K.J. Somaiya Institute of Management Research

PGDM- II TRIM A & B – 2017 – 19 batch
International Business

Date : 06/01/2018 **Marks : 50** **Time : 3 Hours**

NOTE:-

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

Total :- 50 Marks

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

The Balance Of Payment 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. Further for compilation purposes the current account is divided into visible trade and invisible trade. The visible trade is the physical import and export of goods. The difference is known as trade balance which can be deficit or surplus depending on the volume of exports and importsThe 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 are of the order of 500Bn US$ as compared to the export receipts of US$ 250 Bn $ thereby showing trade gap of 250Bn$ during 2016-17.

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 2.5%-3% is sustainable as imports are required by developing nations to produce goods for domestic and export purposes. Unfortunately if countries have CAD/GDP ratio nearing 5% which is unsustainable and will be 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 it 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:

a) What are the components in BOP? Give examples

b) What is meant by Current Account Deficit (CAD) to GDP ratio? Why this ratio is important for international Business?

2. Distinguish between :-
   i) US$ Market &euro $ Market
   ii) International Monetary Fund &World Bank

3. a) Explain how trade theories are important for international business?
   b) What are the advantages & Disadvantages of Protectionism?

4. a) What are the features of international stock markets?
   b) Explain the functions of IOSCO

5 a) Why Foreign Direct Investment is required? What are the salient features of India's FDI Policy?

b) A foreign company remitted US$ 1million for investing in an Indian Company .If the price agreed is

RS1000 per share how many shares will be allotted to the foreign company?
Assume the following:-
Spot US$ 1= Rs 65.4250-65.4350
Exchange Profit Margin 1 paise

6 What are the 4 P's of marketing? How will you apply them in international Business?

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7. What are the different methods of financing trade? Explain them in detail

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