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Class: B.Com Sem - III

Subject: Planning and Economic Development.(PED)

Topic: Balance Of Trade Vs Balance Of Payment

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**BALANCE OF TRADE VS BALANCE OF PAYMENT OR BOT VS BOP**

<b>BASIS OF DIFFERENCE</b>	<b>BALANCE OF TRADE (BOT)</b>	<b>BALANCE OF PAYMENT (BOP)</b>
1. Definition	Balance of Trade is defined as 'difference between export and import of goods and services'	Balance of Payment is defined as the 'flow of cash between domestic country and all other foreign countries'. It includes not only import and export of goods and services but also includes financial capital transfer.
2. How Is It Calculated?	$\text{BOT} = \text{Net Earning on Exports} - \text{Net payment made for imports}$	$\text{BOP} = \text{BOT} + (\text{Net Earning on foreign investment i.e. payments made to foreign investors}) + \text{Cash Transfer} + \text{Capital Account} + \text{or} - \text{Balancing Item}$ <p><b>or</b></p> $\text{BOP} = \text{Current Account} + \text{Capital Account} + \text{or} - \text{Balancing item ( Errors and omissions)}$

<p>3. When is it considered as Favourable or Unfavourable?</p>	<p>If export is more than import, at that time, BOT will be favourable. If import is more than export, at that time, BOT will be unfavourable.</p>	<p>Balance of Payment will be favourable, if the country has surplus in current account for paying your all past loans in her capital account.</p> <p>Balance of payment will be unfavourable, if country has current account deficit and it took more loan from foreigners. After this, it has to pay high interest on extra loan and this will make BOP unfavourable.</p>
<p>4. Solution of being Unfavourable</p>	<p>To Buy goods and services from domestic country.</p>	<p>To stop taking of loan from foreign countries.</p>
<p>5. Factors</p>	<p>Following are main factors which affect BOT</p> <ul style="list-style-type: none"> <li>a) cost of production</li> <li>b) availability of raw materials</li> <li>c) Exchange rate</li> <li>d) Prices of goods manufactured at home</li> </ul>	<p>Following are main factors which affect BOP</p> <ul style="list-style-type: none"> <li>a) Conditions of foreign lenders.</li> <li>b) Economic policy of Govt.</li> <li>c) all the factors of BOT</li> </ul>