**1. How do we finance the deficit on current account BOP in case officially reserves with the RBI are not moved?**

 Ans. We are left with on two alternatives only:1. We borrow from rest of the world; 2. We sell our assets (financial assets like stock and bonds, and physical assets (like plant and machinery) to rest of the world.

 **2. What is depreciation of rupee? What is its likely impact on Indian imports and how?**

Ans. Depreciation of rupee is the fall in the value of Indian currency in relation with foreign currency. More rupees are now required to buy a unit of foreign currency. This will make foreign goods expensive to the buyers in India. As a result, import are likely to fall.

**3. How is depreciation of Indian rupee likely to affect Indian export? Explain.**

Ans. Depreciation of the domestic currency implies that the domestic currency (rupee) loses its value in relation to foreign currency (say US Dollar). Now, more rupee are required to buy a dollar, or a dollar can now buy more goods in domestic in the domestic economy. Accordingly, exports are expected to rise.

**4. Will you always appreciate a rise in exchange rate as a means to boost our exports?**

Ans. No. Because a rise in exchange rate may not always lead to a rise in our export earnings. A rise in exchange rate is beneficial only elasticity of demand for our exports is greater than unity. Because, it is only then that the total expenditure on our exports will rise in response to a fall in prices of domestic goods (in terms of the foreign currency) yields greater revenue only when the elasticity of demand for our exports is greater than unity.

**5. How does decrease in FDI in India act as a supply stock for foreign exchange?**

Ans. Decrease in FDI leads to a decrease in a supply of foreign exchange, for reasons other than change in exchange rate. It is a supply shock that cause a backward shift of supply curve of foreign exchange for the Indian economy. Consequently, equilibrium exchange will rise. More rupee are to be paid for buying a unit of foreign currency.

**6. How do the deficit BoP and surplus BoP impact the exchange rate?**

Ans. (i) Deficit Balance of Payment: If the balance of payment of a country show deficit, demand for foreign currency will increase. Accordingly, exchange rate is expected to rise. Domestic currency will depreciate in relation to foreign currency. (ii) Surplus Balance of Payment: If the balance of payment of a country shows surplus, availability of foreign currency will increase. Accordingly, exchange rate is expected to fall. Domestic currency will appreciate in relation to foreign currency.