

INTERNATIONAL TRADE FINANCE

Department of Management Studies

Semester – 03

PART – A

1. Define International Trade?

According to Irving Kravis, International trade arises as a result of availability and non availability factors.

2. Write the Benefits of International Trade?

The buying and selling of goods and services across national borders is known as International trade. International trade is the backbone of our modern commercial world.

3. State the theories of International Trade?

1. Comparative cost Theory 2. Opportunity Cost Theory 3. Heckscher Ohlin Theory 4. Availability Approach

4. What is Availability Approach?

Availability Approach was proposed by Kravis. The availability approach purports that a nation would tend to import those commodities which are not readily available domestically and export those to satisfy demand.

5. What is Balance of Trade?

The BOT denotes the difference between the merchandise exports and merchandise imports of a country.

6. What is Effective Tariff?

Cordon defines the effective tariff as the percentage increase in value added per unit on an economic activity which is made possible by the tariff structure relative to the situation in the absence of tariffs.

7. What is Optimum Tariff?

Optimum tariff is the rate of tariff beyond which any further gain from an improvement in the terms of trade will be more than offset by the related decline in volume.

8. Write about WTO?

World Trade organizations deal about the trade activities taken place among various nations.

9. Write briefly on EXIM Policy.

EXIM Policy discuss about the export import policies rules and regulations of the country involved in it.

10. Define Balance of Payment?

Balance of Payment of a country has been defined as a systematic record of all economic transactions between the residents of the reporting country and residents of foreign countries.

11. Give the types of transaction involved in BOP?

1. Autonomous 2. Compensatory transactions

12. What is Exchange Control?

When tariffs do not help in restoring the balance of payments equilibrium, countries very often resort to exchange control.

13. Define Tariff?

Tariffs in international trade refer to the duties or taxes imposed on internationally traded commodities when they cross the national borders.

14. What is Trade Barrier?

Trade Barriers are the obstacles for doing easy trade.

15. Write the components of BOP.

1. Current account 2. Capital Account 3. Unilateral Payments account
4. Official settlements account

16. What is BOP Equilibrium?

The BOP of a country is said to be in equilibrium when the demand for foreign exchange is exactly equivalent to the supply of it.

17. What is BOP Disequilibrium?

The BOP is in disequilibrium when there is either a surplus or a deficit in the Balance of payments.

18. What is Nominal Tariff?

Nominal tariff refers to the actual duty on an imported item.

19. Write a brief note on FEMA?

Foreign Exchange management Act gives the clear cut idea of managing the affairs of the foreign exchange

20. What is Bill of Exchange?

Bill of exchange is a document given by the exporter to the importer showing the amount to be paid and the mode of payment.

21. What is Consular Invoice?

Consular invoice is the commercial invoice which got certified by the consular.

22. State the objective of Exim Bank?

To give post shipment and preshipment credit through commercial banks.

23. What is ECGC?

ECGC was set up by the government of India to provide export credit insurance support to Indian exporters.

24. List the export promotion measures?

1. Export policy measures 2. financial incentives 3. assistance for export production and marketing.

25. What is Bill of Lading?

Bill of lading is issued by the shipping company as an acknowledgement of the goods received in good condition.

26. Explain Commercial Invoice?

Commercial invoice contains all the information about the goods to be shipped.

27. What is Foreign Exchange?

Accg. to Dr. Paul Eizing “Foreign exchange is the system or process of converting one national currency into another and of transferring money from one country to another.

28. What is Foreign Exchange market?

Foreign exchange market is a market in which foreign exchange transactions take place.

29. Explain Telegraphic transfer?

A sum can be transferred from a bank in one country to a bank in another part of the world by cable or telex.

30. What is Mail Transfer?

Transfer of funds from a bank account in one center to an account in another centre within the country by mail.

31. What is Arbitrage?

Arbitrage is the simultaneous buying and selling of foreign currencies with the intention of making profits from the difference between the exchange rates prevailing at the same time in different markets.

32. What is Exchange control?

Checking of the outflow of capital, maintenance of the external value of the currency and so on.

33. Explain Exchange Pegging?

The policy of the government of fixing the exchange rate arbitrarily either below or above the normal market rate.

34. What is standstill agreement?

The standstill seeks to give to the debtor country some time to adjust its position by preventing the movement of capital out of the country.

35. State Hedging?

Hedging means the transaction undertaken specifically to offset some exposure arising out of the firm's usual operations.

36. What is IFC?

IFC extends credit to private business enterprises in the developing countries.

37. Explain MIGA?

The multilateral investment guarantee agency also an affiliate of the world bank, was established to encourage foreign direct investment in developing countries by protecting investors from non commercial risk.

38. What is Consignment Sale?

The exporter consigns the goods to his agent or representative in the foreign markets who arranges for the sale of the goods and makes payment to the exporter.

39. What is Documents against payment?

Documents giving title to the goods will be handed over to the buyer through the bank only on payment.

40. What is Documents on Acceptance?

The title to the goods is handed over to the buyer when he accepts the bill of exchange by signing it.

41. Explain Documentary Letter of credit?

A letter of credit is a document containing the guarantee of a bank to honor drafts drawn on it by an exporter, under certain conditions and up to certain amounts.

42. What is suppliers credit?

Credit is extended to overseas buyer by either a financial institution or a consortium of financial institutions.

43. What is Line of Credit?

The financial institution in the supplier's country may extend a line of credit to a financial institution in the buyer's country which in turn will disburse the credit.

44. What is Letter of Credit?

A letter of credit is an undertaking by a bank to pay or to arrange to pay for specified merchandise, provided that certain stipulated conditions are met by the beneficiary.

45. Who is a Beneficiary/

Beneficiary is the party in whose favor the credit is issued that is the beneficiary is the seller or exporter.

46. Which is the Notifying Bank?

The Notifying bank is the bank which at the request of the issuing bank notifies the beneficiary that the credit has been opened in his favor.

47. What is clean letter of credit?

A clean draft is a draft without any document attached to it.

48. What is documentary letter of credit?

The draft must be accompanied by the documents specified in the letter of credit.

49. What is Assignable credit?

The beneficiary may assign his rights to another beneficiary, either within a stated period or before the expiry of the credit.

50. What is Acceptance credit?

The bank merely accepts the draft drawn by the exporter.

51. What is Revocable Letter of credit?

It may be revoked or cancelled at any time without the consent of the beneficiary.

52. What is Confirmed Credit?

If the letter of credit is confirmed by a bank in the beneficiary's country, it becomes a confirmed credit.

53. What is Red clause credit?

The red clause is an authority to the negotiating bank to make advances to the beneficiary for the purpose of purchasing the relevant merchandise.

54. State Inco terms?

There are number of common sale or trade terms used in international trade to express the sale price and the corresponding rights and responsibilities of the seller and buyer.

55. What is FAS?

The buyer has to bear all costs and risks of loss of or damage to the goods from that moment.

56. What is CIF?

Cost, insurance and freight means that the seller has the same obligations as under CFR procure marine insurance against the buyer's risk of loss or damage to the goods during the carriage.

57. What is SDR?

Special drawing right is an international reserve asset created by the fund taking into account of the global need to supplement existing reserves.

58. What is Usance Bill?

A bill is a usance bill if the drawee is to make payment after a period specified say 30 days or 60 days in the bill has expired.

59. What is after sight bill?

The date is calculated from the date it is signed that is accepted by the drawee.

60. What is Inland bill?

A bill which is drawn in India and made payable in or drawn upon any person resident in India is an Inland bill.

61. What is Foreign bill?

Any bill which does not fulfill the conditions of payable in India as well as it should be drawn in India.

62. What is Legalized Invoice?

Instead of a specific format of invoice the ordinary commercial invoice is presented to the embassy or consulate for certification.

63. What is Certified Invoice?

A commercial invoice becomes a certified invoice when it contains certain certification by the exporter.

64. What is Proforma Invoice?

A proforma invoice contains all the particulars in a commercial invoice.

65. What is certificate of origin?

A certificate of origin declares the place of actual manufacture or growth of the goods.

66. What is Packing List?

The list would contain the details of goods contained in individual packages.

67. What is weighted note of certificate?

This gives the weight of individual items shipped. If the goods are shipped in a bulk.

68. What is Analysis Certificate?

This may be issued in the case of chemicals, drugs etc.

69. Why health certificate is issued?

Where live animals are exported they may certify that the animals are of good health, if food

grains are exported?

70. What is Courier Receipt?

If a credit for a document issued by a courier or expedited delivery service evidencing receipt of the goods for delivery.

71. What is Voyage Policy?

A voyage policy covers the goods from the commencement and till the completion of a particular voyage.

72. What is time Policy?

A time policy covers the risk for a specified period mentioned in the policy.

73. What is Valued Policy?

In a valued policy the value of goods insured is agreed between the assured and the insurer.

74. What is Unvalued policy?

An unvalued policy is a policy which does not specify the value of the goods but subject to the limit of the sum insured.

75. What is Specific Policy?

A policy issued against the specific shipment of goods is known as specific policy.

76. What is Open Policy?

Exporters having continuous shipment may opt for open policy.

77. What is GR – I form?

GR – I form in respect of the shipment and submit its copies at the port of shipment and to the authorized dealers in foreign exchange.

78. What is GR – 5 form?

When exporters have obtained permission from RBI to retain the proceeds of their exports for financing their imports in India.

79. What is PP form?

Exports to all countries by parcel post except when made on value payable on cash on delivery basis should be declared on pp forms.

80. What is EP form?

Shipments to Afghanistan and Pakistan other than by post should be declared on EP forms.

81. What is COD form?

Exports to all countries by parcel or cash post under arrangements to realize the proceeds through postal channels on value payable or cash on delivery.

82. What is Export Promotion?

Export promotion is the task of persuading firms to export and the provision of services to support export marketing.

83. What is Cash compensatory support?

The scheme envisaged cash payment to exporters at a predetermined percentage on FOB value of exports.

84. What is Duty Drawback Assistance?

The most widely adopted method of relieving export goods of such duties is the scheme of drawback.

85. what is Tax Relief?

In order to reduce the prices of export goods, exporters are exempted from the payment of excise duties and sales tax.

86. What is Chambers of Commerce?

Chambers of commerce is voluntary association of business men interested in promoting and developing commercial and industrial opportunities.

87. What is Trade Development Authority?

It was set up by the Govt. of India to identify and promote selective and intensive development of products having long range growth prospects.

88. What is trade Fair Authority of India/

TFAI has been established as an autonomous organization under the company's act 1956, to give a new orientation to India's export promotion through fairs and exhibitions.

89. Discuss about FIEO.

It is an apex body co-coordinating the activities of various export promotion organization including Export promotion Councils, commodity boards.

90. What is the role of packaging?

The main objective is to improve the packaging standards of Indian exports for the purpose of export promotion and also to create infrastructural facilities for the improvement.

91. What are currency futures?

Futures contract may be defined as an agreement entered in to with the specified futures exchange to buy or sell a standard amount of foreign currency at a specified price.

92. What is Futures Exchange?

A futures contract can be traded only on recognized futures exchanges.

93. What is an option?

An option confers on the buyer the eligibility to buy or sell a sum of foreign currency at a predetermined rate on a future date.

94. Who is option buyer?

Option buyer is the holder of the right under the contract either to buy or sell one specific currency against another specific currency.

95. Who is an option seller?

Also known as the writer of the option one who makes the right available to the buyer.

96. What is Call option?

A contract under which the option buyer has the right to purchase the specified currency is the call option.

97. What is a put option?

A contract conferring the right to the buyer to sell the specified currency is put option.

98. What is over the counter option?

They are tailor made to the requirements of the buyer with regard to the maturity, price and size of the contract?

99. What is money market hedge?

The company which has an exposure in a foreign currency covers it by borrowing or investing the concerned currency in the money market.

100. What is hedging with futures?

They may prove to be a good tool for hedging where large exposure is involved and is expected to mature near the due date of the futures contract.

PART – B (16 marks)

1. Explain the basis of International Trade?

1. Comparative cost Theory
2. Opportunity Cost Theory
3. Hecksher Ohlin Theory
4. Availability Approach

2. Explain the factors causing disequilibrium in BOP?

- Economic Factor
- Political factor
- Social factor

3. Give a detailed description of foreign trade and economic growth?

- ⊕ 1. Prosperity through exports of manufacturers
- ⊕ 2. Staple Export Strategy
- ⊕ 3. Import substitution strategy

4. Explain about EXIM policy of India?

Policy of Exports and Imports

2. Rules and regulations followed regarding exports and imports

5. Discuss about the measures used for correction in disequilibrium of BOP.

- Automatic corrections
- Deliberate Measures, trade measures,
- Miscellaneous measures

6. Explain in detail about the classification of trade Barriers?

- ✚ Basis of origin and destination of goods- Export Duties, Import Duties, Transit Duties,
- ✚ Quantification of the tariff – Specific Duties, Ad-valorem duties, Compound duties.
- ✚ Application between different countries – single column tariff, Double column tariff, triple column tariff.

7. Discuss in detail about Quantitative Restrictions?

Types of Import Quota

- ❖ Tariff Quota
- ❖ Unilateral Quota
- ❖ Bilateral Quota
- ❖ Mixing Quota
- ❖ Import Licensing

8. Explain the current trend of foreign trade in India.

- ❖ Recent trends used in foreign trade.
- ❖ Past data and statistics about international trade.

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12. Explain the different types of Bill of Lading.

- ✚ Full set
- ✚ Clean and claused
- ✚ On board and received for shipment
- ✚ Shipped on Deck
- ✚ Freight paid and freight collect
- ✚ Ocean bill of lading
- ✚ Straight bill of lading

- ✚ Port to port
- ✚ Stale bill of lading
- ✚ Charter party bill of lading
- ✚ House bill of lading
- ✚ Liner bill of lading,
- ✚ Short form bill of lading
- ✚ Third party bill of lading.

13. Explain the various documents connected with export business in detail.

- Certificate of origin,
- Packing list,
- Weighted note,
- Quality certificate,
- Analysis certificate,
- Health certificate,
- Black list certificate

14. What are the functions of foreign exchange market?

- Spot exchanges,
- Forward Exchanges,
- Swap Operations,
- Arbitrage,
- Exchange control,
- Bilateral and multilateral agreements.

15. Explain in depth the various export promotion schemes in India.

- Export policy measures,
- Financial incentives,
- Assistance for export production and marketing,
- Organization for export promotion

16. Explain the different means of payment in International trade.

- Telegraphic transfer,
- Mail transfer,
- Cheques and bank drafts,
- Foreign bill of exchange,
- Documentary or reimbursement credit

17. Briefly explain:

- ⊗ Certificate of Analysis
- ⊗ Multimodal transport documents
- ⊗ COD form
- ⊗ Certificate of Origin

Analysis certificate: This may be issued in the case of chemicals, drugs etc. showing the results of analysis made of their ingredients.

Multimodal transport: Multimodal transport means carriage of goods by two or more modes of transport.

COD Form: Exports to all countries by parcel post under arrangements to realize through cash on delivery.

Certificate of origin: It shows the place of manufacture or origin of the goods.

18. Explain Internal Hedging?

- ▲ Exposure Netting
- ▲ Denomination in Local currency
- ▲ Foreign currency accounts
- ▲ Leads and lags.

19. What is Import Licensing? Write the salient feature of license.

- ⊕ Issued in duplicate
- ⊕ Period of validity
- ⊕ Actual user condition
- ⊕ Value description and quantity
- ⊕ Export obligation

20. Write the various financing schemes for capital goods import?

- ❖ Duty exemption scheme
- ❖ Duty remission scheme
- ❖ Duty free replenishment certificate
- ❖ Duty entitlement pass book
- ❖ Export promotion capital goods scheme.