Q3. Domestic vs International Trade

Best structure: Use the 7-point comparison table.

Q4. Explain Size, Composition and Direction of India's Foreign Trade

Best structure: Define each -> use key trend/data -> source conclusion.

Q5. Explain Balance of Payments

Best structure: Meaning -> Credit/Debit -> Types -> Current -> Capital -> Factors.

Q6. Distinguish Balance of Trade and Balance of Payments

Best structure: Use scope, items, accounts and examples.

Q7. Explain Exchange Rate and its Effect

Best structure: Meaning -> Rs.60/$ example -> rise/fall -> import/export effect.

Practice Set A - MCQs

1. Trade within one country's boundary is:

- A. Domestic trade
- B. International trade
- C. Capital account
- D. BoP

2. Trade across national boundaries is:

- A. International trade
- B. Domestic trade
- C. Internal transfer
- D. None

3. Which is a reason for international trade?

- A. Factor endowment differences
- B. Identical technology everywhere
- C. Zero transport
- D. No specialization

4. Which is another reason?

- A. Cost differences
- B. Same resource availability
- C. No exchange rates
- D. Zero competition

5. Which body is connected with international trade in the chapter?

- A. WTO
- B. NABARD
- C. ICAR
- D. CIBRC

6. International trade generally involves:

- A. More permissions and taxes
- B. Fewer rules than domestic trade
- C. No currencies
- D. No competition

7. Balance of Trade covers:

- A. Merchandise only
- B. All services and capital
- C. Only capital
- D. Only loans

8. BoP has how many accounts in the chapter?

- A. 2
- B. 1
- C. 3
- D. 4

9. Current Account includes:

- A. Goods and services
- B. Only gold
- C. Only shares
- D. Only loans

10. Capital Account includes:

- A. Bonds, shares, gold and loans
- B. Only merchandise exports
- C. Only tourism
- D. Only food

11. If imports exceed exports, Balance of Trade is:

- A. Deficit
- B. Surplus
- C. Balanced
- D. Zero automatically

12. Exchange rate is:

- A. Price of foreign currency in domestic currency
- B. Domestic GDP
- C. Inflation rate
- D. Tax rate

13. If $1 changes from Rs.60 to Rs.65, rupee has:

- A. Weakened
- B. Strengthened
- C. Become fixed
- D. Disappeared

14. The source says India's global merchandise export rank in 2014 was:

- A. 19
- B. 29
- C. 1
- D. 50

15. OPEC is linked mainly with:

- A. Petroleum exporting countries
- B. Agriculture research
- C. Banking
- D. Population

Practice Set B - Conceptual MCQs

16. A country imports machines because they are cheaper abroad. Which reason?

- A. Cost of production
- B. Population
- C. Inflation
- D. Barter

17. A country specialises in software and imports hardware. Which reason?

- A. Division of labour and specialization
- B. No mobility
- C. Taxation
- D. BoP accounting

18. Exporter must convert rupees into dollars/euros. Which international-trade feature?

- A. Currency / exchange-rate knowledge
- B. Domestic uniformity
- C. Zero competition
- D. No regulation

19. India's imports and exports both rise sharply after 1991. What increases?

- A. Size of foreign trade
- B. Population
- C. PQLI
- D. CRR

20. Primary-sector export share falls while manufactured exports rise. Which concept changes?

- A. Composition
- B. Direction
- C. Exchange-rate definition
- D. Census

21. Trade shifts from England/USA toward Asia/developing countries. Which concept changes?

- A. Direction
- B. Size only
- C. Current account definition

- D. Inflation

22. A country earns from service exports. Entry in BoP?

- A. Credit
- B. Debit
- C. No entry
- D. Capital loss

23. A country pays for merchandise imports. Entry in BoP?

- A. Debit
- B. Credit
- C. No entry
- D. Asset sale

24. Current account deficit is financed by capital inflows. Overall BoP can:

- A. Balance in accounting terms
- B. Never balance
- C. Exclude capital
- D. Equal BoT only

25. Rupee strengthens. According to textbook tendency, imports:

- A. Rise
- B. Fall
- C. Stop
- D. Become exports

MCQ Answer Key

Q	Ans	Q	Ans	Q	Ans	Q	Ans	Q	Ans
1	A	2	A	3	A	4	A	5	A
6	A	7	A	8	A	9	A	10	A
11	A	12	A	13	A	14	A	15	A
16	A	17	A	18	A	19	A	20	A
21	A	22	A	23	A	24	A	25	A

Board-Style One-Line Questions

- What is international trade?
- What is domestic trade?
- State four reasons for international trade.
- What is meant by size of foreign trade?
- What is meant by composition of foreign trade?
- What is meant by direction of foreign trade?
- What is Balance of Trade?
- What is Balance of Payments?
- Name the two accounts of BoP.
- What is Current Account?
- What is Capital Account?
- What is exchange rate?
- Give the full form of WTO.
- Give the full form of OPEC.

Board-Style Short / Brief Questions

- Explain factor endowments as a reason for trade.
- Explain technology as a reason for trade.
- Explain any four features of international trade.
- Explain India's share in world trade.
- Explain the size of India's foreign trade.
- Explain changes in the composition of imports.
- Explain changes in the composition of exports.
- Explain the direction of India's foreign trade.
- Explain Current Account of BoP.
- Explain Capital Account of BoP.
- Explain factors influencing BoP.
- Explain the effect of rise/fall in exchange rate.

Board-Style Detailed Questions

- Explain the reasons for international trade.
- Explain the nature / special features of international trade.
- Differentiate domestic trade and international trade.
- Explain the size, composition and direction of India's foreign trade.
- Explain Balance of Payments, its accounts and factors influencing it.
- Differentiate Balance of Trade and Balance of Payments.
- Explain exchange rate and its effect on India's imports and exports.

Application / Case-Based Practice

Case 1

A country imports a mineral it does not possess domestically.

Answer: Difference in factor endowments.

Case 2

A product costs Rs.10,000 domestically but equivalent imported product costs Rs.7,000.

Answer: Difference in cost of production.

Case 3

A country exports specialised software and imports advanced machinery.

Answer: Specialization and technological differences.

Case 4

India's imports rise from one region while trade with old partners declines.

Answer: Change in direction of foreign trade.

Case 5

Merchandise exports are Rs.500 crore and imports Rs.650 crore.

Answer: Balance of Trade deficit of Rs.150 crore.

Case 6

India earns money from exported services.

Answer: Credit entry in Current Account.

Case 7

India borrows long-term funds from abroad.

Answer: Capital Account credit / receipt.

Case 8

Dollar rises from Rs.60 to Rs.65.

Answer: Rupee weakens; imports tend to fall and exports tend to rise in textbook logic.

Chapter Glossary

Term	Simple Meaning
Domestic Trade	Trade within national boundaries.
International Trade	Trade across national boundaries.
Factor Endowment	Availability of factors/resources in a country.
Specialization	Concentration on production where a country is relatively efficient.
WTO	World Trade Organization.
Size of Trade	Total value/volume of exports and imports.
Composition of Trade	Types of goods/services traded.
Direction of Trade	Countries/regions with which trade takes place.
Balance of Trade	Merchandise exports minus merchandise imports.
Balance of Payments	Systematic record of external transactions.
Current Account	Goods and services/invisibles transactions.
Capital Account	Capital/asset transactions.
Credit Entry	Receipt from foreigners.
Debit Entry	Payment to foreigners.
Exchange Rate	Domestic-currency price of foreign currency.
OPEC	Organization of Petroleum Exporting Countries.
Visible Trade	Trade in tangible merchandise goods.
Invisible Trade	Trade in services / intangible items.

5-Minute Chapter Revision

Foreign Trade: Trade across national boundaries.

4 Reasons: Factor endowment, Cost, Technology, Specialization.

10 Nature Points: Mobility, Variety, Challenge, Diplomacy, Currency, WTO/cooperation, Politics, Scale, Permissions, Competition.

Size: Value/volume of trade.

Composition: What is traded.

Direction: With whom trade occurs.

BoT: Merchandise exports - merchandise imports.

BoP: Current + Capital Account.

Current: Goods + services/invisibles.

Capital: Loans/assets/bonds/shares/gold.

Exchange Rate rises: Rupee weakens -> imports tend to fall, exports tend to rise.

EXAM IMPORTANT

Ultra-short memory: Trade tells WHAT, WITH WHOM, HOW MUCH; BoP records the money flows; exchange rate changes their relative prices.

One-Page Master Revision Sheet

Topic	Must Remember
Domestic Trade	Within one country
Foreign Trade	Across boundaries
Reasons	4
Nature / Features	10
Domestic vs International	7-point table
India World Trade Share	2.07% in 2014-15 source
2014 Export Rank	19th - source
2014-15 Exports	310.5 - source table
2014-15 Imports	448.0 - source table
2014-15 BoT	-137.5 - deficit
Asia Share	Imports 59%, Exports 50% - source
BoP Accounts	Current + Capital
BoT	Merchandise only
Exchange Rate	Price of foreign currency in domestic currency
OPEC	Petroleum-exporting countries

Have You Mastered This Chapter?

- [ ] I can explain all 4 reasons for trade.
- [ ] I can explain all 10 features.
- [ ] I can write the 7-point difference table.
- [ ] I can explain size, composition and direction.
- [ ] I can distinguish BoT and BoP.
- [ ] I can explain Current and Capital Accounts.
- [ ] I can solve simple BoT/BoP cases.
- [ ] I can explain exchange-rate movements.

CHAPTER 9 COMPLETE

Foreign Trade

SMIT SIR'S FINAL MESSAGE

This chapter becomes easy when you connect the chain: countries trade because they differ, trade changes in size-composition-direction, all external receipts and payments are recorded in BoP, and the exchange rate changes the relative price of imports and exports.

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