

I. CHOOSE THE BEST ANSWER:

1. An instrument representing ownership interest in securities of a Foreign Issuer is called.

(a) an ownership certificate	(b) a depository receipt
(c) an ownership receipt	(d) None of the above
2. Issuance of DRs is based on the increase of demand in the

(a) International Market	(b) Local Market
(c) Existing Shareholders	(d) All of the above
3. ADRs are issued in_____

(a) Canada	(b) China	(c) India	(d) USA
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4. Depository receipts that are traded in an International market other than the United States are

(a) Global depository receipts	(b) International Depository receipts
(c) Open market depository receipts	(d) Special Drawing Rights.
5. ___bond is a special type of bond issued in the currency other than the home currency.

(a) Government Bonds	(b) Foreign Currency Convertible Bond
(c) Corporate bonds	(d) Investment Bonds

II. VERY SHORT ANSWER QUESTIONS:**1) Who are Foreign Institutional Investors?**

- ☆ 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.

2) What is a Depository Receipt?

A depository receipt is a negotiable financial instrument issued by a bank to represent a foreign company's equity shares or securities.

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

GDR 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 Depository Receipt (ADR)?

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.

5) What is a Foreign Currency Convertible Bond?

- Foreign currency convertible bond is a special type of bond issued in the currency other than the home currency.
- Companies issue foreign currency convertible bonds to raise money in foreign currency.

III. SHORT ANSWER QUESTIONS:

1. Explain the importance of international finance.

- ★ It helps in comparing the inflation rates and getting an idea about investing in international debt securities.
- ★ It helps in ascertaining the economic status of the various countries and in judging the foreign market.
- ★ It helps in understanding the basics of international organisations and maintaining the balance among them.

2. What are Foreign Currency Convertible Bonds?

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- ☆ Companies issue foreign currency convertible bonds to raise money in foreign currency.

3. Explain any three disadvantages of FDI

i). Exploiting Natural Resources:

- The FDI Companies deplete natural resources like water, forest, mines etc.

ii). 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.

iii). 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.

4. State any three features of ADR.

- ♣ ADRs are denominated only in US dollars.
- ♣ They are issued only to investors who are American residents.
- ♣ The depository bank should be located in US.

5. State any three features of GDR.

- ➞ It is a negotiable instrument and can be traded freely like any other security.
- ➞ GDRs are issued to investors across the country.
- ➞ It is denominated in any acceptable freely convertible currency.

IV. LONG ANSWER QUESTIONS:

1. Describe the importance of international finance?

- ❖ It helps in comparing the inflation rates and getting an idea about investing in international debt securities.
- ❖ It helps in ascertaining the economic status of the various countries and in judging the foreign market.
- ❖ International Financial Reporting System facilitates comparison of financial statements made by various countries.
- ❖ It helps in understanding the basics of international organisations and maintaining the balance among them.
- ❖ International finance organisations such as IMF, World Bank etc. mediate and resolve financial disputes among member nations.

2. Distinguish between GDR and ADR.

S.No	Basis	Global Depository Receipts	American Depository Funds
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 residents of the United States of America.
3	Listed in	Non-US Stock Exchange	American stock exchange

4	Approval	Issue of GDR does not require foreign regulatory clearances.	Issue of ADR requires approval from the Securities Exchange Commission of United States America.
5	Negotiation	It is negotiable all over the World.	It is negotiable only in America

3. State any five features of FCCB.

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

4. Explain any five advantages of FDI.

i). Achieving Higher Growth in National Income:

Developing countries get much needed capital through FDI to achieve higher rate of growth in national income.

ii). Help in Addressing BOP Crisis:

- ✧ FDI provides inflow of foreign exchange resources into a country.
- ✧ This helps the country to solve adverse balance of payment position.

iii). Faster Economic Development

- ✧ FDI brings technology, management and marketing skills along with it.
- ✧ These are crucial for achieving faster economic development of developing countries.

iv). Generating Employment Opportunities

FDI generates a lot of employment opportunities in developing countries, especially in high skill areas.

v). Encouraging Competition in Host Countries

- ➞ Entry of FDI into developing country promotes healthy competition therein.
- ➞ This leads to enterprise in developing countries operating efficiently and effectively in the market.

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