International Business PYQ 2019

Q 1 a. List and explain the different modes of entry for an international business firm.

Ans. International business firms have several modes of entry when expanding into foreign markets. These modes can vary in terms of risk, control, investment, and flexibility. Here are some common modes of entry for international business firms:

Exporting: Exporting involves producing goods or services in the home country and selling them in foreign markets. This mode of entry requires relatively low investment and risk, as the firm does not need to establish a physical presence in the foreign market. However, the firm may have limited control over distribution and may face trade barriers such as tariffs and quotas.

Licensing: Licensing allows a firm to grant the rights to use its intellectual property, such as patents, trademarks, or technology, to a foreign firm in exchange for royalties or fees. This mode of entry allows the firm to leverage its intangible assets without making significant investments in the foreign market. However, the firm may have limited control over its brand or technology and may face risks of intellectual property infringement.

Joint Venture: A joint venture involves forming a partnership with a local firm in the foreign market. Both firms share ownership, control, and risks of the venture. This mode of entry allows the firm to access local knowledge, networks, and resources, and share risks and costs. However, joint ventures can be complex and challenging to manage, as the firm may face cultural differences, conflicting interests, and potential loss of control.

Foreign Direct Investment (FDI): FDI involves establishing a physical presence in the foreign market, such as setting up a subsidiary or acquiring an existing firm. This mode of entry provides the firm with greater control over operations, distribution, and branding in the foreign market. However, FDI requires a significant investment, and the firm may face risks such as political instability, regulatory challenges, and cultural differences.

Franchising: Franchising involves granting the rights to use a firm's business model, brand, and operating systems to a local firm in exchange for fees and royalties. This mode of entry allows the firm to expand quickly with lower investment and risks, as the local franchisee bears most of the costs and risks. However, the firm may have limited control over franchisee operations and may face challenges in maintaining consistency and quality across multiple franchise locations.

Greenfield Investment: Greenfield investment involves building a new facility or operations from scratch in the foreign market. This mode of entry provides the firm with full control over operations, but requires significant investment, time, and effort to establish the business from the ground up. Greenfield investment may be suitable for firms with unique capabilities or when other modes of entry are not feasible.

Acquisition: Acquisition involves purchasing an existing local firm in the foreign market. This mode of entry allows the firm to quickly gain access to local resources, customer base, and distribution networks. However, acquisitions can be complex and risky, as the firm may face challenges in integrating the acquired firm, managing cultural differences, and dealing with regulatory issues.

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Each mode of entry has its advantages and disadvantages, and the choice of mode depends on factors such as the firm's strategic objectives, available resources, risk appetite, and the characteristics of the foreign market. A thorough analysis of the foreign market, competitive landscape, and internal capabilities is essential in determining the most appropriate mode of entry for an international business firm.

Q1 b What is international business? Briefly explain the Lactors that have led to growth of international business in recent years.

Ans. International business refers to the exchange of goods, services, and ideas across national borders, involving economic activities that span beyond a single country's boundaries. It involves conducting business operations, such as exporting, importing, foreign direct investment, and other modes of entry, in different countries and dealing with various challenges and opportunities associated with global markets.

Several factors have led to the growth of international business in recent years:

Globalization: The increasing interconnectedness and integration of economies worldwide, driven by advancements in technology, transportation, and communication, have facilitated the growth of international business. Globalization has opened up new markets, reduced trade barriers, and created opportunities for firms to expand their operations across borders.

Liberalization of Trade: Governments in many countries have implemented trade liberalization policies, such as reducing tariffs, quotas, and other trade barriers, to promote international trade. This has created more opportunities for firms to access foreign markets, import/export goods and services, and engage in cross-border trade.

Emerging Markets: The rapid economic growth of emerging markets, such as China, India, Brazil, and others, has created new consumer markets, increased demand for goods and services, and attracted foreign investment. This has presented opportunities for international firms to enter and expand their operations in these growing markets.

Technological Advancements: Technological advancements, such as the internet, e-commerce, digital communication, and transportation, have made it easier for firms to engage in international business. These technologies have enabled faster and more efficient communication, reduced transaction costs, and facilitated international trade and logistics.

Access to Information: The availability of information and market intelligence has improved significantly in recent years, allowing firms to gather data on foreign markets, consumer preferences, and business opportunities. This has enabled firms to make more informed decisions and strategies when entering or expanding into international markets.

Changing Consumer Preferences: Changing consumer preferences and lifestyles have driven demand for diverse goods and services across borders. Consumers are increasingly seeking products from different countries, creating opportunities for firms to cater to these preferences through international trade and business operations.

Competitive Pressures: Increasing global competition has prompted firms to explore international markets as a means to gain a competitive edge. Firms may seek to access new markets, diversify

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their operations, or leverage economies of scale through international business to remain competitive in the global marketplace.

These factors, among others, have contributed to the growth of international business in recent years, creating opportunities and challenges for firms seeking to expand their operations beyond their home countries. Globalization, trade liberalization, emerging markets, technological advancements, access to information, changing consumer preferences, and competitive pressures are some of the key drivers that have shaped the landscape of international business.

OR

Q1. Explain the salient features of the complex, multidimensional and interrelated business environment in which the multinational corporation has to operate.

Ans. The business environment in which multinational corporations (MNCs) operate is complex, multidimensional, and interrelated, characterized by several salient features:

Globalization: MNCs operate in a globalized world where markets, economies, and business practices are interconnected across borders. MNCs need to navigate through different legal, regulatory, cultural, and economic systems in each country they operate, which can be complex and challenging.

Multidimensionality: MNCs operate in diverse markets with varying levels of economic development, cultural norms, political systems, and business practices. They need to adapt their strategies and operations to the unique characteristics of each market, considering factors such as language, consumer preferences, local competition, and government regulations.

Interrelatedness: MNCs operate in an interrelated business environment where changes in one country or market can impact their operations in other countries. Factors such as changes in exchange rates, trade policies, geopolitical tensions, and global economic trends can have a ripple effect on MNCs' operations across borders, requiring them to carefully manage risks and uncertainties.

Legal and Regulatory Complexity: MNCs operate in a complex web of legal and regulatory frameworks in different countries, including tax laws, intellectual property rights, labor laws, environmental regulations, and more. Compliance with diverse and sometimes conflicting regulations can be challenging, requiring MNCs to develop strategies to ensure legal and regulatory compliance while managing risks and costs.

Cultural Diversity: MNCs operate in diverse cultural contexts, with varying cultural norms, values, and business practices. Managing cultural diversity requires MNCs to develop cross-cultural competence and adapt their management, communication, and marketing strategies to effectively engage with local stakeholders, including employees, customers, suppliers, and government officials.

Competitive Dynamics: MNCs operate in highly competitive markets globally, facing competition from local and international firms. They need to navigate through competitive dynamics, including market entry barriers, pricing pressures, technological disruptions, and changing customer preferences, to gain a competitive advantage and sustain their business operations in different markets.

Stakeholder Management: MNCs operate in a complex web of stakeholders, including local communities, governments, customers, employees, suppliers, and shareholders, with diverse

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interests and expectations. Managing stakeholder relationships effectively, addressing social and environmental responsibilities, and building a positive corporate reputation are critical for MNCs' long-term success in the global business environment.

Uncertainty and Risk: MNCs face inherent uncertainty and risks in their global operations, including political risks, economic risks, legal risks, operational risks, and reputational risks. Managing risks and uncertainties requires MNCs to develop risk mitigation strategies, contingency plans, and business continuity plans to minimize potential disruptions to their operations.

Rapid Technological Advancements: MNCs operate in a rapidly changing technological landscape, with advancements in areas such as digitalization, automation, artificial intelligence, and data analytics impacting business operations and strategies. MNCs need to stay updated with technological trends, adapt their operations, and leverage technology to gain a competitive advantage in the global marketplace.

In summary, the business environment in which MNCs operate is complex, multidimensional, and interrelated, characterized by globalization, multidimensionality, interrelatedness, legal and regulatory complexity, cultural diversity, competitive dynamics, stakeholder management, uncertainty and risk, and rapid technological advancements. MNCs need to effectively manage these features of the global business environment to navigate the challenges and opportunities of international business successfully.

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Q2 a Explain the role of the WTO as a regulator of world trade.

Ans. The World Trade Organization (WTO) is an international organization that serves as a regulator of world trade. It was established in 1995 and is headquartered in Geneva, Switzerland. The WTO provides a forum for member countries to negotiate and establish rules for international trade and serves as a platform for resolving trade disputes among its members. The role of the WTO as a regulator of world trade can be summarized as follows:

Setting Trade Rules: The WTO establishes rules and principles governing international trade, including agreements on goods, services, and intellectual property rights. These rules are designed to promote transparency, predictability, and stability in global trade, and ensure that trade flows smoothly, freely, and without discrimination among member countries.

Facilitating Trade Negotiations: The WTO provides a forum for member countries to negotiate trade agreements and resolve trade disputes. It conducts regular rounds of negotiations, such as the Doha Round and the Uruguay Round, to further liberalize and expand global trade. The WTO also facilitates negotiations on specific trade issues, such as tariffs, subsidies, and non-tariff barriers, among its members.

Enforcing Trade Rules: The WTO monitors and enforces compliance with its trade rules. Member countries are required to report their trade policies and measures to the WTO, which conducts regular reviews to ensure that they are in compliance with WTO agreements. The WTO also provides a dispute settlement mechanism to resolve trade disputes among member countries, helping to maintain a rules-based trading system.

Providing Technical Assistance and Capacity Building: The WTO provides technical assistance and capacity building to developing and least-developed countries to help them effectively participate in

global trade. This includes assistance in trade policy formulation, trade negotiations, and building institutional capacity to implement WTO agreements. The WTO aims to ensure that all member countries, regardless of their level of development, can benefit from the global trading system.

Monitoring Trade Policies: The WTO monitors and analyzes global trade policies, trends, and developments, and provides regular reports and publications on trade-related issues. This helps member countries to stay informed about changes in global trade policies and practices, and facilitates dialogue and cooperation among member countries on trade-related matters.

Promoting Transparency and Disseminating Information: The WTO promotes transparency in trade policies by requiring member countries to publish their trade-related measures and notifications, which are made available to the public. The WTO also disseminates information on trade rules, agreements, and decisions, providing a platform for member countries, businesses, and other stakeholders to access information about the global trading system.

In summary, the WTO plays a crucial role as a regulator of world trade by setting trade rules, facilitating trade negotiations, enforcing trade rules, providing technical assistance and capacity building, monitoring trade policies, and promoting transparency and dissemination of information. It aims to create a predictable, transparent, and rules-based global trading system that promotes economic growth, development, and prosperity for all member countries.

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Q2 b “Balance of payments always balances.” Elucidate. But how do you explain disequilibrium in balance of payment?

Ans. The statement "Balance of payments always balances" refers to the fundamental accounting principle that in a closed economy, the total inflows of foreign currency must be equal to the total outflows of foreign currency over a given period of time. In other words, the balance of payments should be in equilibrium, with no surplus or deficit.

The balance of payments is a systematic record of all economic transactions between residents of a country and the rest of the world during a specific time period, typically a year. It is divided into two main components: the current account and the capital account. The current account includes transactions related to goods, services, income (such as wages, interest, and dividends), and unilateral transfers (such as foreign aid and remittances). The capital account includes transactions related to changes in ownership of financial assets and liabilities.

According to the fundamental accounting principle, the current account balance and the capital account balance should sum to zero, resulting in a balanced balance of payments. This is because every transaction that results in an inflow of foreign currency into a country (such as exports of goods or services, or foreign investment inflows) is matched by an outflow of foreign currency (such as imports of goods or services, or foreign investment outflows).

However, in reality, imbalances can occur in the balance of payments due to various factors, resulting in disequilibrium. Disequilibrium in the balance of payments can manifest in two forms:

Surplus: A country has a surplus in its balance of payments when the total inflows of foreign currency exceed the total outflows. This can happen, for example, when a country exports more goods and services than it imports, or when it receives more income from foreign investments than it pays out. A surplus in the balance of payments can put upward pressure on the country's currency exchange

rate and may have implications for domestic economic policies, such as inflation, interest rates, and trade policies.

Deficit: A country has a deficit in its balance of payments when the total outflows of foreign currency exceed the total inflows. This can happen, for example, when a country imports more goods and services than it exports, or when it pays out more income to foreign investments than it receives. A deficit in the balance of payments can put downward pressure on the country's currency exchange rate and may also have implications for domestic economic policies, such as adjustments in fiscal or monetary policies, or the need for external borrowing.

Disequilibrium in the balance of payments is generally temporary and tends to be self-correcting over time through various mechanisms, such as changes in exchange rates, adjustments in trade flows, shifts in investment patterns, and policy interventions. Countries may also take measures to address persistent imbalances in their balance of payments, such as implementing trade policies, fiscal policies, or exchange rate policies to restore equilibrium. Monitoring and managing the balance of payments is an important aspect of international economics and policy-making, as it has implications for a country's macroeconomic stability, competitiveness, and external economic relations.

OR

Q2. Explain Porter's theory of national competitive advantage as a theory of international trade.

Ans. Porter's theory of national competitive advantage, also known as the diamond model or the diamond of national advantage, is a theory that seeks to explain why some countries are more successful than others in certain industries and sectors in the global marketplace. Porter argues that a nation's competitiveness in international trade is influenced by four interrelated factors, which collectively form a "diamond" of national advantage. These four factors are: factor conditions, demand conditions, related and supporting industries, and firm strategy, structure, and rivalry.

Factor conditions: According to Porter, a nation's factor conditions, such as its natural resources, labor force, infrastructure, and technological capabilities, can influence its competitive advantage in certain industries. For example, a country with abundant natural resources may have a competitive advantage in industries related to those resources, such as mining or energy production. Similarly, a country with a highly educated and skilled labor force may excel in knowledge-intensive industries.

Demand conditions: Porter argues that the characteristics of a nation's domestic demand, such as its size, growth rate, and sophistication, can also shape its competitive advantage. Domestic demand can drive firms to innovate and improve their products or services, making them more competitive in international markets. For example, a large and sophisticated domestic market can provide a testing ground for new products or services, enabling firms to gain a competitive edge in global markets.

Related and supporting industries: Porter emphasizes that the presence of related and supporting industries in a nation can also impact its competitive advantage. Related and supporting industries are those that are interconnected with the focal industry, either as suppliers or as buyers. The presence of a strong and competitive base of suppliers, buyers, and other related industries can create synergies, cost efficiencies, and knowledge spillovers that enhance the overall competitiveness of the focal industry. For example, a nation with a well-developed automotive industry may also have a strong base of suppliers, such as steel producers or parts manufacturers, which can provide cost advantages and innovation opportunities for the focal industry.

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Firm strategy, structure, and rivalry: Porter argues that the strategies, structures, and rivalries among firms in a nation can also influence its competitive advantage. Factors such as the intensity of competition, the level of innovation, the efficiency of production processes, and the quality of management practices can all affect a nation's ability to compete internationally. A high level of competition and rivalry among firms may spur innovation, efficiency, and productivity gains, leading to a competitive advantage in global markets.

Porter's theory of national competitive advantage suggests that a nation's competitiveness in international trade is not solely determined by traditional factors such as labor costs or natural resources, but also by a complex interplay of factors related to domestic demand, factor conditions, related and supporting industries, and firm strategy and rivalry. This theory highlights the importance of a holistic and integrated approach to understanding and enhancing a nation's competitiveness in global markets.

Q3. What are the measures taken by the Government of India to promote FDI in India?

The Government of India has implemented various measures to promote Foreign Direct Investment (FDI) in the country. Some of the key measures include:

Liberalization of FDI policy: The Government of India has progressively liberalized the FDI policy over the years to attract more foreign investment. Several sectors, including defense, insurance, construction, aviation, single-brand retail, and more, have witnessed increased FDI caps or allowed for 100% FDI under the automatic route without prior government approval. This has made it easier for foreign investors to invest in India and participate in various sectors of the economy.

Simplification and streamlining of FDI procedures: The Indian government has taken steps to simplify and streamline the FDI procedures by introducing online platforms and digitizing processes. This includes the introduction of a single-window clearance mechanism, which allows for a unified and streamlined process for obtaining various approvals and clearances for foreign investments.

Improving ease of doing business: The Government of India has been actively working towards improving the ease of doing business in the country, which includes measures to facilitate foreign investment. This includes reforms in areas such as company registration, taxation, intellectual property rights, labor laws, and more, to make it easier for foreign investors to set up and operate businesses in India.

Investment promotion and facilitation: The Indian government has set up various investment promotion agencies, such as Invest India, to actively promote and facilitate foreign investment in the country. These agencies provide information, guidance, and support to foreign investors, assist in resolving investment-related issues, and act as a single point of contact for investors.

Sector-specific incentives: The Indian government has introduced various sector-specific incentives to attract foreign investment in priority sectors such as manufacturing, infrastructure, startups, and renewable energy. These incentives may include tax incentives, subsidies, reduced customs duties, and other benefits to encourage foreign investment in these sectors.

Liberalization of external trade and investment policies: The Indian government has undertaken measures to liberalize its external trade and investment policies, including reducing tariffs, simplifying customs procedures, and promoting trade and investment agreements with other

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countries and regions. These measures are aimed at facilitating foreign investment and improving trade relations with other countries.

FDI in special economic zones (SEZs): The Indian government has established Special Economic Zones (SEZs) to promote exports and attract foreign investment. SEZs offer various incentives such as tax concessions, streamlined regulatory procedures, and infrastructure support to encourage foreign investment in these designated zones.

These are some of the measures taken by the Government of India to promote Foreign Direct Investment (FDI) in the country. These measures are aimed at creating a favorable investment climate, simplifying procedures, and providing incentives to attract foreign investors and boost economic growth in India.

OR

Q3 Write short notes on:-

(a) Spot rate vs Forward rate

(b) Foreign exchange risk and Foreign exchange exposure

(c) Greenfield investment vs Brownfield investment.

(a) Spot rate vs Forward rate:

Spot rate: The spot rate in foreign exchange refers to the current exchange rate at which a currency pair can be bought or sold for immediate delivery. It represents the prevailing market rate at a particular point in time and is typically used for immediate transactions.

Forward rate: The forward rate, on the other hand, is the agreed-upon exchange rate for a future date, typically beyond two business days. It is a contractual rate that is agreed upon today for a transaction that will take place at a specified future date. The forward rate is determined by taking into account factors such as interest rate differentials between the two currencies, market expectations, and risk factors.

(b) Foreign exchange risk and Foreign exchange exposure:

Foreign exchange risk: Foreign exchange risk refers to the potential for financial loss or gain due to fluctuations in exchange rates. It arises when a company or individual has financial transactions or investments denominated in a currency other than their base currency. Foreign exchange risk can impact the profitability and financial performance of businesses engaged in international trade or investment.

Foreign exchange exposure: Foreign exchange exposure refers to the degree to which a company's financial position or cash flows are affected by changes in exchange rates. It can be classified into three types: transaction exposure, translation exposure, and economic exposure. Transaction exposure refers to the potential impact of exchange rate fluctuations on specific transactions denominated in foreign currency. Translation exposure refers to the impact of changes in exchange rates on the financial statements of a company's foreign subsidiaries when they are translated into

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the reporting currency. Economic exposure refers to the broader impact of exchange rate fluctuations on a company's overall competitive position, market share, and cash flows.

(c) Greenfield investment vs Brownfield investment:

Greenfield investment: Greenfield investment refers to a type of foreign direct investment (FDI) where a company establishes a new business or builds a new facility from scratch in a foreign country. It involves setting up operations in a foreign market by constructing new production facilities, offices, or distribution networks. Greenfield investment requires significant investment in terms of capital, time, and resources, and involves higher risks compared to other forms of investment.

Brownfield investment: Brownfield investment, also known as acquisition or takeover, refers to a type of FDI where a company acquires an existing business or facility in a foreign country. It involves the purchase of an existing company or assets, which may include manufacturing plants, offices, distribution networks, or other infrastructure. Brownfield investment allows for quicker entry into a foreign market compared to greenfield investment, as it involves taking over an established business with an existing customer base, brand presence, and market share.

These are brief explanations of the concepts of spot rate vs forward rate, foreign exchange risk vs foreign exchange exposure, and greenfield investment vs brownfield investment in the context of international business and finance.

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Q4. Explain the factors affecting exchange rate determination.

Ans. Exchange rate determination refers to the process by which the value of one currency is determined in relation to another currency in the foreign exchange market. Several factors influence exchange rate determination, including:

Supply and demand: The basic principle of supply and demand applies to the foreign exchange market as well. If there is a higher demand for a currency, its value is likely to appreciate, whereas if there is a higher supply of a currency, its value is likely to depreciate. Factors such as economic performance, trade balances, interest rates, geopolitical events, and market sentiment can affect the supply and demand for a currency, thus impacting its exchange rate.

Interest rates: Interest rates play a crucial role in exchange rate determination. Higher interest rates in a country tend to attract foreign investment, leading to an increased demand for the currency, and thus, appreciation of the currency. Conversely, lower interest rates may discourage foreign investment, resulting in a decreased demand for the currency, and thus, depreciation of the currency.

Inflation rates: Inflation rates also impact exchange rates. Countries with higher inflation rates tend to see a depreciation of their currency, as the purchasing power of the currency decreases. On the other hand, countries with lower inflation rates may see an appreciation of their currency, as the purchasing power of the currency increases.

Political and economic stability: Political and economic stability of a country can significantly impact exchange rates. Countries with stable political environments, sound economic policies, and strong

economic fundamentals tend to attract foreign investment, leading to an increased demand for their currency and appreciation of the currency. On the other hand, countries with political instability, uncertain economic policies, and weak economic fundamentals may see a depreciation of their currency due to lower demand.

Trade balances: The balance of trade, which is the difference between a country's exports and imports, can affect exchange rates. A country with a trade surplus (exports exceed imports) tends to have a higher demand for its currency, leading to appreciation. Conversely, a country with a trade deficit (imports exceed exports) may have a lower demand for its currency, leading to depreciation.

Speculation and market sentiment: Speculation and market sentiment also play a role in exchange rate determination. Forex traders and investors may speculate on future exchange rate movements based on their assessment of various factors, including economic data, geopolitical events, and market sentiment. Speculative trading can influence short-term exchange rate movements, adding to the overall complexity of exchange rate determination.

Government intervention: Governments and central banks may also intervene in the foreign exchange market to influence exchange rates. They can buy or sell their own currency in the market, implement monetary policies, impose capital controls, or intervene in other ways to impact the supply and demand for their currency and influence its exchange rate.

These are some of the key factors that affect exchange rate determination. It's important to note that exchange rates are highly volatile and can be influenced by multiple factors that may change over time, making exchange rate forecasting and determination complex and challenging.

OR

Q4. Explain purchasing power parity and interest rate parity theory of exchange rate with example.

Ans. Purchasing Power Parity (PPP) and Interest Rate Parity (IRP) are two theories that attempt to explain exchange rate movements and relationships between different currencies in the foreign exchange market.

Purchasing Power Parity (PPP):

PPP is a theory that suggests that the exchange rate between two currencies will adjust over time to equalize the purchasing power of those currencies. In other words, according to PPP, a unit of currency should have the same purchasing power regardless of which country it is used in.

There are two forms of PPP: Absolute PPP and Relative PPP.

Absolute PPP: Absolute PPP states that the exchange rate between two currencies will adjust in such a way that the same basket of goods will cost the same in both countries. For example, if a basket of goods costs $100 in the United States and an equivalent basket of goods costs €90 in the Eurozone, then the exchange rate should be 1.11 ($100 divided by €90) to achieve absolute PPP.

Relative PPP: Relative PPP suggests that the exchange rate between two currencies will change in such a way that the ratio of the price levels between the two countries remains constant. For example, if the price level in the United States increases by 2% and the price level in the Eurozone increases by 3%, then the exchange rate should adjust by 1% (3% - 2%) to maintain relative PPP.

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Example of PPP: Let's consider an example where the current exchange rate between the US dollar (USD) and the British pound (GBP) is 1 USD = 0.80 GBP. According to PPP, if the inflation rate in the US is 2% and the inflation rate in the UK is 3%, then the exchange rate should adjust to approximately 1 USD = 0.81 GBP (0.80 + 0.02 - 0.03) to maintain relative PPP.

Interest Rate Parity (IRP):

IRP is a theory that suggests that the difference in interest rates between two currencies will determine the forward exchange rate between those currencies. According to IRP, the forward exchange rate should reflect the interest rate differentials between two countries to prevent arbitrage opportunities.

There are two forms of IRP: Covered Interest Rate Parity (CIRP) and Uncovered Interest Rate Parity (UIRP).

Covered Interest Rate Parity (CIRP): CIRP suggests that the forward exchange rate should be determined by the interest rate differentials between two currencies, taking into account the cost of borrowing in one currency and investing in another, while covering the exchange rate risk with a forward contract. CIRP implies that there should be no arbitrage opportunities in the foreign exchange market.

Uncovered Interest Rate Parity (UIRP): UIRP, also known as the Expectations Theory, suggests that the expected change in the exchange rate between two currencies should be equal to the interest rate differential between those currencies. UIRP implies that investors do not need to cover their exchange rate risk with forward contracts, as the expected change in the exchange rate will compensate for any interest rate differentials.

Example of IRP: Let's consider an example where the current spot exchange rate between the Japanese yen (JPY) and the US dollar (USD) is 1 USD = 105 JPY, and the annual interest rate in the US is 2% and in Japan is 0.5%. According to CIRP, if the forward exchange rate for one year is 1 USD = 103 JPY, then an investor can borrow USD at 2% and invest in JPY at 0.5%, and after covering the exchange rate risk with a forward contract, the total return would be risk-free. Similarly, According to UIRP, if the expected change in the exchange rate over one year is 2.5% (2% - 0.5%), then an investor can invest in JPY without covering the exchange rate risk, as the expected change in the exchange rate would compensate for the interest rate differential.

It's important to note that while PPP and IRP are theories that attempt to explain exchange rate movements, they may not always hold true in practice due to various factors such as transaction costs, political events, market sentiment, and other external factors that can impact exchange rates. Therefore, it's important to use these theories as guidelines and not rely solely on them for making actual investment or trading decisions in the foreign exchange market.

Q5. Write short notes on the following:

(a) Measures for promoting foreign investments into and from India

(b) SEZ policy of Government of India

(c) EPRG Framework.

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Ans. **(a) Measures for promoting foreign investments into and from India:**

The Government of India has implemented various measures to promote foreign investments into and from India. Some of the key measures include:

Foreign Direct Investment (FDI) liberalization: The Government has relaxed FDI norms in several sectors, allowing higher limits for foreign investment, and simplifying the approval process for FDI. This has made it easier for foreign investors to invest in India.

Make in India campaign: The Make in India initiative aims to promote manufacturing in India and attract foreign investments by providing various incentives such as tax concessions, ease of doing business, and special economic zones.

Investment promotion and facilitation: The government has set up investment promotion agencies such as Invest India and state-level investment promotion agencies to provide information, support, and facilitation services to foreign investors.

Bilateral investment promotion and protection agreements (BIPAs): India has signed BIPAs with several countries to promote foreign investments and provide protection to foreign investors against arbitrary actions by the government.

Tax incentives: The government offers various tax incentives to foreign investors such as lower corporate tax rates for new manufacturing companies, tax holidays for specified sectors, and exemption from customs duty on certain imports.

(b) SEZ policy of Government of India:

The Special Economic Zone (SEZ) policy of the Government of India is a key initiative aimed at promoting exports, attracting foreign investment, and boosting economic growth. Some of the salient features of the SEZ policy are:

Fiscal incentives: SEZs are designated geographical areas that are treated as foreign territories for trade operations, and units operating within SEZs are eligible for various fiscal incentives such as exemptions from customs duty, central excise duty, and service tax.

Single-window clearance: SEZs offer a single-window clearance mechanism for setting up and operating businesses, which simplifies the regulatory process and reduces bureaucratic red tape.

Infrastructure support: The government provides infrastructure support in terms of land, power, water, and other facilities to promote investments in SEZs.

Sector-specific SEZs: The SEZ policy allows for the establishment of sector-specific SEZs such as IT/ITES, biotechnology, gems and jewelry, and textiles, among others, to cater to the specific needs of different industries.

(c) EPRG Framework:

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The EPRG Framework, also known as the Ethnocentric, Polycentric, Regiocentric, and Geocentric framework, is a model that describes the orientation or approach of a multinational corporation (MNC) towards managing its international operations. It consists of the following components:

Ethnocentric orientation: In this approach, the MNC's headquarters or parent company applies the same management practices and values that are followed in the home country to its international operations. This approach assumes that the home country's practices are superior and that the parent company's management expertise should be replicated in foreign markets.

Polycentric orientation: In this approach, the MNC adapts its management practices and values to suit the local markets where it operates. The subsidiaries or foreign offices have a high degree of autonomy and are allowed to develop their own management practices based on local conditions.

Regiocentric orientation: In this approach, the MNC groups countries or regions with similar characteristics into regions and develops management practices and policies specific to those regions. This approach recognizes that regional differences may exist and takes them into consideration while formulating strategies.

Geocentric orientation: In this approach, the MNC adopts a global or geocentric perspective and seeks to integrate its operations and management practices across all markets. This approach focuses on selecting the best talent and practices from around the world, regardless of nationality, and aims for a consistent approach to managing international operations.

In summary, the EPRG Framework describes different approaches or orientations that MNCs may adopt in managing their international operations. The ethnocentric approach emphasizes the home country's practices, the polycentric approach focuses on local adaptation, the regiocentric approach considers regional differences, and the geocentric approach aims for a global perspective.

It's important to note that MNCs may adopt different orientations based on various factors such as the nature of the business, the level of cultural differences, the competitive landscape, and the strategic objectives of the company. The choice of orientation can have significant implications for the MNC's international business strategies, organizational structure, and management practices.

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