QB365 Question Bank Software Study Materials

International Finance Important 2,3 & 5 Marks Questions With Answers (Book Back and Creative)

11th Standard

Commerce

Total Marks : 75

2 Marks

10 x 2 = 20

1) Who are Foreign Institutional Investors?

Answer : **Foreign Institutional Investors (FII) :**

1. FII can be defined as an investment made by a Non-resident in equity of domestic company without intention of acquiring management control.
2. In other words the investment is made by an individual investor or an investment fund, into the financial markets of another nation.

2) What is a Depository Receipt?

Answer : (i) A depository receipt is a negotiable financial instrument issued by a bank to represent a Foreign company's equity shares or securities.

(ii) They are issued to attract a greater amount of investment from other countries.

3) What is a Global Depository Receipt (GDR)?

Answer : **Global Depository Receipt (GDR) :**

GDR (Global Depositary Receipt) is an instrument issued abroad by a company to raise funds in some Foreign currencies and is listed and traded on a Foreign stock exchange.

4) What is an American Depositary Receipt (ADR)?

Answer : **American Depositary Receipt (ADR):**

ADR (American Depository Receipts) is a dollar denominated negotiable certificate representing a non-US company in US Market which allows the US citizens to invest in overseas securities.

5) Expand the following:

Answer : i. GDR: Global Depositary Receipt

ii. ODB: Overseas Depository Bank

iii. DCB: Domestic Custodian Bank

iv. ECB: External Commercial Borrowing

6) What are all the forms of Foreign Direct Investment?

Answer : **The foreign direct investments take the following forms:**

1. Establishment of a new enterprise in a foreign country.
2. Expansion of existing branch or subsidiary in a foreign country.
3. Acquisition of enterprise located in a foreign country.

7) What is International Finance?

Answer : International finance is a branch of financial economics that deals with the monetary interactions that occur between two or more countries.

8) What are the disadvantages of FDI.

Answer : (i) Exploiting Natural Resources
(ii) Heavy outflow of Capital
(iii) Not transferring Technology
(iv) Exploiting cheap labour
(v) Creating Monopolistic Environment

9) What are the steps to issuing ADRs?

Answer : (i) First of all, a company hands over the shares to a Domestic Custodian Bank (DCB).
(ii) Then DCB requests the American Depository Bank (ADB) to issue the shares in the form of ADRs.

10) What are the forms of FDI?

Answer : **Forms of FDI:**
The foreign direct investments take the following forms:
1. Establishment of a new enterprise in a foreign country.
2. Expansion of existing branch or subsidiary in a foreign country.
3. Acquisition of enterprise located in a foreign country.

3 Marks 10 x 3 = 30

11) Explain the importance of International Finance. (any 3)

Answer : **Importance of International finance:**
International finance plays a pivotal role in the international trade and in the sphere of exchange of goods and services among the nations. The following points highlight the importance of international finance.
(i) International Finance helps in calculating exchange rates of various currencies of nations and the relative values of each and every nation in terms thereof.
(ii) It helps in comparing the inflation rates and getting an idea about investing in International debt securities.

12) What is meant by Foreign Currency Convertible Bonds?

Answer : 1. FCCB is issued by an Indian company in foreign currency.
2. It is a convertible debt instrument.
3. It carries interest coupon.
4. It is unsecured.
5. It can be converted into equity or depository receipt after a certain period.

13) Explain any three disadvantages of FDI.

Answer : **1. Exploiting Natural Resources:**
The FDI companies deplete natural resources like water, forest, mines, etc.
As a result such resources are not available for the usage of common man in the host country.
2. Heavy Outflow of capital:
1. Foreign companies take away huge funds in the form of dividend, royalty fees, etc.
2. This causes a huge outflow of capital from the host country.
3. Not Transferring Technology:
1. Some foreign enterprises do not transfer the technology to developing countries.
2. They mostly transfer second hand technology to the host country.
3. They keep the fundamental aspects of technology with the parent company.
4. In such case, host country may not get the advantage of technology transfer and consequent economic development

14) State any three features of ADR.

Answer : **The features of ADR as follows:**
(i) ADR's are denominated only in US dollars.
(ii) They are issued only to investors who are American residents.
(iii) The depository bank should be located in US.

15) What are the procedure for issuing GDRs?

Answer : (i) First of all, the company issuing GDRs hands over its to one Domestic Custodian Bank called DCB.
(ii) Then the DCB requests the Overseas Depository Bank (ODB) situated in the Foreign Country for issuing the shares as GDR.
(iii) The ODB converts the shares shown in rupee into GDR which are denominated in US dollar.
(iv) Finally, ODB issues them to the intending investors.

16) What is meant by International Capital Market?

Answer : It is a self-regulatory organization and trade association for participants in the capital markets. It is a financial market or world financial centre where shares, bonds, debentures, currencies, hedge funds, mutual funds and other long-term securities are purchased or sold.

17) Define Foreign Direct Investment (FDI).

Answer : Foreign direct investment (FDI) is an investment made by a company or an individual in one country with business interests in another country, in the form of either establishing business operations or acquiring business assets in the other country, such as ownership or controlling interest in a foreign company.

18) What are the various internal sources of funds may be generated?

Answer : **The various international sources from where funds may be generated are:**
(i) Commercial banks: Most of the commercial banks extend foreign currency loans for promoting business opportunities. The loans and services of various types, provided by banks differ from country to country.
(ii) International agencies and development banks: International agencies and Development banks play an important role to promote international trade and business. They provide term loans and grants to promote the development of economically backward areas in the world. International Finance Corporation (IFC), EXIM Bank and Asian Development Bank are the agencies operating at International level to meet the needs of the international finance.
(iii) International capital markets: Modem organisations including multinational companies depend upon sizeable borrowings in rupees as well as -in foreign currencies. Prominent financial instruments used for this purpose are Depositary Receipts.

19) What are the process of issuing ADRs?

Answer : **Process of issuing ADRs:**
Steps:
(i) The company hands over the shares to a Domestic Custodian Bank (DCB).
(ii) Then DCB request the American Depository Bank (ADB) to issue the shares in the form of ADRs.
(iii) ADB converts the issue which are in rupees into US dollars.
(iv) Finally, ADB issues them to the intending investors.

20) What are the process of issuing GDRs?

Answer : **Steps:**
1. The company issuing GDR's hands over its shares to one Domestic Custodian Bank (DCB).
2. Then DCB requests the Overseas Depository Bank (ODB) situated in the foreign country for issuing the shares as GDR.
3. The ODB conyerts the shares shown in rupees into GDR which are denominated in US dollar.
4. Finally, ODB issues them to the intending investors.

5 Marks 5 x 5 = 25

21) Distinguish between GDR and ADR. (any 5)

Answer :

Sl.No	Basic for comparison	GDR(Global Depository Receipts)	ADR(American Depository Receipts)
1.	Denomination	It is denominated in terms of any freely convertible currency	It is denominated only in US dollars.
2.	To whom it is issued	It is issued to investors in one or across more markets simultaneously	It is issued only to investors, who are resident of US
3.	Listed in	It is listed in Non-US stock exchange such as London stock Exchange or Luxemburg Stock Exchange	It is listed in American Stock Exchange
4.	Approval	GDR issues does not require Foreign regulatory clearances	ADR Issues require approval from Securities Exchange commission (SEC) of US
5.	Mode of Expression	GDRs are normally co-related to equity shares of the issuing company expressed in whole numbers	In many cases ADRs co-related to equity shares of the company are expressed as a fraction.
6.	Negotiation	All over the world	In America only.

22) State any five features of FCCB. (any 5)

Answer : Foreign currency convertible Bond (FCCB) is a special type of bond issued in the currency other than home currency. In other words, companies issue Foreign Currency convertible bonds to raise money in Foreign Currency.

Features of FCCBs are given below:

1. FCCB is issued by an Indian company in foreign currency.
2. These are listed and traded in foreign stock exchange and similar to the debenture.
3. It is a convertible debt instrument.
4. It carries interest coupon.
5. It is unsecured.
6. It gives its holders the right to convert for a fixed numbers of shares at a predetermined price.
7. It can be converted into equity or depository receipt after a certain period.

23) What is ADR? What are its features? what are the procedure for issuing ADR?

Answer : **Meaning:**

ADR is a dollar denominated negotiable certificate representing a non-US company in US market which allows the US citizens to invest in overseas securities.

Features of ADR:

(i) ADRS are denominated only in US dollars.

(ii) They are issued only to investors who are American Citizens.

(iii) The depository bank should be located in US.

(iv) The approval of securities and Exchange commission (SEC) of US needs to be obtained for issuing ADR.

(v) They are sub-classified on the basis of level of clearance made by SEC.

Procedure of ADR :

(i) First of all, a company hands over the shares to a Domestic custodian Bank called DCB.

(ii) Then the DCB request the Americal Depository Bank (ADB) to issue the shares in the form of ADRs.

(iii) ADB converts the issue which are in rupees into US dollars.

(iv) Finally, ADB issues them to the intending investors.

24) What are all the disadvantages of FDI?

Answer : The following are the disadvantages of FDI:

Exploiting Natural Resources:

The FDI Companies deplete natural resources like water, forest, mines etc. As a result such resources are not available for the usage of common man in the host country.

Heavy Outflow of capital:

Foreign companies are said to take away huge funds in the form of dividend, royalty fees etc. This causes a huge outflow of capital from the host country.

Not Transferring Technology:

Some foreign enterprises do not transfer the technology to developing countries. They mostly transfer second hand technology to the host country. They keep the fundamental aspects of technology with the parent company. In such case, the host country may not get the advantage of technology transfer and consequent economic development.

Exploiting Cheap Labour:

Foreign enterprises employ cheap labour force at a lower pay in developing countries. They do not employ local people for higher posts in the management. Further they do not extend the privileges they usually give to the employees in their home country to the employees of the host country. Thus they are stated to exploit the labour in developing countries.

Creating Monopolistic Environment:

Multi-National Companies (MNCs) which enter the host country through FDI route create monopolistic conditions in the host countries through their market power. They may not create competitive environment in the host country. Contrarily they may affect the competition altogether and establish supremacy.

25) Explain the procedure for issuing ADR.

Answer : 1. First of all, a company hands over the shares to a Domestic Custodian Bank (DCB)

2. Then DCB requests the American Depository Bank (ADB) to issue the shares in the form of ADRs

3. ADB converts the issue which are in rupees into US dollars

4. Finally, ADB issues them to the intending investors.