K.J. Somaiya Institute of Management Research
PGDM(FS) II Year
(Trim IV)-2018-20 Batch)
Subject-International Business
End Term Examination

Date:- 13th September 2019 Time : 3 Hours Marks : 50

NOTE:-

a) Qn No 1-Part A- Case Study is compulsory
b) Answer any 4 questions from the rest
c) Each Question carries 10 marks
Time :- 3 hours

Total :- 50 Marks

PART A (Case Study)

1 .Read the following case study and answer the questions given below:-

Current account deficits in developing economies

Current account is an important component of Balance of payments of a country. The BOP position of a country is the statement of account of foreign exchange inflows and outflows of a country with the rest of the world. It is prepared by countries in the format prescribed by IMF usually for a period of one year. BOP consists of current a/c, capital account and reserve account as its components. The current account is divided into visible trade and invisible trade. The visible trade is the physical import and export of goods. The invisibles refer to services like transportation, travel, remittances ,unilateral transfers, embassy expenses, Insurance etc. Here countries are allowed to net the payables and receivables If a country earns more from exports than what it pays for its imports then the trade account is said to be favourable. e.g China, Malaysia etc. on the contrary, if import payments are more than the export earnings then, the trade account is unfavourable. e.g India, Pakistan etc. In the case of India , the imports were of the order of 500Bn US$ as compared to the export receipts of US$ 300 Bn $ thereby showing trade gap of 200Bn$ during 2018-19.

Countries can meet the trade deficit in several ways. The net earnings on the invisible trade can be used to meet the trade deficit. Similarly capital account receipts like FDI, External commercial borrowings, FCNR(Bank) a/c deposits by NRIs ,Resident foreign currency account balances etc can be used to meet the trade deficits. The combined deficit on current a/c taking visible and invisible trade together is called current account deficits (CAD). CAD is measured against GDP(Gross Domestic Product) of a country. A CAD/GDP ratio of < 5% is sustainable as imports are required by developing nations to produce goods for domestic and export purposes. Unfortunately many countries have CAD/GDP ratio of moretan 5% which is unsustainable and is putting the economy into high dependence on the Foreign exchange reserves for meeting the CAD. When the reserves are depleting the ability of the central banks decline and becomes difficult to manage the exchange rate stability.

Most of the developing countries ,India included, follow managed floating system of exchange rates. Under this system , the external value of their currencies are decided by the market forces of supply and demand .However when the exchange rates decline the central bankers intervene in the markets by selling US$ to restore stability. As such they need more US$ reserves and other currencies like Euro, UK Pound, Japanese yen etc for this purpose. A falling currency is greatly linked to current account deficits as the demand for foreign exchange exceeds the supply of the same. Most of the developing countries are oil importers which are paid in US$. Therefore CAD pulls their domestic currencies down against US$ all the time. In short exchange rates get affected by large CAD.

Answer the following questions:

1) Explain the concept of current Account and Capital account in BOP. Give examples 5
2) What is meant by Current Account Deficit (CAD)? How countries like India manage their CAD? 5

Part-B(Answer any four) Each question carries 10 marks

2. Distinguish between :-
   i) Domestic Business &International Business
   ii) FEMA99 & PMLA2002

3. Explain the features of international Stock markets and the importance of stock exchanges

4. a) What are the different methods for payment used in international trade?
   b) What is the significance of each of these methods?

5 What are the entry modes and exit modes used in international business ? Analyse their relative merits and demerits

6 Explain the concepts involved in the following :-
   a) International Bond markets
   b) International Logistics management

7. Explain the conventions followed by forex markets? How these markets are useful in international business?

****