

I. determining
variables has yet to
emerge. till



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i.

International capital flows that are meant to settle the payments on current account deficit (or surplus) have become a small portion of the total capital flows. ii. In contrast, capital flows that take place on account of other reasons have become an overwhelmingly large portion of the total.

Moreover, these flows are rapidly increasing with the passage of time.

Occasionally, these capital flows take place for purely speculative reasons. In that case, they can destabilize the foreign exchange markets accompanied with violent fluctuations in exchange rates and other forms of financial and trade crises. As such, speculative flows of capital can themselves become a major source of a BOP crisis. iii. By itself, the direction of a capital flow does not tell us whether it is strengthening or weakening the BOP position of a country.

That can be determined only on the basis of additional information. (3)

Justifying Incomplete Coverage: As yet, we do not have an integrated and comprehensive theory of BOP adjustment mechanism covering both trade and capital flows. This is because it is not easy to have a theory of BOP adjustment which is simultaneously comprehensive, simple and realistic.

Innumerable causes, including a variety of external shocks and internal disturbances, can force a country into a BOP deficit. They include phenomena like global recessions, political hostility, and natural calamities. A theory that can simultaneously take into account all the determining variables has yet to emerge. Till then, we have to live with a partial analysis approach.

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