INSTITUTE OF MANAGEMENT TECHNOLOGY, GHAZIABAD
PGDM 2012-2014, TERM - III
S1 + S2
INTERNATIONAL TRADE & FINANCE
End Term (Closed Book)
Maximum Marks: 40 Time: 1 Hour 30 minutes

Answer any three from Question 1-6 (3x8=24).

1. Explain in brief how a business firm involved in import can reduce foreign exchange risk.

2. Explain the covered interest parity theory. Suppose spot rate of $ = Rs 40 and 3 months forward rate of $ is Rs 42. Interest rates in India and USA are 12% and 4% respectively. Will borrowing in USA in US dollar and investing in India be profitable?

3. Distinguish between international, localization, global standardization and transnational strategy in terms of pressure of cost reduction and local responsiveness.

4. Explain what is eclectic paradigm of foreign direct investment?

5. What is infant industry argument of import tariff? If import duty is imposed on sugar imported from Pakistan to India, who will benefit and who will lose – consumers, domestic producers and government?


7. Answer all (6x1=6)

(A) The factor used to convert from one country's currency to another country's currency is called the:
   a) Interest rate.
   b) Cost of capital.
   c) Exchange rate.
   d) Strike price.
   e) Terms of trade

(B) Which of the following is a reason for foreign direct investment?
   a) Reduce costs of production and sale
   b) Protect domestic markets
   c) Protect foreign markets
   d) Generating domestic employment
   e) All of the above are reasons for foreign direct investment
(C) Many countries have recently liberalized their investment laws. What is the primary reason for these actions?
   a) To make it more difficult for multinational companies to compete with domestic corporations.
   b) To encourage foreign direct investment.
   c) To enable funds to flow out of their country more easily.
   d) To make taxing foreign companies easier.
   e) All of the above.

(D) Outright transactions that involve the exchange of currency at a fixed exchange rate beyond three days are known as the
   a) spot rate
   b) forward rate
   c) option rate
   d) reverse transaction rate
   e) Margin rate

(E) The pound-dollar forward rate for pounds is $1.9068, and the spot rate is $1.9059. Pounds are selling at a
   a) discounted premium
   b) backward discount
   c) forward premium
   d) forward discount
   e) spot discount

(F) If a country's central bank buys and sells foreign exchange in the open market as a way of controlling currency, the country has a
   f) flexible exchange rate
   g) floating exchange rate
   h) managed floating rate
   i) dual currency
   j) Fixed exchange system

8. Read the following case and answer the questions at the end

Entry of Wal-Mart in Argentina

1. The Issue

Wal-Mart, one of America's chain hypermarkets, entered Argentina, along with other nations across the globe, in an attempt to capture share of a lucrative market. By exporting their "Main Street USA"-type shop all over the world, Wal-Mart sought to bring a different shopping experience to other cultures and to make a lot of money in the process. WalMart is a successful story with average return of 33% and average sales growth of 25%. It follows 'Everyday Low Price Strategy' and 'Low Margin and High Volume'.
In mid 1990s Argentina’s economic outlook was positive. Economy was open with convertibility of currency. Inflation was under control and GDP and consumption expenditure were rising.

Retail market in Argentina was small shop – based with only one hypermarket chain Carrefour of France. Total retail market size in 1993 was US$ 67.9 billion. Market pattern was a) family shopping b) purchase of small quantity c) not large car ownership d) corrupt local business environment.

2. Description

Wal-Mart had its sights set high on foreign markets. At regional meetings with store executives, Wal-Mart President and CEO David Glass told those in attendance that “if they didn’t think internationally, they were working for the wrong company.” Its worldwide ambitions were taking the company down south to Latin American markets. As the first US retailer to enter Argentina in November 1995, Wal-Mart had optimistic hopes of capturing the Argentine consumers by showing them the benefits of hypermarket shopping and adding much revenue for good fortune. By offering lower prices than local merchants and other European and American-style service and convenience, Wal-Mart was sure to capture the hearts and wallets of Argentinitans.

The retail trade market in Argentina could be characterized by small, specialized, owner-operated shops. However, the 1990s have seen an incredible influx of super market chains. By far, the increased concentration of major retail chains is heavily felt in the Argentine metropolitan capital of Buenos Aires, while other large urban centers such as Rosario, Cordoba and Mendoza are also seeing an increase in supermarket chains. Major supermarket chains were projected to control 85% of total food sales in large urban centers by 1997. This was an increase from the 65% share of total food sales they controlled in 1996.

So, Wal-Mart hoped it would surely gain a considerable share of the market in Argentina, one of the largest consumer markets in South America. Wal-Mart had the following entry strategies 1) entering on its own building stores from scratch 2) acquisition of a local retailer 3) joint venture. A possible partner can be Disco S.A. which had 57 branches.

Wal-Mart evaluated the political, economic, financial and industry risk. It also made comparative study of individual entry, acquisition and joint venture. It calculated the individual entry cost as $172.4 mn, acquisition cost as $ 79.9 mn and joint venture cost as $ 357.08 mn. It however preferred the joint venture route and established typical Wal-Mart supercenter.

3. Challenge

The company has made some impact on the market, but not nearly the degree it had hoped. Unlike its entry into Mexico and Brazil, though, Wal-Mart was facing obstacles alone in Argentina without the luxury of local partnerships. When opening its first supercenter, Wal-Mart had to fight protests from suppliers for selling at prices below costs.

At first, hypermarkets were finding success in the changing Argentinian economy. By December 1996, Wal-Mart operated three supercenters with plans for as many as 40 supercenters in the future. Also, by the end of 1996, there were 35 operating megamarket shopping centers in the country, selling close to US $3.8 million and were visited by approximately 150 million people annually. Projected numbers saw the number of supercenters double within three years if the trend for discount supermarket continued.

However, that trend did not last. Competition from other European hypermarket chains has hindered Wal-Mart’s success in Latin markets. Carrefour, a French hypermarket operator, and Dutch-owned Makro operate combined about 15 hypermarkets in Argentina. These European competitors are accustomed to dealing with cultural influences of foreign markets. Carrefour, both here and in Brazil, has refused to code anything to the encroaching American giant. With about 20 years of experience in the market and long-term relationships with the thousands of
Argentine vendors, Carrefour has put up what might possibly be the toughest fight Wal-Mart has encountered since the Kmart price wars of the 1980s. "In a lot of ways it reminds me of those days," Furner told DSN. "They're a tough, disciplined bunch."

Early on, Carrefour used its clout to influence vendors to refuse to do business with the interloper. However, that early problem has been overcome, according to Owen. In large part, change has come about, in many cases, because "local" vendors were the South American divisions of large U.S. consumer product companies such as Lever Bros. and Procter & Gamble. Wal-Mart applied its own muscle stateside, and vendor problems ultimately evaporated.

Nevertheless, Wal-Mart continues to face a steep learning curve. The most overwhelming problem is the incredible velocity its stores must absorb. By most estimates, the average supercenter sold at least $180 million worth of goods last year, about four times the sales of a U.S. supercenter. Additionally, Argentina's consumers spend about 33% of their income on food. Wal-Mart only controls 2.5% of Argentina's food expenditures but 16.5% of non-food expenditures, leading many to believe that Argentinians are tired of making a separate trip to Wal-Mart for non-food items, even those being sold at a lower price. Furner added, "We're still learning here. In the U.S., we have 2,500 stores. We're well-known and the channels of distribution are established. But in Argentina, everything's different: The government, labor laws, vendor relations, even the way people shop, are all very different."

8.A) Which entry strategy Wal-Mart had chosen and why was it facing problem in this regard? Was it a right strategy? 4

8.B) Explain the local vendor problem faced by Wal-Mart with reference to the long term relationship issue in this regard. 3

8.C) Is shopping behavior important in retail business? Answer from the information found in the case. 3
END TERM EXAM
PGDM TERM III, Batch: 2012-14 (Section:S3+S4+S5+S6+S7)
INTERNATIONAL TRADE AND FINANCE

Closed book

M. MARKS 50

TIME 2.00 hrs

INSTRUCTIONS
PART I
Attempt any 3 questions out of FIVE
Part II is compulsory.

10 MARKS EACH

Part I

Q1. The world’s largest democracy wages constant battle against entrenched special interests and the lure of socialistic protectionism. The most recent skirmish was on India’s plan to allow limited foreign direct investment in the retail trade. Critics rallied, raising doubts about the government’s ability to protect small traders against giants like Walmart, Carrefour and other foreign retailers. Comment.

Q2. What are the issues involved in the trade and environment debate? Give a few illustrative examples of the kind of global trade disputes which have erupted in recent years.

Q3. What is difference between tariff and quota. You are an employee of an U.S. firm that produces personal computers in Thailand and then exports them to the U.S. and other countries for sale. The personal computers were originally produced in Thailand to take advantage of relatively low labor costs and a skilled workforce. Other possible locations considered at that time were Malaysia and Hong Kong. The U.S. government decides to impose 100 percent ad valorem tariffs on imports of computers from Thailand to punish the country for administrative trade barriers that restrict U.S. exports to Thailand. How should your firm respond? What does this tell you about the use of targeted trade barriers?

Q4. Explain the forward and spot exchange rate. Suppose spot rate of $ = Rs 50 and 3 months forward rate of $ is Rs 52. Interest rates in India and USA are 12% and 4% respectively. Will borrowing in USA in US dollar and investing in India be profitable?

Q5. Write short notes on any two:
a. Euro crisis
b. EXIM bank
c. Foreign Exchange Risk
PART II (CASE STUDY)

Regional cooperation and effective integration among developing countries

Access to a larger market as a means of achieving scale economies and diversifying production has also been a long-standing rationale for regional arrangements among developing countries. Industrial differentiation broadens the potential for expanding intra-industry trade. Among countries with similar economic structures and technological capabilities, firms that cross various thresholds in terms of size, productivity performance and technological know-how tend increasingly to trade abroad, giving rise to an interactive and cumulative process between internal and external integration. Exports allow scale economies to be further exploited, which can also attract FDI. At the same time a growing outward orientation exposes firms to new products and processes, and to new sources of competition. These considerations apply to outward orientation generally, but for many developing countries that are at an early stage of industrial development, a regional orientation involving countries at a similar level of development may be considered a more viable option. This is because the initial foreign competition within the region may be less difficult to handle, the technological gap vis-à-vis competitors from more advanced countries outside the region may be easier to close, and the probability of finding a level playing field is greater.

Formal regional cooperation can be accompanied by very different degrees of effective regional integration, and this has sometimes occurred among countries without the prior conclusion of formal trade arrangements or other far-reaching policy cooperation. Formal agreements on trade liberalization or other forms of regional cooperation are not a precondition for de facto integration; in general there is a two-way dynamic interaction between the two. Once external linkages reach a certain level of intensity, there will be pressure from producers to lower or remove the various barriers to intraregional trade, including bureaucratic red tape and conflicting legal restrictions and administrative procedures, as well as demands for better transport and communications infrastructure. Expansion of trade also requires a stable financial and monetary environment. Since the international financial system lacks sufficient instruments to reduce the volatility of international financial markets and its impact on developing countries, regional
cooperation in monetary and exchange-rate policies has become an important issue. This is a concern not only in Western Europe but also in all developing regions. Indeed, in the absence of far-reaching reform of the international financial architecture, strengthened regional monetary and financial cooperation can be critical for achieving greater coherence between the international financial system and the international trading system while respecting specific developing-country interests.

International, and for that matter regional, trade should not be considered an end in itself; rather it is a means to achieving faster growth. Countries should therefore also investigate innovative areas economies. This could, for example, take the form of support for industrial projects and common undertakings in research and development, knowledge generation and information dissemination, that might be too costly and risky for an individual developing country but viable if several countries were to pool their resources.

Questions:

Q1 Along with the growing multilateralism in the era of globalization, regional trading arrangements have also witnessed rapid increase during the recent years. Explain the reasons responsible for the growing attractiveness of regional agreements.

Q2 International, and for that matter regional, trade should not be considered an end in itself; rather it is a means to achieving faster growth. Comment.
Institute of Management Technology - IMT
END TERM EXAM
PGDM - TERM III, Batch: 2015-17, Section: A-L
INTERNATIONAL TRADE AND FINANCE

Closed book
Exam Date: 30.12.2015
Faculty Name: Prof. V. J. Sebastian / Prof. Ratna Yadra / Prof. Kasturi Das

M. MARKS 40

TIME: 1.30 hrs

INSTRUCTIONS

PART I
Attempt any 2 questions out of four
Part II is compulsory.

10 MARKS EACH

Part I

Q1. Exploiting vast natural resources and a large labor pool, Brazil today is South America's largest economy and a regional leader. It is characterized by large and well-developed agricultural, mining, manufacturing, and service sectors, and a rapidly expanding middle class. GDP is $3.276 trillion (PPP, 2014 est.) Real GDP growth rate was 0.4% (2014 est.) and per capita GDP: $16,200 (PPP, 2014 est.). GDP composition: agriculture: 5.6%, industry: 23.4%, services: 71%. Pressing problems include high income inequality, crime, inflation, rising unemployment, and corruption. An Indian exporter of garments is making his first foray towards Latin America and is considering the market of Brazil. You have been appointed as a consultant to the firm. Prepare a short report on the feasibility of different modes of doing business in Brazil. (10 marks)

Q2. (a) What are the four levels of economic integration? Explain with examples wherever you can. (5 marks)

(b) India, a staunch supporter of the GATT/WTO-led multilateralism, has recently started engaging in regional trade agreements (RTAs). What, in your view, are the pros and cons for India's engagement in such RTAs? (5 marks)

Q3. FDI based explanations of International Business evolved overtime. Describe the evolution of these explanations with examples from Monopolistic advantage theory through internalization theory to the eclectic paradigm. (10 marks)

Q4. The following information is available to a US investor:
   a) Present spot rate per pound: $1.8000
   b) 90-day forward rate per pound: $1.7800
   c) US interest rate (for 90 days): 2%
   d) UK interest rate (for 90 days): 2.5%

   1. Given the US interest rate, UK interest rate and the spot rate, what would be an equilibrium 90-day forward rate? (5 marks)

   2. Given the Spot rate, the forward rate as given in (b) above, and the US interest rate, what would be an equilibrium UK interest rate (for 90-day period)? (5 marks)
Two views on trade liberalization

Two very well-known US economists write about trade liberalisation and economic growth. Anne O Krueger, 'Trade, jobs and growth: why you can’t have one without the other' History shows that free trade is an engine for growth. The General Agreement on Tariffs and Trade (GATT) that preceded the WTO was based on the principle of gradual liberalisation of trade. The results of the new trade framework exceeded expectations of economic prosperity, as the post war period was a golden age for much of the world economy. While several factors played a role in accelerating economic growth, increased trade due to trade liberalisation was one of the most important. Most of the Asian economies grew at annual rates of more than 7% since the 1970s, while China has been growing at more than 10% a year. In growth terms, South Korea achieved in a decade what Britain had done in the whole of the 19th century. One of the key benefits of free trade is that it leads to job gains, especially in export industries as these expand. However, it will result in some job losses, as some firms lose out from the greater competition. This is why social safety nets are important, to help the unemployed get financial assistance and job training. In low-income countries, economic growth has a direct - and beneficial - impact on people's daily lives. We can see improvements in the quality of life around the world. Infant mortality rates have declined sharply; literacy rates have risen worldwide; and there has been a major increase in life expectancy. Poverty reduction can only be achieved and sustained over a long period by growth, and to maximise growth opportunities, trade liberalisation is vital.

Joseph Stiglitz, 'Social justice and global trade'. The history of recent trade meetings shows that something is wrong with the global trading system. Tariff structures are designed to make it more difficult for developing countries to move up the value-added chain. The prevailing mantra is 'trade liberalisation leads to economic growth'. The fact that so many have been hurt by trade liberalisation contradicts this claim. Mexico's very poor performance under the free trade area NAFTA does not help the case for trade liberalisation. While NAFTA opened up for Mexico the largest market in the world (the United States), growth in Mexico has been slower than before, while the poorest in the country, the corn farmers, have been especially hurt by US-subsidised corn. There are some circumstances when trade liberalisation brings enormous benefits - when there is full employment and when an economy is mature. Full employment means that a worker who becomes unemployed can easily find another job; otherwise, s/he remains unemployed. Developing countries cannot compete in modern, industrial sectors without protection; therefore, when they liberalise they cannot industrialise and they are condemned to remain in low value-added, low-growth production. Thirty-five years ago, South Korea was told to stick with rice farming. But South Korea knew that even if it improved productivity in rice farming, it would remain a poor country. It had to industrialise. We know which countries have grown the fastest. They were the countries of East Asia.
whose growth was based on export promotion, not liberalised trade and free markets. Trade liberalisation has brought enormous benefits to some countries, but not to all. Some have even been made worse off, because of an unfair global trade regime. The World Trade Organization (WTO) must be reformed to make trade fair.

Questions
1. Explain the difference between export promotion and import substitution as two different strategies for growth and development. (10 marks)
2. Is free trade fair? What are the potential costs of adopting a free trade regime? What do you think governments should do to reduce these costs? (10 marks)