Reg. No. | | | | | | | | | |

MIBH 403

First Semester M.B.A. (IB) Degree Examination, December 2018
INTERNATIONAL BUSINESS
International Economics

Time : 3 Hours   Max. Marks : 70

SECTION – A

(Compulsory)

Note : Answer to the question should **not** exceed **six** pages. **(1×15=15)**

1. Discuss the causes of disequilibrium in the balance of payments. Suggest remedies to correct disequilibrium in the balance of payments.

SECTION – B

Note : Answer **any five** questions. Answer to the question should **not** exceed **four** pages. **(5×8=40)**

2. Briefly explain factor endowment theory of international trade.

3. Explain the factors determining gains from international trade.

4. Briefly explain the different terms of trade.

5. Examine the role of MNCs in international business.

6. Give an account of different types of tariffs.

7. Explain the various methods of international payments.

8. Explain arguments in favour of free trade policy.

9. Explain the various financial programmes of United Nations Organisation.

SECTION – C

Note : Answer to the question should **not** exceed **six** pages. **(1×15=15)**

10. Case study **(Compulsory)** :

In traditional economics, capital movements, were treated merely as international balancing items in a country's balance of trade. It was held that, a creditor country having a surplus in its current account in order to balance out its total payments account will invest or lend capital to deficit or debtor countries. Apparently, debtor countries with deficit in current account will borrow from the surplus countries in order to even out their balance of payments. Consequent upon foreign capital movements, thus, a credit in current account of a surplus country, there will be a corresponding lender position or its capital account, while to a deficit country there will be a corresponding borrower position on its capital account.

Modern economists, however, are of the view that capital movements are much more than merely balancing items. It reality, all international capital movements are not dependent upon the balance of payments deficit and surpluses. A significant portion of capital flow may also be independent of the balance of trade position which, in fact, is based on the judgements, financial decisions and discretions of lenders and borrowers in the international money markets. Where a country has a surplus in its current account, there will be an outflow of capital funds to deficit countries, hence, its holdings of short-term capital and its foreign and banking reserves will be depleted, while a deficit country will find an improvement in these holdings on account of the inflow of capital.

Again, if a country has invested its capital abroad, it receives income in the form of interest, dividends, etc., which can be profitably used to finance its current deficits, which thus, help in balancing its balance of payments account. It has also been maintained that unrestricted international capital movements tend to equalize the rates of interest and profits between countries. As a matter of fact, discrepancies in the rate of interest induce international flow of capital. When there are no checks on the movements, capital tends to flow from a capital-surplus nation to capital-deficit nation on account of high yields in the latter.

Eventually, interest rates in the capital-exporting country will be enhanced, while in the capital-importing country it will decline. A condition of equilibrium in the international flow of capital exists when interest rates and profit yields in different countries are equalized. In practice, however, there are always some restrictions on an impediment to the free movement of capital which prevent such complete equilibrium to emerge. Moreover, apart from the rate of return on investment, many other factors such as risks involved, industrial and general economic policy of the foreign government, political relations between countries, international treaties and agreements on trade and commerce, etc., influence the investment decisions on foreign capital. Indeed, capital movement, especially direct investment and foreign aid, plays an important role in the economic development of backward countries. External assistance is an important source of capital formation and finance resource for planning of project in a capital-deficit poor country.

1) Examine the role of international capital movements in economic development of developing country like India.

2) Discuss the factors that influence the international capital movements.
