

QUESTION BANK

MBA

SEMESTER 3

VOL. II

FOR PRIVATE CIRCULATION

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QUESTION BANK

INTERNATIONAL MARKETING

MS 215

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UNIT - I

I Multiple Choice Questions:

- 1 According to the textbook, international marketing is "the multinational process of planning and executing the conception, pricing, promotion, and distribution of ideas, goods, and services to create exchanges that satisfy individual and organizational objectives." The definition fails to recognize
 - (a) Nonprofit marketing
 - (b) Business-to-business marketing
 - (c) Consumer marketing
 - (d) Integration of the 4 Ps

- 2 When a firm uses the same marketing strategies abroad as that used at home, it probably is
 - (a) Ethnocentric
 - (b) Polycentric
 - (c) Geocentric

- 3 The study of international marketing should focus primarily on
 - (a) Product
 - (b) Place
 - (c) Promotion
 - (d) Pricing
 - (e) All of the above

- 4 According to the textbook, international marketing is "the multinational process of planning and executing the conception, pricing, promotion, and distribution of ideas, good, and services to create exchanges that satisfy individual and organizational objectives." The definition fails to recognize
 - (a) Product
 - (b) Place
 - (c) Promotion
 - (d) Pricing
 - (e) All of the 4 Ps are recognized

5. To U.S. students, French marketing is
- (a) Domestic marketing
 - (b) Foreign marketing
 - (c) Comparative marketing
 - (d) International marketing
6. This kind of international marketing study contrasts two or more marketing systems to identify similarities and differences.
- (a) Domestic marketing
 - (b) Foreign marketing
 - (c) Comparative marketing
 - (d) Extensive marketing
7. For practical purposes, the difference between the concept of international marketing and the concept of multinational marketing is
- (a) Significant
 - (b) Insignificant
 - (c) Meaningful
 - (d) Adequate
8. An analysis of the external environment enables a firm to identify
- (a) Strengths and opportunities
 - (b) Strengths and weaknesses
 - (c) Weaknesses and threats
 - (d) Opportunities and threats
9. MNCs are often associated with
- (a) Exploitation
 - (b) Ruthlessness
 - (c) Power
 - (d) Bigness
 - (e) All of the above
10. This definition of MNC focuses on the number of countries in which the firm does business and the citizenship of corporate owners and top management.
- (a) Structure
 - (b) Performance
 - (c) Behavior

- 11 A strong orientation toward the home country is an indication of
- (a) Ethnocentricity
 - (b) Polycentricism
 - (c) Egocentricity
- 12 This is the feeling within a culture that its values are superior to those of foreign cultures.
- (a) Ethnocentricity
 - (b) Polycentricism
 - (c) Egocentricity
- 13 When a firm uses the same marketing strategies abroad as that used at home, it probably is
- (a) Ethnocentric
 - (b) Polycentric
 - (c) Geocentric
- 14 The correct components of the 7-S framework are:
- (a) Structure, strategy, shared values, style, staff, skills and systems.
 - (b) Strategy, synergy, shared value, standardization, skills, staff and structure.
 - (c) Standards, strategy, style, staff, skills, systems and security.
 - (d) Shared values, synergy, systems, strategy, style, staff and structure.
- 15 Being a global organization means-
- (a) Customizing the product range for each segment in part.
 - (b) Creating standardized products for homogeneous markets
 - (c) Creating both standardized and customized products
 - (d) Any of the above
- 16 Which of the following represents a company's effort to identify and categorize groups of customers and countries according to common characteristics?
- (a) Global positioning
 - (b) Global market segmentation
 - (c) Global marketing research.
 - (d) Global targeting
- 17 A global market leader is an organization which-
- (a) has the monopoly over several foreign markets
 - (b) has more than 50% global market share.

- (c) is ahead of the competition in terms of global innovation
 - (d) is recognized as being ahead of the rest in terms of market share
- 18 From the point of view of marketing, an organization that enjoys competitive advantage in an industry has done so by-
- (a) Creating superior value for customers
 - (b) Focusing on long-term profit.
 - (c) Charging lower prices than competition
 - (d) Constantly enlarging its marketing activities.
- 19 Regionalism is:
- (a) an international management orientation
 - (b) a protectionist policy created to exclude third world countries from certain forms of international trade.
 - (c) the grouping of countries into regional clusters based on geographic proximity.
- 20 The main aim of global marketing is to:
- (a) satisfy global customers better than competition
 - (b) coordinate the marketing activities within the constraints of the global environment.
 - (c) find global customers
 - (d) achieve all of the above.
- 21 Within an international context, what are 'economies of scope' synonymous with?
- (a) Reusing a resource from one business/country in additional businesses/countries.
 - (b) Buying components in a bulk.
 - (c) Decreased cost per unit of output
 - (d) Any of the above.
- 22 The work of an international marketer is mainly concerned with
- (a) translating product instructions and advertising messages.
 - (b) establishing global brands
 - (c) transferring a marketing mix to enter a market in another country
 - (d) adapting a marketing mix to enter a market in another country
- 23 Key controllable factors in global marketing are
- (a) government policy and legislation
 - (b) social and technical changes
 - (c) marketing activities and plans
 - (d) all of the above.

- 24 Big multinational pharmaceutical firms try to exercise influence over the policy decisions made by government departments and regulatory agencies. Which of the following does not reflect how the companies try to exercise their influence?
- (a) Lobbying political representatives in the legislative branch
 - (b) Ignoring their regulatory agencies
 - (c) Promising to increase their investment in R&D.
 - (d) Threatening to cut off the supply of important drug
- 25 Foreign multinationals wishing to do business in China can be sure that:
- (a) Their intellectual property rights will be rigorously protected by the Chinese legal system.
 - (b) Their intellectual property rights will be rigorously protected by the Chinese legal system.
 - (c) The Chinese market is expanding very rapidly compared with those of the West
 - (d) Their operations will be heavily penalised if they result in a significant increase in pollution
- 26 An environment which is increasingly complex and turbulent displays
- (a) More orderly competition
 - (b) A reduced risk of product obsolescence
 - (c) More predictable demand.
 - (d) Increased speed of innovation
- 27 Which of the following is not a business opportunity generated by globalisation?
- (a) Access to low cost labour
 - (b) Access to low cost labour
 - (c) Currency crises
 - (d) Less stringent regulation of the business environment
- 28 An impact analysis helps firms to:
- (a) Identify the most probable opportunities and threats
 - (b) Assess the impact of external forces on the business.
 - (c) Assess the ability of the business to deal with these external forces
 - (d) Prioritise responses to the forces of the external environment
- 29 Exploring the strategic implications of global warming is best described as
- (a) An external environmental analysis
 - (b) Scenario planning

- (c) Futures forecasting
 - (d) A PESTLE analysis
- 30 An analysis of the external environment enables a firm to identify
- (a) Strengths and opportunities
 - (b) Strengths and weaknesses
 - (c) Weaknesses and threats
 - (d) Opportunities and threats
- 31 This entry strategy involves having an agreement that permits a foreign company to use industry property, technical knowhow, or engineering design in a foreign market.
- (a) Exporting
 - (b) Licensing
 - (c) Joint venture
 - (d) Manufacturing
- 32 Regarding foreign direct investment, developed countries are
- (a) Largest recipients and largest sources
 - (b) Largest recipients and moderate sources
 - (c) Moderate recipients and largest sources
 - (d) Moderate recipients and moderate sources
- 33 Sony and Pepsi joined together to market Wilson sporting goods in Japan. This strategy is
- (a) Exporting
 - (b) Licensing
 - (c) Joint venture
 - (d) Assembly operations
- 34 This market entry strategy should be used when a company faces high tariffs but does not want to lose control of its operations.
- (a) Management contract
 - (b) Licensing
 - (c) Exporting
 - (d) Joint venture
 - (e) Manufacturing
- 35 This strategy involves manufacturing operations in a host country for the purpose of exporting a product made there to a company's home country or to other third countries.
- (a) Sourcing

- (b) Joint venture
 - (c) Assembly
 - (d) Licensing
36. According to the textbook, international marketing is "the multinational process of planning and executing the conception, pricing, promotion, and distribution of ideas, goods, and services to create exchanges that satisfy individual and organizational objectives." The definition fails to recognize
- (a) nonprofit marketing
 - (b) business-to-business marketing
 - (c) consumer marketing
 - (d) integration of the 4 Ps
37. According to the textbook, international marketing is "the multinational process of planning and executing the conception, pricing, promotion, and distribution of ideas, good, and services to create exchanges that satisfy individual and organizational objectives." The definition fails to recognize
- (a) product
 - (b) place
 - (c) promotion
 - (d) pricing
 - (e) all of the 4 Ps are recognized
38. The marketing mix (the 4 Ps of marketing) does not include
- (a) product
 - (b) place
 - (c) practicality
 - (d) promotion
39. The study of international marketing should focus primarily on
- (a) product
 - (b) place
 - (c) promotion
 - (d) pricing
 - (e) all of the above
40. To U.S. students, French marketing is
- (a) domestic marketing
 - (b) foreign marketing

- (c) comparative marketing
 - (d) international marketing
41. This kind of international marketing study contrasts two or more marketing systems to identify similarities and differences.
- (a) domestic marketing
 - (b) foreign marketing
 - (c) comparative marketing
 - (d) extensive marketing
42. For practical purposes, the difference between the concept of international marketing and the concept of multinational marketing is
- (a) significant
 - (b) insignificant
 - (c) meaningful
 - (d) adequate
43. Marketing is not needed in
- (a) socialist countries
 - (b) communist countries
 - (c) less developed countries
 - (d) developed countries
 - (e) marketing is needed in all countries
44. MNCs are often associated with
- (a) exploitation
 - (b) ruthlessness
 - (c) power
 - (d) bigness
 - (e) all of the above
45. Midsize German companies' contribution to Germany's export success is
- (a) significant
 - (b) minor
 - (c) uneven
 - (d) unpredictable
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 - (d) pricing
 - (e) all of the above
50. To U.S. students, French marketing is
- (a) domestic marketing
 - (b) foreign marketing
 - (c) comparative marketing
 - (d) international marketing
51. Globalization refers to:
- (a) A more integrated and interdependent world
 - (b) Less foreign trade and investment
 - (c) Global warming
 - (d) Lower incomes worldwide

- 52 Which one of the following is a pull factor in emigration?
- (a) Political oppression
 - (b) Job opportunities
 - (c) Food shortages
 - (d) War
- 53 Which of the following do NOT facilitate globalization?
- (a) Improvements in communications
 - (b) Barriers to trade and investment
 - (c) Immigration controls
 - (d) Removal of controls on movement of capital across borders
- 54 Which of the following constitutes Foreign Direct Investment?
- (a) A speculator trying to make a profit by buying company shares on a foreign stock exchange.
 - (a) A UK energy company buying territory abroad where it expects to find oil reserves.
 - (b) A tourist purchasing foreign currency to spend on a holiday abroad.
 - (c) A company signing an agreement with a wholesaler to distribute its products in foreign markets.
- 55 Which of the following could be defined as a multinational company?
- (a) A firm that owns shares in a foreign company but does not participate in the company's decision making.
 - (b) A UK based internet package holiday firm specializing in selling tours to Turkey to German customers.
 - (c) A firm owning a chain of supermarket outlets outside its country of origin.
 - (d) A finance company transferring its HQ and all its activities from the UK to the US.
- 56 Which of the following is a driver of globalization?
- (a) Trade barriers and controls on inflows of foreign direct investment.
 - (b) Weak competition.
 - (c) Technological advance.
 - (d) Economies of scale are being exploited to the maximum.
- 57 Globalization is beneficial for firms because:
- (a) It protects them against foreign competition.
 - (b) It cushions them from the effects of events in other countries.
 - (c) It opens up new market opportunities.
 - (d) It increases the risk and uncertainty of operating in a globalizing world economy.

- 58 The internet facilitates globalization by:
- Making it more difficult to contact potential customers abroad.
 - Cutting the cost for firms of communicating across borders.
 - Making it harder to send money from one country to another.
 - Making it easier for governments to censor the information received by their citizens from abroad.
- 59 Why might MNCs in the past have focused their marketing activities on the triad?
- That is where the most lucrative markets were located.
 - Income per head in developing countries was relatively low
 - Transport and communication links were improving outside the triad.
 - Technologically advanced goods and services do not appeal to consumers in developing economies.
- 60 Globalization can create problems for business because:
- It can result in more competition.
 - It reduced vulnerability to political risk and uncertainty when operating abroad.
 - It means that they can increase prices.
 - All of the options given are correct.

Ans: (1)(b) , (2)(a) , (3)(e), (4)(e), (5)(b), (6)(c), (7)(b), (8)(d) , (9)(e), (10)(e), (11)(a), (12)(a), (13)(a), (14)(a), (15)(c), (16)(b), (17)(d), (18)(a), (19)(c), (20)(d), (21)(a), (22)(d), (23)(d), (24)(b), (25)(c), (26)(d), (27)(c), (28)(d), (29)(b) , (30) (b), (31)(b), (32)(a), (33)(c), (34)(e), (35)(a), (36)(b), (37)(e), (38)(c), (39)(e), (40)(b), (41)(c), (42)(b), (43)(e), (44)(e), (45)(a), 46(b), (47)(e), (48)(c), (49)(e), (50)(b), (51)(a), (52)(d), (53)(c), (54)(b), (55)(c), (56)(b), (57)(a), (58)(d), (59)(d), (60)(d)

II Short Answer Type Questions:

- Discuss the inter-relationship between foreign trade and economic development.
- What is the basis of international trade? Why do nations trade?
- What are the main differences between international trade & interregional trade?
- Write short notes on following:
 - Production Sharing
 - Trade and marginalization
 - Intra- regional Trade
 - Global Sourcing
- Define and explain the features of International Marketing.

- 6 Explain the difference between International and Domestic Marketing.
- 7 Explain the need and advantages of International Marketing.
- 8 What is the impact of host-government actions on international marketing?
- 9 Explain the four aspects of consumer behavior in international marketing
- 10 What are the different ownership strategies used by companies to enter foreign markets?
- 11 How does a company prepare an entry strategy analysis to enter foreign markets? Explain the external factors of International Marketing.
- 12 Explain the Role of MNCs in International trade.
- 13 Write a note on International Business Environment. Write a note on Overseas Market Selection.
- 14 Explain the essential characteristics of market segments and Preference available to Indian exporters.
- 15 Explain the basis and factors for segment selection.
- 16 Write short notes on the following:
 - (a) Social and cultural environment of international marketing
 - (b) International product standardization
 - (c) Inter-dependence of products and services
- 17 Distinguish between the following:
 - (a) Licensing and Contract manufacturing
 - (b) Local brands and Global brands
 - (c) Promotion mix and Marketing mix
 - (d) Product adaptation and Product standardization
 - (e) Licensing and franchising modes of international market entry
 - (f) Ethnocentric orientation and geocentric orientation of international marketing orientation.
- 18 What is meant by internationalization and how does this relate to the global marketer?
- 19 What is e-business?
- 20 Are online marketplaces useful only to businesses? Explain.
- 21 Is the role of international marketer only to attempt to increase sales? Explain.
- 22 Is being right or wrong about moral issues in international marketing activities an absolute or is it relative? Explain.
23. Distinguish among the terms: Multinational business. Global business Transnational business.
24. How is international marketing different from domestic?
25. What are the turnkey projects? What are their merits and demerits?

III Long Answer Type Questions:

- 1 Explain the Objectives entering into international markets and Constraints in entering in some global territories.
- 2 What do you understand by the term “International trade”? Differentiate it from “international Economics”?
- 3 “International trade in goods & services is a substitute for international movements of labour& capital”. Examine & evaluate this statement critically.
- 4 Explain various steps involved in the international marketing process.
- 5 Briefly discuss the bases of international market segmentation. State the relationship between international market targeting and positioning.
- 6 Describe international market targeting strategies. Discuss various modes of international market entry where the scope for involvement of a foreign company is possible. Critically evaluate in which situations each of those modes is suitable.
- 7 Describe the international product life cycle theory. Explain various life cycle stretching strategies.
- 8 Do you think that Indian companies have adequately responded to changes in domestic and external environments and carried out necessary modifications in their international marketing strategies? Explain in detail.
- 9 What is international market segmentation? Explain the bases of segmenting international markets.
- 10 Differentiate between franchising and licensing strategies of foreign market entry. What are the main advantages and disadvantages of each strategy?
- 11 Distinguish between the different structures of the EPRG model.
- 12 Reliance & Kirloskar are operating in many Asian markets. Which company do you consider more international?
- 13 How will entry into a developed foreign market differ from entry into a relatively untapped market?
- 14 Briefly explain these market strategies: exporting, licensing, joint ventures and turnkey operations.
- 15 “Different authors define international marketing in different ways.” How would you define it? Also discuss why would you define that why?
- 16 What is meant by ‘change agent’ in export marketing? Give examples of activities of each type of change agent.
- 17 Discuss how exports and imports help to increase productivity and efficiency.
- 18 What is the self reference criterion and how should the international marketer apply it?
- 19 What is really meant by a company having a differential advantage over the competitors in one or more foreign markets?

- 20 Explain the meaning of ‘cultural universals.’ Do these provide universal guides to behavior in all societies? How can the international marketer use these universals? Do values fit within cultural universals?
- 21 Explain the concept of global marketing with the help of EPRG framework.
- 22 What are the various Market Entry Strategies? Elaborate any two strategies, discuss in detail the situations in which these strategies are best suited.
23. Is globalization desirable? What are the advantages and disadvantages of globalization?
24. Discuss the factors that are attracting foreign investors and exporters to enter Indian Market. Illustrate your answer with examples.
25. Critically evaluate the contribution of HOWARD V PERLMUTER’s EPRG Framework in understanding the transition from a domestic firm to a global integrated company.

UNIT – II

I Test Your Skills:

(a) Multiple Choice Questions:

- 1 International product life cycle has important implications for a company’s-----
 - (a) Product planning
 - (b) Strategy
 - (c) Brand image
- 2 The product cycle will also show whether the market is expanding or declining and,therefore, may help in determining the -----
 - (a) Export Production
 - (b) Time frame
 - (c) Strategy
- 3 The International Product Life Cycle suggests that countries will----- in their timing of the demand for various products
 - (a) Assimilate
 - (b) Differ
 - (c) Contradict
- 4 Behavioral variables of segmentation may include:
 - (a) Patterns of consumption
 - (b) Brand inconstancy
 - (c) Context for business

- 5 Mention stage of economic development in which countries is able to produce a wide variety of products?
- (a) Traditional society
 - (b) Pre-conditions for take-off
 - (c) The drive to maturity
 - (d) High Mass Consumption
- 6 Customers with different needs or responses to marketing activity are categorized in which of the following way?
- (a) Market targeting
 - (b) Market segmentation
 - (c) Market positioning
 - (d) Market targeting and segmentation
- 7 Select best description why international marketers focus on segmentation?
- (a) To identify their similar need
 - (b) To identify their countries
 - (c) To identify their best location
 - (d) To identify their modern behavior
- 8 Identify the concept in which marketers try to create distinct image or identity in the minds of their target customers/consumers?
- (a) Market targeting
 - (b) Market positioning
 - (c) Market segmentation
 - (d) Market repositioning
- 9 When customers/consumers may have too narrow image of any brand, is distinguish in which of the following way?
- (a) Under positioning
 - (b) Over positioning
 - (c) Confused positioning
 - (d) Doubtful positioning
- 10 According to the view of Michael Porter, firm first develop product for domestic market and later on launch in international market. This view is consistent with which of the following factors?
- (a) Factor conditions
 - (b) Demand conditions
 - (c) Related & supporting industries

- (d) Firm strategy, structure & rivalry
- 11 The stages of new product development do not include
- (a) Business analysis
 - (b) Product development
 - (c) Test marketing
 - (d) Global positioning
 - (e) Commercialization
- 12 The most important reason behind the utilization of market segmentation is
- (a) Market heterogeneity
 - (b) Positioning
 - (c) Test marketing
 - (d) Product life cycle
13. This product characteristic is negatively related to product adoption.
- (a) Observation
 - (b) Divisibility
 - (c) Trial ability
 - (d) Price
- 14 According to the international product life cycle theory, a country that developed an innovation will eventually become
- (a) A net importer
 - (b) A net exporter
 - (c) An absolute exporter
 - (d) A relative producer
 - (e) A monopolist
- 15 Innovations are most likely to be first introduced in
- (a) Least developed countries
 - (b) Less developed countries
 - (c) Growing economies
 - (d) Highly developed countries
- 16 The innovating firm's sales and export volumes are kept stable in this stage of IPLC.
- (a) Overseas innovation
 - (b) Maturity
 - (c) Worldwide imitation
 - (d) Reversal

- 17 Product standardization and comparative disadvantage are the characteristics of this stage of the international product life cycle theory.
- (a) Overseas innovation
 - (b) Maturity
 - (c) Worldwide imitation
 - (d) Reversal
- 18 This product is least likely to conform to the phenomenon described in IPLC.
- (a) Typewriters
 - (b) Semiconductors
 - (c) Dishwashing machines
 - (d) Leather goods
- 19 This kind of product is most likely to require adaptation for overseas markets.
- (a) musical recordings
 - (b) films
 - (c) automobiles
 - (d) watches
- 20 The most important factor which makes product modification mandatory is
- (a) country's regulations
 - (b) Electrical current standards
 - (c) Measurement standards
 - (d) Product standards
- 21 Analyzing a product as innovation & using the product component model provides the marketer a lead for
- (a) Adaptation
 - (b) Competition
 - (c) Observation
- 22 Setting low prices to encourage initial product trial & to generate sales growth reflects which one of the following pricing methods-
- (a) Penetration pricing
 - (b) Skimming pricing
 - (c) Competition based pricing
 - (d) Cost based pricing

- 23 Customers buy from stores & firms that offer the highest-----
- (a) Level of customer satisfaction
 - (b) Value for money
 - (c) Customer perceived value
- 24 Which one of the following is not a product attribute?
- (a) Product quality
 - (b) Product feature
 - (c) Product price
 - (d) Product style & design
- 25 Which one of the following is not an ethical pricing issue?
- (a) Product dumping
 - (b) Predatory pricing
 - (c) Price fixing
 - (d) Slow skimming
- 26 Pricing as an active instrument considers-
- (a) Targeted return on profit
 - (b) Targeted market share
 - (c) Both of the above
- 27 Dumping is an important global pricing issue that translates into:
- (a) a company trying to fix prices in international markets
 - (b) a company exporting a product at a lower price than it normally charges in its own market
 - (c) a company that practices dynamic incremental pricing
 - (d) a company exporting a product at a higher price than the price it normally charges in its own market.
- 28 All of the following are accurate descriptions of the product life cycle concept, except which one?
- (a) The PLC concept can describe a product class.
 - (b) The PLC concept can describe a product form.
 - (c) The PLC concept can describe a brand.
 - (d) Product forms tend to have the longest life cycles.
- 29 At some point, a product's sales growth will slow down, and the product will enter the _____.
- (a) Introduction stage

- (b) Growth stage
 - (c) Maturity stage
 - (d) Decline stage
- 30 Profits increase during the _____ as promotion costs are spread over a large volume and as unit manufacturing costs fall.
- (a) Introduction stage
 - (b) Decline stage
 - (c) Maturity stage
 - (d) Growth stage
- 31 All of the following are accurate descriptions of different ways companies extend the maturity stage of the PLC, except which one?
- (a) Modifying the market
 - (b) Modifying the product
 - (c) Modifying the marketing mix
 - (d) Pruning the product offerings
- 32 The product life-cycle stage, in which sales plunge to zero or drop to a low level at which they continue for many years, is the _____.
- (a) Introduction stage
 - (b) Growth stage
 - (c) Maturity stage
 - (d) Decline stage
- 33 Product sales decline for many reasons, including which of the following?
- (a) Recent technological advances
 - (b) Shifts in consumer tastes
 - (c) Increased competition
 - (d) All of the above
- 34 Luxury designer brands penetrate international markets typically using:
- (a) Psychological
 - (b) Penetration
 - (c) Skimming
 - (d) Cost based
- 35 This is the reason why U.S. marketers assume that products designed for Americans are superior and should be preferred by foreign consumers as well.
- (a) big-car syndrome

- (b) left-hand-drive syndrome
 - (c) imperial system
 - (d) egocentricity
36. This kind of product is most likely to require adaptation for overseas markets.
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 - (c) automobiles
 - (d) watches
37. The most important factor which makes product modification mandatory is
- (a) country's regulations
 - (b) electrical current standards
 - (c) measurement standards
 - (d) product standards
38. Almost all countries, except the United States, use this measurement system.
- (a) British
 - (b) imperial
 - (c) metric
 - (d) English
39. Which of the following describes the reluctance of the United States to adopt the metric system?
- (a) big-car syndrome
 - (b) left-hand-drive syndrome
 - (c) imperial syndrome
 - (d) inferiority
 - (e) complex
40. U.S. television sets cannot be sold in other countries because of
- (a) historical preference
 - (b) measurement standards
 - (c) product systems
 - (d) local use conditions
41. This sector accounts for most of the U.S. employment.
- (a) agriculture/farming
 - (b) manufacturing

- (c) service
 - (d) high technology
42. The world's largest exporter of services is
- (a) the United States
 - (b) Canada
 - (c) Belgium
 - (d) Japan
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 - (d) developed countries
 - (e) marketing is needed in all countries
46. MNCs are often associated with
- (a) exploitation
 - (b) ruthlessness
 - (c) power
 - (d) bigness
 - (e) all of the above
47. Midsize German companies' contribution to Germany's export success is
- (a) significant
 - (b) minor

- (c) uneven
 - (d) unpredictable
48. This definition of MNC focuses on the number of countries in which the firm does Business and the citizenship of corporate owners and top management.
- (a) structure
 - (b) performance
 - (c) behavior
 - (d) none of the above
49. This definition of MNC depends on the contribution of foreign operations in terms of earnings, sales, and assets.
- (a) structure
 - (b) performance
 - (c) behavior
 - (d) none of the above
50. A strong orientation toward the home country is an indication of
- (a) ethnocentricity
 - (b) polycentricity
 - (c) egocentricity
 - (d) none of the above
51. NAFTA is an example of
- (a) Common Market
 - (b) Customers Union
 - (c) Economic Community
 - (d) Free Trade Area
52. Which one is not an international organisation
- (a) SAARC
 - (b) ASEM
 - (c) ASEAN
 - (d) CBDT
53. Which of the following is not an International Financial Institution
- (a) ICICI
 - (b) IMF
 - (c) IDA
 - (d) World Bank

54. What one of the following is not the advantage of MNCs to the host country
- (a) Increase in social activities
 - (b) increase in economic activities
 - (c) Utilisation of natural resource
 - (d) R&D efforts enhanced.
55. In terms of the PESTLE analysis, the liberalizing of international trade and tariff regimes could go in which section or sections?
- (a) Political
 - (b) Legal
 - (c) Political and economic and legal
 - (d) Political and environmental
56. An 'industry recipe' can be defined as:
- (a) An accepted pattern of operating and competing
 - (b) A tactic for anticipating a competitor's next move
 - (c) The hidden competences that are difficult to imitate
 - (d) A strategic group
57. Typically, profits are highest in which stage of the industry life-cycle?
- (a) Introduction
 - (b) Growth
 - (c) Maturity
 - (d) Decline
58. The corporate culture of a firm is more effectively carried to the managers who are
- (a) Host country nationals
 - (b) Home country nationals
 - (c) Third country nationals
59. Posting of home country nationals for all key management positions throughout the globe is supported by:
- (a) Geocentric staffing model.
 - (b) Polycentric staffing model.
 - (c) Ethnocentric staffing model.
60. Which of the following is NOT a business opportunity generated by globalization?
- (a) Access to low cost labour.
 - (b) Cheap International transport.

(c) Currency crises.

Ans : 1(a), 2(b), 3(b), 4(c), 5(c), 6(b), 7(a), 8(b), 9(a), 10(d), (11) (a) , (12) (a), (13) (d) , (14)(c) , (15) (d) , (16) (b) , (17) (d), (18) (d) ,(19) (b) ,(20) (b), (21) (a) , (22)(a), (23)(a), (24)(c), (25)(a), (26)(c), (27)(b), (28)(d), (29)(c), (30)d, (31)(d), (32)(d), (33)(d), (34)(c), (35)(a), (36)(c), (37)(a), (38)(c), (39)(c), (40)(c), (41)(d), (42)(a), 43(c), 44(b), 45(e), 46(e), 47(a), 48(a), 49(b), 50(a), (51)(d), (52)(d), (53)(a), (54)(a), (55)(d), (56)(c), (57)(b), (58)(b), (59)(c), (60)(c).

II Short Answer Type Questions:

1. Explain different pricing methods in international marketing.
2. Narrate the international product development process very briefly
3. Explain the Pricing Policy in International Markets.
4. Write a note on INCOTERMS.
5. Explain the Factors determining price in International Markets.
6. Explain Export costing methods and elements of cost.
7. Write a note on Export Pricing strategies and Breakeven Pricing.
8. Explain the Impact of contract conditions on export price offers.
9. Explain the Impact of export incentives on export pricing
10. What are the factors limiting standardization of global marketing strategies
11. What are the different forms of non-cash pricing?
12. How does one do direct marketing in the global market?
13. What is the theory behind IPLC? What are its implications for marketing?
14. Discuss why the countertrading is on increase?
15. Why has dumping become such an issue in recent years?
16. Is there a best way for a company to acquire new products for its export product mix?
17. Is standardization or adaptation of individual products the most desirable policy for an exporter?
18. What is the relationship between a company's product development policies and its implementing a product positioning strategy?
19. What is the meaning of the 'anatomy of a price'?
21. Can a small exporter use experience curve pricing? Justify your answer.
22. How is international market different from domestic?
23. What are the complexities in conducting international marketing?
24. What are the advantages of international trade?
25. What are the motivating factors for a firm to enter international market?

III Long Answer Type Questions:

1. Discuss the effect of shorter product life cycles on a company's planning process.
2. "The dichotomy typically drawn between export marketing & overseas marketing is partly fictional, from a marketing standpoint they are but alternative methods of capitalizing on foreign market opportunities'. Discuss
3. Formulate a general rule for deciding where international decisions should be made.
4. " Regardless of the strategic factors involved & the company's orientation to market pricing every price must be set with cost consideration in mind", Discuss
5. Cartels seem to be arising, phoenix like, after they have been destroyed. Why are they appealing to business?
6. Discuss the alternative objectives possible in setting prices for intra company sales
7. Debate the standardization versus customization issue in global advertising.
8. Explain the analogy " The world market and the chessboard"
9. What are the individual skills needed for a global mindset? What are the patterns of globalizing marketing operations?
10. For an innovating firm in the U.S, would you advocate standardization or adaptation while entering the Indian market? Give reasons.
11. Multinationals face several pricing problems when selling abroad. What are these problems? Briefly discuss them.
12. What alternative pricing strategies are available to the exporter and what objectives does each seek to achieve?
13. How does the nature of the product involved affect what might be a desirable transfer pricing policy?
14. 'Since all trade terms are basically the same, there is no need for using them in export sales contracts.' Discuss.
15. Can an exporter realistically follow the strategy of product phasing when replacing a product in the product mix being exported to a foreign marketer?
16. Discuss the relationship between brand equity, brand value and share of heart. How can a company use these concepts in practice?
17. Explain the concept of International Product Life Cycle (IPLC). Can you identify and describe a few market situations where IPLC is not valid?
18. What are the factors which affects International Price Determination. Explain how multinational corporations formulate their pricing strategies.
19. How does globalization and international marketing affect each other?
20. Why international marketing growth has accelerated now days?

UNIT – III

I Test Your Skills:

(a) Multiple Choice Questions:

1. With the globalization of markets, the tastes and preferences of consumers world-wide are:
 - (a) Converging upon a global norm.
 - (b) So different that they can be ignored by international organizations.
 - (c) Becoming similar to the tastes and preferences of American consumers.
 - (d) Being encouraged by multinational organizations to become increasingly similar.

2. The main advantage of a differentiation strategy in international markets lies in that:
 - (a) The focus is taken away from price.
 - (b) Imitators cannot reduce margins.
 - (c) It enables brand stretching and extension.
 - (d) Consumers in foreign markets pay less for the same product.

3. Simple Global strategy is used in
 - (a) High geographically concentrated strategy & low coordination of activities
 - (b) Low geographically concentrated strategy & high coordination of activities
 - (c) Any of them

- 4.. The correct components of the 7-S framework are:
 - (a) Shared values, synergy, systems, strategy, style, staff and structure.
 - (b) Structure, strategy, shared values, style, staff, skills and systems.
 - (c) Strategy, synergy, shared value, standardization, skills, staff and structure.
 - (d) Standards, strategy, style, staff, skills, systems and security.

5. Most international trade today is classified as trade in
 - (a) Agricultural products
 - (b) Services
 - (c) Manufactured products
 - (d) Dairy products
 - (e) Mineral products.

6. Export Promotion Organization undertake export marketing communication by-
 - (a) Advertising
 - (b) Sales promotion
 - (c) Public relations

- (d) All above
7. Exports in India are promoted by-
- (a) India Trade Promotion Organization
 - (b) Export development authority
 - (c) Export Promotion Councils
 - (d) All above
8. Innovations tend to take place in
- (a) Hot countries
 - (b) Moderate countries
 - (c) Cold countries
9. This channel decision is related to the number of middlemen at a particular point or step in the distribution channel.
- (a) Channel length
 - (b) Channel width
 - (c) Number of channels
10. Innovations tend to take place in
- (a) Hot countries
 - (b) Moderate countries
 - (c) Cold countries
11. An agent located near production sources who is hired by a client to buy new products there is known as a(n)
- (a) Buying agent
 - (b) Resident buyer
 - (c) EMC
 - (d) Drop shipper
12. This merchant intermediary does not take possession of the goods purchased.
- (a) Export merchant
 - (b) Export drop shipper
 - (c) Export distributor
13. This intermediary takes title to the products it handles.
- (a) Buying agent
 - (b) EMC
 - (c) Export broker

- (d) Trading company
- 14 When compared to a trading company, an EMC
- (a) Has more diverse product lines
 - (b) Is more likely to take ownership to merchandise
 - (c) Offers less services
 - (d) Is larger and better financed
- 15 This intermediary is in the best position to overcome problems related to financing and antitrust restrictions.
- (a) EMC
 - (b) Webb Pomerene association
 - (c) Export trading company
 - (d) all of the above
- 16 The dominant form of the international transportation of merchandise is
- (a) Air
 - (b) Sea
 - (c) Land
 - (d) all of the above
- 17 Freight forwarders do not perform this function.
- (a) Packing advice
 - (b) Freight rate quotation
 - (c) Preparation of customs documents
 - (d) Product pricing
- 18 An association of ocean carriers which join to establish common rules with regard to freight rates and shipping conditions is
- (a) Conference line
 - (b) Independent line
 - (c) Tramp line
 - (d) Chartered line
- 19 Members of this group charge identical shipping rates. conference line
- (a) Independent line
 - (b) Tramp line
 - (c) Chartered line
 - (d) all of the above

- 20 This carrier has adopted a dual rate system.
- (a) Conference line
 - (b) Independent line
 - (c) Tramp line
 - (d) Chartered line
- 21 Marine cargo insurance applies to shipments by
- (a) Air
 - (b) Sea
 - (c) Mail
 - (d) All of the above
- 22 The freight forwarder does not specialize in
- (a) Traffic operations
 - (b) Government export regulations
 - (c) Overseas import regulations
 - (d) Financing
- 23 For high unit-value, low-turnover specialty goods, a manufacturer can -----its distribution channel
- (a) Shorten & narrow
 - (b) Expand & extend
 - (c) Stretch &enlongate
 - (d) all of the above
- 24 Advertising slogans are often proved to be the most effective mean of _____ to one or more aspects of a product or products. Select correct option:
- (a) Drawing attention
 - (b) Marketing communication
 - (c) Publicity
 - (d) Sales promotion
- 25 Which of the following is NOT a media of advertising?
- (a) Direct selling
 - (b) Newspaper
 - (c) Radio
 - (d) Television

- 26 Which of the following is NOT a part of marketing communication mix?
- (a) Telemarketing
 - (b) Public relations
 - (c) Sales promotion
 - (d) Advertising
- 27 Which of the following statement is TRUE about publicity?
- (a) Publicity is a tool of direct selling
 - (b) Publicity is a tool of public relations
 - (c) Publicity is a tool of sales promotion
 - (d) Publicity is a tool of advertising
- 28 Which of the following is NOT a sales promotion technique?
- (a) Coupons
 - (b) Telephone survey
 - (c) Sample
 - (d) Contests
- 29 IMC stands for what?
- (a) Internal marketing communication
 - (b) Integrated marketing communication
 - (c) Integrated managing company
 - (d) Internal marketing communit
- 30 What are the companies doing from the following options as a result of an explosion of more focused media that better match today's targeting strategies?
- (a) More narrowcasting and less broadcasting
 - (b) Less broadcasting and more narrowcasting
 - (c) Less narrowcasting and broadcasting
 - (d) More narrowcasting and broadcasting
- 31 Which of the following advertising is used heavily for creating a primary demand when introducing a new product in the market?
- (a) Persuasive advertising
 - (b) Informative advertising
 - (c) Comparative advertising
 - (d) Institutional advertising
- 32 All of the following are the logistics functions EXCEPT?
- (a) Order processing

- (b) Warehousing
 - (c) Inventory management
 - (d) Retailing
- 33 This channel decision is related to the number of middlemen at a particular point or step In the distribution channel.
- (a) channel length
 - (b) channel width
 - (c) number of channels
 - (d) all of the above
- 34 A product with a low-price image requiresdistribution.
- (a) intensive
 - (b) selective
 - (c) exclusive
 - (d) all of the above
- 35 Ricoh's U.S. copier dealers do not compete with each other because each has its own territory. This type of distribution is
- (a) intensive
 - (b) exclusive
 - (c) selective
 - (d) all of the above
- 36 This is not a characteristic of Japanese distribution channels.
- (a) multiple layers of wholesalers
 - (b) few small retailers
 - (c) retailers placing frequent but small orders
 - (d) close personal relationships between wholesalers and retailers
- 37 Japan's keiretsu system does not have this characteristic.
- (a) cross-ownership of equity
 - (b) close ties to the group's main bank
 - (c) product-market ties with the other firms in the group
 - (d) limited diversification
- 38 Which of the following is not a characteristic of Japan's keiretsu system?
- (a) cross ownership
 - (b) lack of bank's involvement

- (c) product-market ties among members
 - (d) All of the above
- 39 This service of the U.S. Department of Commerce provides a custom overseas search to A U.S. manufacturer interested in foreign representation.
- (a) Export Trading Company Contact Facilitation Service
 - (b) World Traders Data Reports
 - (c) Agent/Distributor Service
 - (d) All of the above
- 40 To reduce the potential compensation obligations under foreign laws on termination of distributors, the exporter should
- (a) insist on an evergreen contract
 - (b) renew agreements without changing the language of prior texts
 - (c) include "just cause" termination provisions
 - (d) avoid having specific expiration dates
- 41 This practice is illegal.
- (a) gray marketing
 - (b) parallel distribution
 - (c) black market
 - (d) all of the above
- 42 This condition will cause the U.S. Customs to refuse issuing an exclusion order to Protect a mark owner from gray marketing.
- (a) registration of the trademark with the Trademark Office
 - (b) registration of the trademark with the Treasury Department
 - (c) order sought by an independent U.S. firm
 - (d) order sought by a foreign firm
- 43 When a U.S. firm leaves local managers of its foreign subsidiary alone by assuming that The foreign market is difficult for outsiders to understand, this is a reflection of
- (a) ethnocentricity
 - (b) polycentricity
 - (c) egocentricity
 - (d) none of the above
- 44 Decentralization is likely in the case of
- (a) ethnocentricity
 - (b) polycentricity

- (c) geocentricity
 - (d) none of the above
45. A strong orientation to the host country is known as geocentricity.
- (a) True
 - (b) False
46. This kind of orientation often results in duplication of effort among overseas subsidiaries.
- (a) ethnocentricity
 - (b) polycentricity
 - (c) egocentricity
 - (d) none of the above
47. Polycentricity usually results in uniform marketing.
- (a) True
 - (b) False
48. When companies believe that, even though countries may differ, the differences can be understood and managed, such firms are
- (a) ethnocentric
 - (b) polycentric
 - (c) U.S.-centric
 - (d) geocentric
49. A geocentric firm does not identify itself with a particular country.
- (a) True
 - (b) False
50. These firms allocate corporate resources without regard to national frontiers and do not hesitate making direct investment abroad.
- (a) ethnocentric firms
 - (b) polycentric firms
 - (c) geocentric firms
 - (d) none of the above
51. In terms of the PESTLE analysis, the liberalizing of international trade and tariff regimes could go in which section or sections?
- (a) Political
 - (b) Legal

- (c) Political and economic and legal
 - (d) Political and environmental
52. An 'industry recipe' can be defined as:
- (a) An accepted pattern of operating and competing
 - (b) A tactic for anticipating a competitor's next move
 - (c) The hidden competences that are difficult to imitate
 - (d) A strategic group
53. Typically, profits are highest in which stage of the industry life-cycle?
- (a) Introduction
 - (b) Growth
 - (c) Maturity
 - (d) Decline
54. Which of the following industries is least likely to follow the conventional life-cycle model?
- (a) Software development
 - (b) Coal mining
 - (c) Insurance broking
 - (d) Hairdressing
55. Brandenburger and Nalebuff added a sixth force to Porter's Five Forces. It is known as:
- (a) The threat of substitutes
 - (b) The power of complementors
 - (c) Seller power
 - (d) Government regulation
56. The Six Forces framework is based on the principle of:
- (a) Resource-based view
 - (b) Conduct - structure - performance
 - (c) Econometrics
 - (d) Structure - conduct – performance
57. In the Six Forces, the 'threat of new entrants' relates to:
- (a) Barriers to entry
 - (b) Substitutes
 - (c) Switching costs
 - (d) Buyer power

58. An industry characterized by irregular patterns of stability, rapid technological change, high uncertainty and global competition can be described as:
- (a) Hypercompetitive
 - (b) Hyperactive
 - (c) Atypical
 - (d) Co-optive
59. A situation in which the joint moves of two firms can determine how much money each firm can make or lose can be explained using the story of:
- (a) The Trojan Horse
 - (b) The Icarus Paradox
 - (c) The Prisoner's Dilemma
 - (d) The Icarus Dilemma
60. In the context of environmental analysis, 'munificence' means:
- (a) The extent to which resources are freely available to support firms in an industry and enable them to grow
 - (b) The extent to which it is diverse
 - (c) The extent to which it is stable or turbulent
 - (d) The extent to which the industry follows the conventional life-cycle stages.

Ans: (1)(a) , (2) (a) , (3) (a) , (4) (b), (5) (c), (6) (d), (7) (d), (8)(a), (9)(b), (10)(a), (11)(b), (12)(b), (13)(d), (14)(c), (15)(c), (16)(b), (17)(d), (18)(a), (19)(a), (20)(a), (21)(d), (22)(d), (23)(a) , (24)(d), (25)(a), (26)(c), (27)(d), (28)(b), (29)(b), (30)(d), (31)(c), (32)(c), (33)(a), (34)(b), (35)(a), (36)(b), (37)(b), (38)(d), (39)(b), (40)(c), (41)(c), (42)(c), (43)(d), 44(b), 45(b), 46(b), 47(b), 48(b), 49(a), 50(d), (51)(c), (52)(b), (53)(a), (54)(a), (55)(a), (56)(d), (57)(d), (58)(d), (59)(c), (60)(b)

II Short Answer Type Questions:

1. Distinguish between special coverage and blanket coverage.
2. Distinguish amongst conference lines, independent lines and tramp vessels.
3. What are mixed or blended credits?
4. Explain the reasoning behind the various regulations and restrictions imposed on the exportation and importation of goods.
5. What determines the type of license needed for exportation? Discuss.
6. Discuss the most frequently encountered trade restriction.
7. Why would an exporter use the services of a foreign-freight forwarder? Discuss.

8. Besides cost advantages, what are the other benefits of an effective physical distribution system?
9. Elaborate on the problems and benefits that multinational market groups represent for international marketers.
10. Explain the political role of multinational market groups.
11. Identify the factors on which one may judge the potential success or failure of a multinational market group.
12. Differentiate between a free trade area and a common market. Explain the marketing implications of the difference.
13. Explain Packaging as a part of product planning
14. Write a note on Government's initiatives for export assistances and incentives
15. Differentiate between customs union and a political union.
16. In what ways does culture affect export marketing promotion and communications?
17. Which type of media can be most effective: International or foreign? Explain.
18. Explain why individual sales promotion activities might be more effective in some markets than in others.
19. From an exporter's standpoint, what kinds of objectives should promotional messages be designed to accomplish?
20. Why might the cheapest form of transportation not be the most economical?
21. Write short notes on following:
 - a. Global Advertising Regulations
 - b. Planning for Trade Fair and Exhibitions
22. What do you understand by the term 'mergers and acquisitions'?
23. Why would small companies want to form alliances with much bigger companies?
24. What risks do small companies face in forming such alliances?
25. Explain strategy as a concept and how is it implemented globally?

III Long Answer Type Questions:

1. Why is it difficult to terminate a relationship with overseas middlemen? What could be done to minimize this difficulty?
2. Distinguish between direct & indirect channel distribution. Discuss their advantages & disadvantages.
3. Discuss how physical distribution relates to channel policy and how they affect one another?
4. Explain how & why distribution channels are affected as they are when the stage of development of an economy improves.
5. How is distribution channel structure affected by increasing emphasis on the govt. as a customer & by the existence of state trading agencies?
6. Discuss various methods of overcoming blocked channels in international trade.

7. Is there an ideal mode of transportation based on market location, speed, cost and hazard criteria?
8. What are some of the hazards associated with the air, water and land modes of transportation?
9. How do in-bond areas differ from foreign-trade zones? How would an international marketer use an in-bond area?
10. Explain foreign-trade zones and illustrate how an exporter may use them. How do foreign-trade zones differ from bonded warehouses?
11. Explain how merge-in-transit can be beneficial to all parties in the distribution process.
12. Discuss customs-privileged facilities. How are they used?
13. Why would a company engage the services of an intermodal transportation service instead of performing activities in-house?
14. Why is it difficult financially and legally to terminate the relationships with overseas middlemen? What should be done to prevent or minimize such difficulties?
15. Distinguish between direct and indirect selling channels? What are their advantages and disadvantages?
16. Explain the meaning of 'total cost concept', and illustrate how break-even analysis might be used to solve an export physical distribution analysis problem.
17. Why does an exporter often need the services of a foreign freight forwarder? Explain.
18. Distinguish between the alternative types of free areas that are potentially available for use by an exporter and/or importer. Is there one type better than the other? Explain
19. Discuss the main issues involved in deciding whether to centralize or decentralize the planning, developing and controlling of export promotion strategy and tactics.
20. It can be argued that sometimes export marketing promotion activities appropriate for one foreign market are also appropriate in other foreign markets. Do you agree or disagree? Explain.
21. Why is selection of an overseas intermediaries is very important? Also explain why after selection the management of the overseas intermediary becomes more important. Elaborate your answer by giving suitable examples.
22. How are international strategic alliances helpful in sustaining the international competitive advantage?
23. What is the basis of competitive advantage in international marketing? Suggest a suitable model for sustaining competitive advantage.
24. Explain the source of value creation in Strategic Alliance? What are the criteria for successful Strategic Alliance?
25. It is usually said that the formulation of new strategies causes management to change its organizational structure. Is the reverse also possible?

UNIT IV

I Test Your Skills:

(a) Multiple Choice Questions:

1. What are most trade policies driven by?
 - (a) Conflicts of interest between nations.
 - (b) Conflicts of interest within nations.
 - (c) Disagreements regarding who should produce certain products.
 - (d) Disagreements on the prices of major commodities.

2. How is international trade policies governed?
 - (a) By the IMF.
 - (b) They are not governed by anyone.
 - (c) By the GATT.
 - (d) By the U.N.
 - (e) By the OECD.

3. Regionalism is:
 - (a) The grouping of countries into regional clusters based on eographic proximity.
 - (b) An international management orientation.
 - (c) A protectionist policy created to exclude third world countries from certain forms of international trade.
 - (d) An international management orientation and a protectionist policy created to exclude third world countries from certain forms of international trade.

4. In 2003, the US had the largest total amount of imports from and exports to
 - (a) China.
 - (b) Mexico.
 - (c) Canada.
 - (d) Germany.
 - (e) the United Kingdom.

5. In its most basic form, the gravity model says that the most important factors that describe the amount of trade between countries are
 - (a) the cultural affinity between the countries and the existence or lack of a common language.
 - (b) the tariff barriers between the countries and the costs of transportation.
 - (c) differences in wages and technology between countries.

- (d) differences in the amount of workers and physical capital between countries.
 - (e) the amount that the countries produce and the distance between them.
6. Evidence shows that
- (a) the effect of borders is not important when comparing international trade with trade between regions within a country.
 - (b) the amount of trade that a country undertakes is not related to its geography.
 - (c) the amount of trade between countries is not related to the cultural affinity between the countries.
 - (d) countries farther apart have less trade between them on average.
 - (e) the amount of trade that a country undertakes is not related to the number of multinational corporations in that country.
7. The North American Free Trade Agreement
- (a) has reduced the usefulness of the gravity model.
 - (b) has shown that international borders no longer affect the amount of trade between countries.
 - (c) has reduced tariffs and other trade restrictions among British Columbia, Manitoba and Ontario.
 - (d) has reduced tariffs and other trade restrictions among Canada, Mexico and the US.
 - (e) has shown that cultural ties are more important in determining the amount of trade between countries than tariff rates.
8. While technologies have reduced the negative effect that distance has on trade,
- (a) the effect of international borders has not been reduced through trade agreements.
 - (b) the effects of the Internet and airplanes on trade have been negligible.
 - (c) political factors have historically been more influential in determining the amount of trade than available technologies.
 - (d) cultural clashes have recently reduced the amount of US trade compared to US trade in 1950.
 - (e) trade was a smaller part of the US and UK economies in 1995 than it was in 1950.
9. Which of the following is the last step in marketing research process?
- (a) Developing the research plan
 - (b) Interpreting and reporting the findings
 - (c) Defining the problem and research objectives
 - (d) Implementing the research plan
10. Which one of the following research instruments is used to collect information quickly?
- (a) Mail questionnaires

- (b) Telephone interviewing
 - (c) Personal interviewing
 - (d) Computer interviewing
- 11 In creating research questionnaires, which of the following is good advice for research specialist to follow?
- (a) Use care in the wording and ordering of questions
 - (b) Questions do not have to be arranged in a logical order
 - (c) Ask personal questions in the middle of the instrument
 - (d) Avoid eye contact as it may confuse the respondents
- 12 Open-ended questions are especially useful in which of the following research when the researcher is trying to find out what people think but not measuring how many people think in a certain way?
- (a) Causal research
 - (b) Observational research
 - (c) Experimental research
 - (d) Exploratory research
- 13 Three common techniques sales managers use to boost sales force morale that include the organizational climate, sales quotas and which one of the following is the third Technique?
- (a) Positive incentives
 - (b) Positive thinking
 - (c) Positive recognition
 - (d) Positive feedback
- 14 The top country in terms of marketing research expenditures is
- (a) The United Kingdom
 - (b) The United States
 - (c) Germany
 - (d) Japan
- 15 This kind of information is collected firsthand to answer specific, current research questions.
- (a) Primary data
 - (b) Secondary data
 - (c) Selective data
 - (d) Relevant data

- 16 One problem of primary data is
- (a) Specificity
 - (b) Relevance
 - (c) Being up to date
 - (d) Cost
- 17 Information that has already been collected for other purposes is called
- (a) Primary data
 - (b) Principal data
 - (c) Secondary data
- 18 This is not a characteristic of a good test market.
- (a) Representativeness
 - (b) Self-contained media
 - (c) Expanded trading area
 - (d) Market isolation
- 19 When a measuring instrument is able to measure what it purports to, the instrument is
- (a) Reliable
 - (b) Consistent
 - (c) Stable
 - (d) Valid
- 20 The results of American consumers' responses may not apply to foreign consumers. This is a problem of
- (a) Internal validity
 - (b) Specific validity
 - (c) External validity
 - (d) Predictive validity
- 21 This step of MIS (marketing information system) development involves the investigation of all users' needs.
- (a) System analysis
 - (b) System design
 - (c) System implementation
 - (d) System investigation
- 22 Perhaps, the most credible argument for protectionist measures is
- (a) Keeping money at home
 - (b) Reducing unemployment

- (c) Enhancing national security
 - (d) Equalizing cost and price
 - (e) Protecting infant industry
- 23 Compared to a protective tariff, a revenue tariff is
- (a) Lower
 - (b) Higher
 - (c) About the same
- 24 The duties stated as a fixed percentage of the invoice value are
- (a) Specific duties
 - (b) Ad valorem duties
 - (c) Compound duty
 - (d) Combined rates
- 25 This kind of tax is collected at each point in the distribution chain and levied on the total value of a product.
- (a) Single-stage sales tax
 - (b) Value added tax
 - (c) Cascade tax
 - (d) Excise tax
- 26 This is not a nontariff barrier.
- (a) Documentation
 - (b) Quota
 - (c) Product inspection
 - (d) Countervailing duties
- 27 GATT's Subsidies Code prohibits the use of export subsidies on
- (a) Nonprimary products
 - (b) Primary products
 - (c) Both primary and nonprimary products
 - (d) Neither nonprimary nor primary products
- 28 When a country permits an import of limited quantities at low rates of duty but subjects an excess amount to a much higher rate, this kind of quota is used.
- (a) Absolute quota
 - (b) Voluntary quota
 - (c) Relative quota
 - (d) Tariff quota

- 29 This type of trade barriers is easiest to deal with.
- (a) Tariffs
 - (b) Nontariff barriers
 - (c) Private barriers
 - (d) International barriers
- 30 These barriers are least transparent.
- (a) Tariffs
 - (b) Nontariff barriers
 - (c) Government barriers
 - (d) Private barriers
- 31 South Korea's *chaebol* and Japan's *keiretsu* are examples of
- (a) Tariffs
 - (b) Nontariff barriers
 - (c) Private barriers
 - (d) Government barriers
- 32 This world organization wants to achieve a broad, multilateral, and free worldwide system of trading.
- (a) WTO
 - (b) GSP
 - (c) UNCTAD
 - (d) MFN
- 33 This organization does not allow a nation to veto a panel's decision
- (a) GATT
 - (b) WTO
 - (c) UN
 - (d) NAFTA
- 34 This organization is a permanent organ of the United Nations General Assembly, and its goal is to encourage development in Third World countries and enhance their export positions.
- (a) GATT
 - (b) GSP
 - (c) UNCTAD
 - (d) IMF

35. The system which gives LDCs' exports a preferential treatment is called
- (a) GATT
 - (b) GSP
 - (c) UNCTAD
 - (d) MFN
36. GATT's Subsidies Code prohibits the use of export subsidies on
- (a) nonprimary products
 - (b) primary products
 - (c) both primary and nonprimary products
 - (d) neither nonprimary nor primary products
37. This kind of quota is the most restrictive.
- (a) absolute quota
 - (b) tariff quota
 - (c) voluntary quota
 - (d) VER
38. When a country permits an import of limited quantities at low rates of duty but Subjects an excess amount to a much higher rate, this kind of quota is used.
- (a) absolute quota
 - (b) voluntary quota
 - (c) relative quota
 - (d) tariff quota
39. In the mid-1980s, Japan signed an orderly marketing agreement (OMA) restricting its auto exports to the United States to 1.68 million units per year. This OMA is a(n)
- (a) absolute quota
 - (b) tariff quota
 - (c) voluntary quota
40. This type of trade barriers is easiest to deal with.
- (a) tariffs
 - (b) nontariff barriers
 - (c) private barriers
 - (d) international barriers
41. These barriers are least transparent.
- (a) tariffs
 - (b) nontariff barriers

- (c) government barriers
 - (d) private barriers
42. South Korea's chaebol and Japan's keiretsu are examples of
- (a) tariffs
 - (b) nontariff barriers
 - (c) private barriers
 - (d) government barriers
43. This world organization monitors trade and resolves disputes.
- (a) WTO
 - (b) GSP
 - (c) UNCTAD
 - (d) World Bank
 - (e) IMF
44. This world organization wants to achieve a broad, multilateral, and free worldwide System of trading.
- (a) WTO
 - (b) GSP
 - (c) UNCTAD
 - (d) MFN
45. This organization does not allow a nation to veto a panel's decision
- (a) GATT
 - (b) WTO
 - (c) UN
 - (d) NAFTA
46. Beatrice Foods may want to give up its U.S. citizenship because of tax advantages abroad. This kind of thinking is
- (a) ethnocentric
 - (b) polycentric
 - (c) geocentric (X)
 - (d) none of the above
47. This kind of company does not identify itself with a particular country and may even prefer to lose its national identity.
- (a) ethnocentric

- (b) polycentric
 - (c) geocentric (X)
 - (d) none of the above
48. Firms that combine aspects of centralization and decentralization are
- (a) ethnocentric
 - (b) polycentric
 - (c) geocentric (X)
 - (d) none of the above
49. Because of trade (and imports), inflation
- (a) increases
 - (b) decreases
 - (c) moderates (X)
 - (d) disappears
50. As a result of international trade and global interdependence, countries' inflation rates tend to
- (a) increase
 - (b) moderate (X)
 - (c) be unpredictable
 - (d) be unstable
51. Political globalization is the process of —
- (a) changes in the rules and structures of global governance
 - (b) rise of the WTO
 - (c) change in political systems
 - (d) emergence of a political ideology
52. South–South co-operation means —
- (a) the flow of resources from one developing country to another
 - (b) increasing diplomatic relations among emerging economies
 - (c) increasing investment between developing countries
 - (d) rising trade between countries
53. International orientation refers to —
- (a) a gradual process of internationalization
 - (b) a firm's modes of entry into international business
 - (c) an attitude or strategic predisposition of a TNC towards internationalization

- (d) the stage theory of internationalization
54. Ethnocentric orientation is a predisposition towards —
- (a) regionalism
 - (b) the home country
 - (c) the global economy
 - (d) geographically proximate regions
- 55 . Pull factors refer to —
- (a) offensive motives of internationalization
 - (b) strategic motivation
 - (c) market motives of internationalization
 - (d) resource-seeking motives
56. Business entities engaged in international business activity are commonly known as-
- (a) NGOs
 - (b) EOUs
 - (c) State-trading corporations
 - (d) TNCs
57. Credits transferable by original beneficiary in favor of secondary beneficiary are known as
- (a) Deferred credits
 - (b) Transit credits
 - (c) Installment credits
 - (d) Transferable credits
58. When the exporter, expects the importer, to make the payment immediately upon the draft being presented to him is called.
- (a) Sight Draft.
 - (b) Usance Draft
 - (c) Demand draft
 - (d) Pay Note
59. Which theory states that, lack of resources often helps countries to become competitive
- (a) Competitive theory
 - (b) Porters Diamond Model
 - (c) Theory of Mercantilism
 - (d) Product life cycle theory
 - (e) None of the above

60. Theory of Mercantilism propagates
- (a) Encourage exports and imports
 - (b) Encourage exports and discourage imports
 - (c) Discourage exports and imports
 - (d) Discourage exports and encourage imports

Ans: 1(b) , 2(c) , 3(a), 4(c), 5(e), 6(d), 7(d), 8(c), (9)(b), (10)(b), (11)(a), (12)(a), (13)(d), (14)(b), (15)(a), (16)(d), (17)(c), (18)(c), (19)(d), (20)(c), (21)(a), (22)(e), (23)(a), (24)(b), (25)(c), (26)(d), (27)(a), (28)(d), (29)(a), (30)(d), (31)(c), (32)(a), (33)(b), (34) (c), (35)(a), (36)(a), (37)(a), (38)(d), (39)(c), (40)(a), (41)(d), (42)(c), (43)(a), (44)(a), (45)(b), 46(c), 47(c), 48(c), 49(c), 50(b), 51(c),52(a),53(a),54(c),55(b),56(a),57(d), 58(a), 59(d), 60(b)

II Short Answer Type Questions:

1. Explain the areas of SWOT analysis for achieving better marketing efficiency.
2. Which are the specific tasks of monitoring & evaluation unit in research?
3. Discuss various tools of data collection in International marketing research.
4. Explain different approaches for data analysis in International marketing research.
5. Write a note on Meaning and Objectives of Trade Barriers.
6. Explain the types of Trade Barriers.
7. Write a note on Trading Blocs & Growing intra regional trade.
8. Write a note on WTO & trade liberalization.
9. Write a note on latest developments at WTO including Doha Round.
10. Explain the Role of MNCs in International trade.
11. Write a note on FDI.
12. Write a note on Effect of Barriers on International Trade
13. Explain the comparative-analytical approach in guiding global marketing research
14. Discuss briefly the role of IMF and WTO in international marketing.
15. For three different products that are being exported, or are exportable, list the major sources of information on competitor's activities.
16. Explain how internet may be a valuable source of information, for even the smallest sized exporter.
17. What kinds of variables influence how line operations should be subdivided into organizational units?
18. Are traditional views about the goals of business the same in Britain, the united states, and the continental western European countries? If not, how do they differ?
19. What are the benefits to consumers arising from international trade?
20. Regionalism Vs Multilateralism is a recurrent theme in any international ForumDiscuss.

21. Discuss various bodies associated with WTO
22. Write short note on TRIPS & TRIMS
23. For three different products that are being exported, or are exportable, list the major sources of information on competitor's activities.
24. Write a note on Effect of Barriers on International Marketing
25. Write a note on EXIM Bank.

III Long Answer Type Questions:

1. Discuss the possible types of arrangements for regional economic integration.
2. Select any three countries that might have some logical basis for establishing a multinational market organization and illustrate their compatibility as a regional trade group. Identify the various problems that would be encountered in forming multinational market groups of such countries.
3. What are the effective research tools for qualitative data collection? What should be the attributes of a good questionnaire to get an effective consumer response?
4. What do you understand by focus group analysis? How can this tool be best applied to analyze the impact of a new customer product launched by a multinational company?
5. Explain the information requirement for new product development in an international market & develop a marketing research plan for positioning the new product in a new consumer segment.
6. Why have African nations had such a difficulty in forming effective economic unions?
7. "Because they are dynamic and because they have great growth possibilities, the multinational markets are likely to be especially rough and tumble for the external business." Discuss.
8. How is the concept of reciprocity linked to protectionism?
9. Discuss the strategic marketing implications of NAFTA.
10. For each regional trade group- EC, NAFTA, AFTA, ASEAN+3 and Mercosur- cite which of the factors for success are the strongest and which are the weakest? Discuss each factor.
11. What is the motive behind ASEAN +3 and what are the probable implications for global trade?
12. NAFTA has been in existence for several years-how has it done?
13. Is it wise for a company to drastically change its international organization at a time when the world is in a downturn? Justify your answer.
14. IMF and World Bank serve the interests of industrialized nations rather than those of developing countries. Discuss.
15. Explain the features of the Eurodollar market. Examine the factors which contributed to the growth of the market.
16. Give a brief and critical account of the Indian Patents Act.

17. Explain in detail the process of dispute settlement under WTO.
18. (a) Explain the role of IMF and WTO in International Marketing.
(b) How can marketing research help in identifying opportunities in International Markets?
Explain
19. Explain the functions of SAFTA
20. Explain the functions of ASEAN

QUESTION BANK

SERVICES MARKETING

MS 217

QUESTION BANK
SERVICES MARKETING - MS 217

UNIT – I

I Test Your Skills:

A) Multiple Choice Questions:

- 1 Which of the following sets of terms best describes a service?
 - (a) Objects, devices, and performances
 - (b) Effort, objects, and deeds
 - (c) Things, devices, and performances
 - (d) Objects, devices, and things
 - (e) Deeds, effort, and performances

- 2 Businesses such as fast food restaurants would fall where along the Scale of Market Entities?
 - (a) On the extreme end of the intangible-dominant side
 - (b) On the extreme end of the tangible-dominant side
 - (c) In the middle of the continuum
 - (d) Left of the middle towards the tangible-dominant side
 - (e) Right of the middle towards the intangible-dominant side

- 3 Which of the following fields would be least likely to be described as intangible-dominant?
 - (a) Manufacturing
 - (b) Education
 - (c) Insurance
 - (d) Banking
 - (e) Engineering

- 4 Which of the following statements is not true?
 - (a) Service knowledge is obtained differently than goods knowledge.
 - (b) Firms that define their businesses too narrowly have developed marketing myopia.
 - (c) Goods are tangible-dominant.
 - (d) Service knowledge is obtained through the experience of receiving the actual service.
 - (e) All of the above are true.

- 5 The demand for services marketing knowledge has increased for all of the following reasons except:
- (a) The tremendous growth in service-sector employment
 - (b) Increasing service-sector contributions to the world economy
 - (c) The deregulation of many service industries
 - (d) The needed shift from industrial models of management to market-focused management approaches
 - (e) The decline in service sector jobs
- 6 Which linkage within The Service Triangle reflects the ease with which a customer uses a bank's ATM?
- (a) The systems--the customer
 - (b) The service strategy--the customer
 - (c) The systems--the people
 - (d) The customer--the people
 - (e) The service strategy--the systems
- 7 The market-focused management model, supported by the service triangle, is based on the belief that:
- (a) Front-line personnel tend to be more knowledgeable
 - (b) Employees want to do good work
 - (c) Customer satisfaction is related to employee turnover
 - (d) A new accounting measures should be used
 - (e) None of the above
- 8 Services are characterized by all of the following characteristics except for:
- (a) Intangibility
 - (b) Homogeneity
 - (c) Perishability
 - (d) Inseparability
 - (e) Heterogeneity
- 9 Which of the following statements is false?
- (a) Services cannot be touched or seen in the same manner as goods.
 - (b) Consumer judgments about services tend to be more subjective than objective.
 - (c) Services are first produced, then sold, then consumed.
 - (d) Services tend to vary from one transaction to the next.
 - (e) Services cannot be inventoried.

- 10 Of the four unique service characteristics that distinguish goods from services, the one that is the primary source of the other three characteristics is:
- (a) Intangibility
 - (b) Inseparability
 - (c) Homogeneity
 - (d) Perishability
 - (e) Heterogeneity
- 11 Which of the following is a marketing problem caused by intangibility?
- (a) Services have no costs of goods sold.
 - (b) The consumer is involved in the production process.
 - (c) Other consumers are involved in the production process.
 - (d) Service standardization and quality control are difficult to achieve.
 - (e) Centralized mass production of services is difficult.
- 12 Possible solutions that minimize the problems caused by intangibility include all of the following except:
- (a) The use of tangible clues.
 - (b) The effective management of consumers.
 - (c) The creation of a strong organizational image.
 - (d) The use of personal sources of information.
 - (e) Prudential's "Piece of the Rock" promotional strategy.
- 13 Marketing problems caused by inseparability include all of the following except for:
- (a) The service provides physical connection to the service.
 - (b) The involvement of the customer in the production process.
 - (c) Service standardization and quality control are difficult to achieve.
 - (d) The involvement of other customers in the production process.
 - (e) All of the above are marketing problems caused by inseparability.
- 14 Which of the following scenarios is likely to lead to the highest levels of customer dissatisfaction?
- (a) Higher demand than maximum available supply
 - (b) Higher demand than optimal supply levels
 - (c) Lower demand than optimal supply levels
 - (d) Demand and supply at optimal levels
 - (e) All of the above scenarios result in customer dissatisfaction

- 15 Which of the following strategies increases the supply of service available to consumers?
- (a) The use of creative pricing strategies
 - (b) The use of reservation systems
 - (c) Capacity sharing
 - (d) Developing complementary services
 - (e) Developing non-peak demand
- 16 Which of the following strategies increases the supply of service available to consumers?
- (a) Increasing consumer participation
 - (b) The use of creative pricing strategies
 - (c) The use of reservation systems
 - (d) Developing complementary services
 - (e) Developing nonpeak demand
- 17 The perishability-related strategy that may sometimes be associated with consumer feelings that the service firm may be attempting to distance itself from consumers is:
- (a) The use of reservation systems
 - (b) Training public contact personnel
 - (c) The use of third-parties to conduct service transactions
 - (d) Increasing the amount of consumer participation
 - (e) Both a and d
- 18 Which one of the following strategies is used to alter consumer demand?
- (a) Increasing consumer participation
 - (b) Utilizing third parties
 - (c) Utilizing creative pricing strategies
 - (d) Sharing capacity
 - (e) Preparing in advance for expansion
- 19 Which of the following would not be considered a tangible clue?
- (a) The quality of instruction in an educational setting
 - (b) The appearance of employees
 - (c) The appearance of the firm's physical facilities
 - (d) The smile on an employee's face
 - (e) The quality of paper stock use to produce a firm's brochures
- 20 The service sector that is the fastest growing sector in terms of employment is:
- (a) Wholesale and retail trade
 - (b) Transportation and warehousing
 - (c) Financial activities

- (d) Professional and business services
 - (e) Education and health services
- 21 Which of the following features separate services from products?
- i. Perishability
 - ii Intangibility
 - iii Reliability
 - iv Inseparability
- (a) Only ii
 - (b) i, ii and iii
 - (c) i, ii and iv
 - (d) ii, iii, and iv
- 22 Which of the following attributes of services make it difficult for a service provider to evaluate them when compared to goods?
- (a) High search and experience quality
 - (b) High experience and credence quality
 - (c) High credence and search quality
 - (d) Both b and c
- 23 Classification of products into goods, services, and ideas is determined by the:
- (a) Degree of labour intensiveness.
 - (b) Type of markets.
 - (c) Dominant component.
 - (d) Skill of the service provider.
 - (e) Degree of consumer contact.
- 24 Services can be meaningfully analysed by using a five-category classification scheme including type of market, degree of labour-intensiveness, degree of customer contact, skill of service provider, and
- (a) Degree of competition within the service industry.
 - (b) Goal of the service provider.
 - (c) Market share of the service provider.
 - (d) Employee structure of the service provider.
 - (e) Production environments.
- 25 The appearance of the production facilities and the interpersonal skills of actual service providers are critical in _____ services.
- (a) Low-contact
 - (b) Equipment-based

- (c) Industrial
 - (d) High-contact
 - (e) Nonprofessional
- 26 The necessary interaction between service provider and customer that allows a service to be delivered is called
- (a) Customer contact.
 - (b) Service exchange.
 - (c) Marketing
 - (d) Relationship marketing.
 - (e) Service contact.
- 27 A problem encountered by service companies that change high-contact services into low-contact services is that the
- (a) Service becomes more expensive to deliver.
 - (b) Quality of the service usually declines.
 - (c) Service becomes less personalized.
 - (d) Time required to deliver the service increases.
- 28 What is the 5th unique characteristic of service markets?
- 1. Lack of ownership
 - 2. Intangibility
 - 3. Inseparability
 - (a) Protractability
 - (b) Serviceability
 - (c) Homogeneity
 - (d) Perishability
- 29 Which of the following statements is correct?
- (a) Marketing is the term used to refer only to the sales function within a firm.
 - (b) Marketing managers don't usually get involved in production or distribution decisions.
 - (c) Marketing is an activity that considers only the needs of the organization; not the needs of society as a whole.
 - (d) It is the activity, set of institutions, and processes for creating, communicating, delivering, and exchanging offerings that have value for customers, clients, partners, and society at large.

- 30 Select name of the country having maximum percent of GDP attributed to services
- (a) United States
 - (b) China
 - (c) Germany
 - (d) India
- 31 Which of the following is not an element of physical evidence?
- (a) Employee dress
 - (b) Employee Training
 - (c) Equipment
 - (d) Facility design
- 32 Which of the following is not an element of People?
- (a) Motivation
 - (b) Teamwork
 - (c) Flow of activities
 - (d) Customer training
- 33 Standardized and customized flow of activities, simple and complex number of steps and customer involvement by which a service is delivered is called.....
- (a) Place Mix
 - (b) Physical Evidence Mix
 - (c) Process Mix
 - (d) People Mix
- 34 Professionals such as Doctors, Lawyers or Photographers often charge for missed appointments
- (a) Services are inseparable from their providers
 - (b) Services cannot be inventoried
 - (c) They prefer to avoid such clients
 - (d) To reduce their workload
 - (e) Their time is wasted
- 35 The key difference between goods and services is:
- (a) People
 - (b) Production costs
 - (c) Intangibility of services
 - (d) Recruitment policy
 - (e) Mass production

- 36 The characteristic of services marketing that it cannot be saved, stored, resold, or returned is known as:
- (a) Marketing
 - (b) Price
 - (c) Promotion
 - (d) Advertisement
 - (e) Perishability
- 37 An e-mail service is a good example of
- (a) People processing service
 - (b) Information processing service
 - (c) Mental Stimulus processing service
 - (d) Possession processing service
 - (e) Technology processing service
- 38 No two services are precisely alike. This characteristic is known as:
- (a) Selling
 - (b) Production
 - (c) Heterogeneity
 - (d) Consumption
 - (e) Intangibility
- 39 The main characteristic of Service is_____
- (a) Non-existence
 - (b) Balanced scorecard
 - (c) Age and Lifecycle
 - (d) Intangibility
 - (e) Tangibility
- 40 A _____ is a form of product that consists of activities, benefits, or satisfactions offered for sale that are essentially intangible and do not result in the ownership of anything.
- (a) Service
 - (b) Demand
 - (c) Need
 - (d) Physical object
- 41 Distinct characteristic of services is_____
- (a) Intangibility

- (b) Inseparability
 - (c) Variability
 - (d) Perishability
- 42 All of the following are examples of services EXCEPT:
- (a) Banking
 - (b) Hotels and motels.
 - (c) Tax preparation.
 - (d) Computer software.
- 43 Services are typically produced and consumed simultaneously. This is an example of the _____ characteristic of services.
- (a) Intangibility
 - (b) Variability
 - (c) Inseparability
 - (d) Simultaneously
 - (e) Perishability
- 44 Services cannot be stored. This describes the _____ characteristic of services.
- (a) Intangibility
 - (b) Variability
 - (c) Inseparability
 - (d) Inconsistency
- 45 _____ describes the employee's skills in serving the client.
- (a) Internal Marketing
 - (b) External Marketing
 - (c) Relationship marketing
 - (d) Interactive marketing
 - (e) Communication Marketing
- 46 SSTS refers to _____
- (a) Service Standards Testing
 - (b) Self- Service Technologies
 - (c) Standard Service Technologies
 - (d) Self Service Treatments
- 47 _____ occurs when a company intentionally uses services as the stage, and goods as the props, to engage individual customers in a way that creates a memorable event.
- (a) Hybrid offer

- (b) Core service
 - (c) Augmented or ancillary product
 - (d) Experience
- 48 Top firms audit service performance by collecting measurements to probe customer satisfiers and dissatisfiers.
- (a) Customer satisfier
 - (b) Customer complaint
 - (c) Voice of the customer
 - (d) Psychological
- 49 The fact that a business traveler may have one very positive check-in experience at a hotel and then a very negative check-in experience with a different employee on a subsequent visit is evidence of service:
- (a) Intangibility
 - (b) Inseparability
 - (c) Variability
 - (d) Perishability
- 50 Service marketers consider which of the following?
- (a) People/Participants, Physical evidence, Placement.
 - (b) Participants, Physical evidence, Products
 - (c) People, Products Process.
 - (d) People/Participants, Physical evidence, Process.
- 51 Three types of customer expectations can be identified:
- (a) Internal expectations; Explicit expectations, Implicit expectations.
 - (b) Fuzzy expectations, Explicit expectations, Implicit expectations
 - (c) Internal expectations, External expectations, Implicit expectations.
- 52 Perceived Service Quality concept includes which of the following?
- (a) Credibility, Security, Process
 - (b) Access, Service, Communication
 - (c) Reliability, Courtesy, Communication
 - (d) Courtesy, Access, Choice
- 53 Quality Gaps include:
- (a) The Management Perception Gap; The Quality Specification Gap; The Service Delivery Gap

- (b) The Management Perception Gap, The Market Communication Gap, The Quality Improvement Gap
 - (c) The Service Delivery Gap, The Market Communication Gap; The Information Gap
 - (d) The Service Delivery Gap, The Management Perception Gap, The implementation Gap
- 54 The Perceived Service Quality means that the perceived or experienced service is not consistent with the expected service. This gap results in the following: Which one is NOT true?
- (a) An increase in corporate costs
 - (b) A negative impact on corporate or local image
 - (c) Bad word of mouth
 - (d) Negatively confirmed quality
- 55 The four unique elements to services include:
- (a) Independence, intangibility, inventory, and inception
 - (b) Independence, increase, inventory, and intangibility
 - (c) Intangibility, inconsistency, inseparability, and inventory
 - (d) Intangibility, independence, inseparability, and inventory
- 56 Listing alternatives that will solve the problem at hand and determining the characteristics of each occurs during which stage of the final consumer's decision process?
- (a) Information search
 - (b) Purchase
 - (c) Evaluation of alternatives
 - (d) Post purchase
- 57 The act of trading a desired product or service to receive something of value in return is known as which key concept in marketing?
- (a) product
 - (b) exchange
 - (c) production
 - (d) customer
- 58 The most basic level of a product is called the:
- (a) core product.
 - (b) central product.
 - (c) fundamental product.
 - (d) augmented product.

- 59 Whether to sell via intermediaries or directly to consumers, how many outlets to sell through, and whether to control or cooperate with other channel members are examples of decisions marketers must make about
- (a) Promotion
 - (b) Price
 - (c) Distribution
 - (d) Product
- 60 The solution to price competition is to develop a differentiated:
- (a) product, price, and promotion.
 - (b) offer, delivery, and image.
 - (c) package and label.
 - (d) international Web site.
- 61 Which of the following statements are incorrect?
- (a) Services are intangible
 - (b) Services are perishable
 - (c) Services can be co-produced with customers
 - (d) Services are invariable
- 62 When a music concert is recorded in a CD, which of the following sentences are correct?
- (a) The CD becomes a service
 - (b) The CD becomes a service product
 - (c) The CD becomes both neither product nor service
 - (d) The concert and the CD together become a service with a tangible product.
- 63 Tell whether this statement is right or wrong: Service is somewhat like a rental. The statement is
- (a) incorrect
 - (b) correct
 - (c) somewhat correct
 - (d) none of the above
- 64 Services marketing area is an attractive area of study in India because:
- (a) Services contribute to more than half of India's GDP
 - (b) Services are delivered by more than half of India's population
 - (c) Services are more important than agriculture and manufacturing
 - (d) All of the above

- 65 You watch the mountains while travelling in a bus from one city to another. This is an example of
- (a) superior service quality
 - (b) by-service
 - (c) waste service
 - (d) augmented service
- 66 Servicescape refers to:
- (a) service landscape
 - (b) service factory
 - (c) place where the service is delivered
 - (d) beautiful service landscape
- 67 In the service system, customers may specify their needs and expectations to the service provider. Such specifications are called
- (a) feedback
 - (b) feed-forward
 - (c) how and why specifications
 - (d) none of the above
- 68 Services are delivered within the marketing environment. The macro-environment can be analysed using which of the following tools?
- (a) SWOT
 - (b) PEST
 - (c) TOWS
 - (d) None of the above
- 69 High speed Internet is an enabler between supplier push and consumer pull as reasons for growth in services. Other enabler is
- (a) High-Tech products
 - (b) High-Tech services
 - (c) Low-tech products
 - (d) Low-tech services
- 70 The technological environment affects a company and its products and services. Information technology is capable of providing service outcomes which are:
- (a) bit-based
 - (b) atom-based
 - (c) molecule-based
 - (d) none of the above

Ans. (1)(e), (2)(c), (3)(a), (4)(e), (5)(e), (6)(e), (7)(a), (8)(e), (9)(d), (10)(b), (11)(b), (12)(c), (13)(a), (14)(e), (15)(a), (16)(d), (17)(b), (18)(c), (19)(e), (20)(c), (21)(b), (22)(b), (23)(c), (24)(a), (25)(e), (26)(d), (27)(c), (28)(a), (29)(b), (30)(d), (31)(d), (32)(b), (33)(c), (34)(c), (35)(b), (36)(c), (37)(e), (38)(b), (39)(c), (40)(d), (41)(a), (42)(a), (43)(d), (44)(c), (45)(d), (46)(d), (47)(b), (48)(d), (49)(c), (50)(d), (51)(b), (52)(c), (53)(a), (54)(a), (55)(c), (56)(c), (57)(b), (58)(a), (59)(c), (60)(b), (61)(d), (62)(d), (63)(b), (64)(a), (65)(b), (66)(c), (67)(b), (68)(b), (69)(a), (70)(a).

II Short Answer Type Questions:

- 1 What is a service?
- 2 Explain the concept of Derived Service with the help of examples.
- 3 How has technology changed the nature of services?
- 4 Enumerate the key marketing issues before a service organization.
- 5 Define service as a product and cite two relevant examples of the service product.
- 6 What is the difference between a high contact service and a low contact service?
- 7 Why has the demand for services marketing knowledge increased in recent years?
- 8 Discuss the six key linkages of the Service Triangle.
- 9 Define the characteristics of intangibility, inseparability, heterogeneity, and perishability.
- 10 Describe the tangibility spectrum.
- 11 Explain the growing significance of service marketing.
- 12 Characteristics of goods are different from those of services. Discuss the difference and explain by citing relevant examples.
- 13 Describe the service marketing process.
- 14 What are the various challenges that the service marketers have to face today?
- 15 Define the Services Marketing Mix. How is it different from the Traditional Marketing mix?
- 16 What are the implications of services characteristics for an interstate bus service?
- 17 Explain in brief the difference between goods and services?
- 18 Write short note on service marketing process.
- 19 What are the different customer roles in service delivery?
- 20 Briefly give the positioning strategy of any airline company?
- 21 Give the brief of the positioning strategy of any Restaurant?
- 22 Explain the service triangle?
- 23 Give the difference between goods and services?
- 24 Discuss the reasons for growth of services?
- 25 Discuss Lovelocks classification scheme of services?
- 26 Develop a list of services you use and the firms you visit for them?
- 27 What can be learned from the service imperative?

- 28 Distinguish between the following giving suitable examples:
- Search Qualities and Experience Qualities
 - Different modes of delivering services internationally
 - Internal marketing, External marketing and Interactive marketing.
- 29 (a) What do you understand by the term 'Service Quality'? What are the benefits of service quality to organisations ?
- (b) "A service organisation should treat a complaint as a gift and the one who complains as a friend". Do you agree with the statement ? Justify your answer.
- 30 Write short notes on any three of the following :
- Information search behaviour for services.
 - Modes of service delivery in international trade.
 - Service Guarantees.
 - Promotion of Educational Services.
 - Channels of distribution for banks.
- 31 "Growth in services is at the expense of manufacturing sector of the economy". Do you agree with the statement ? Discuss.
- 32 What is Service Marketing? Explain its basic characteristics.
- 33 What is the nature of Service Marketing?
- 34 How important is it to understanding consumer behavior in the marketing of services?
- 35 What are the various ways by which service can be classified? Discuss.

III Long Answer Type Questions:

- Define Services. Discuss the various categories of services and support your answer by citing relevant examples of these from the Indian Service Industry.
- Differentiate between goods and services and explain how these differences make marketing of services different and more challenging than that of goods.
- Compare and contrast the traditional marketing mix and the service marketing mix.
- Discuss the various characteristics of services. What are the various implications of these?
- "Marketing of services is different from that of goods." Comment and discuss the process of Services Marketing.
- Describe the characteristics of the Indian Services Sector and explain how it has impacted the Indian Economy.
- Explain the concept of Service Triangle with respect to the Indian Hotel and Banking Industry.
- How does the environment impact services and their marketing?
- Explain the concept of services marketing. How has it evolved during the years? What is its significance in today's market?
- What are the basic characteristics of services vs. goods? What are the implications of these characteristics for the Indian Aviation Industry?

- 11 How can quality service be used in a manufacturing context for competitive advantage? Think in the context of automobiles or electronics for answering the question.
- 12 The 100 year oldNedungadi Bank has engaged the management consultancy firm Price water house Coopers (PwC) to evolve a bank wise strategy and to consolidate its business planning program in order to bring about strategic changes in its style, form and content while retaining its basic philosophy of value added banking. What marketing objectives should PwC consider while formulating a marketing strategy that us aligned with the corporate objectives?
- 13 The recent Union Budget saw an increase in postal rates for the ordinary envelope being increased by 20 percent to Rs. 5 for 20 gm. With bulk courier rates starting from around Rs. 5, local companies have started switching to courier services. In this kind of situation, there could be increased opportunities for individuals to start courier firms. Based on customer involvement, under which category do courier and postal services come? What type of services can a courier company offer based on the type of end user?
- 14 Half of India's GDP growth in the 90's came from the growth in the services sector. Amongst the big names to have entered services in India are Reliance and HUL. The industrial conglomerate, Reliance ventured into the services sector through its telecom and retailing operations, while HLL, a leading FMCG company, launched its Lakme Beauty Salons. What are the major factors that are driving the growth of the services sector in India?
- 15 Marketing analysts point out that the 4P's of marketing mix that are used for marketing of products may not be enough for service providers to consider in developing effective marketing strategies. They say three additional elements people, physical evidence and process along with the 4Ps can help address the needs of services marketing completely. Explain in detail about these three elements that are unique to services marketing?
- 16 Kaizen Watches is a leading watch maker in the country, to increase sales and visibility in its planning to open its own chain of watch showrooms under the brand Time & Style. To chalk out the marketing strategy Mr. R. P. Sinha, CEO of the company convened a meeting with the top marketing managers. During the meeting the managers devised a marketing strategy based on the four Ps of marketing i.e., product, price, promotion and place. However, Mr. K. V. Ram (Vice President, Marketing) questioned their strategy saying, "Services marketing is different from product marketing. The traditional marketing mix elements are inadequate for the services marketing environment." What inadequacies do the traditional marketing mix elements possess when it comes to services marketing?
- 17 SBI that lost to new age private banks during the 1990s, has renewed its effort to regain its lost pride in the past two years. It has introduced various measures, such as expending its ATM network, opening personal banking divisions, venturing into credit cards and insurance services, providing value added services like online banking, and reducing the workforce through VRS. What do you think are the motives behind such moves?

- 18 “Usually services are high on experience qualities and credence qualities while products are high on search qualities. This makes judging the quality of services difficult, for the customers.” Explain this statement in detail.
- 19 The Marriott Group is planning to open a new hotel in Banagalore. It has already established itself in the market as a premium class hotel chain. How should Marriott plan the marketing mix for the new location?
- 20 “Fresh Beans”, a producer of coffee beans, plans to enter retailing by starting its retail coffee outlets- “Fresh B’s” in commercial areas of metros like Bangalore and Delhi, simultaneously. What are the major specifications it should consider in its marketing mix elements?
- 21 Speaking about the continuing poor financial performance of an airline for the past seven quarters, a marketing research analyst said “The failure can be attributed to the airline’s lack of focus on one of the key characteristic of a service industry - “perishability”, which led to a lower occupancy rate i.e., the airline realized less sales volumes per flight.” What are the key characteristics which make services marketing different from product marketing? Which among them will affect the airline industry most?
- 22 Recent newspaper reports have stated that the UB Group is delaying its plans to enter the airlines industry through the launch of the Kingfisher Airlines. This has been attributed to the delay by the company’s top management to develop a services marketing strategy for this venture. Mr S. K Sinha, marketing head of this venture (who was recently appointed from a top rival airline company), is said to be concerned about developing an effective service marketing triangle for Kingfisher Airlines. What aspects should the UB Group consider in the services marketing triangle? Briefly describe the different components of the triangle.
- 23 Certain companies in the service sector need to provide supplementary services, in the absence of which, customers will find it difficult to make use of the core service. Cisco Travels, a tourist operator, intends to increase its customer base by introducing additional services. Discuss some supplementary services that Cisco Travels could introduce to enhance the value of its core services?
- 24 Briefly explain the services triangle giving suitable examples. Why are service employees critical to the success of any service organization?
- 25 What the basic characteristics are of services vis-a vis goods? What are the implications of these characteristics for an interstate bus service?
- 26 Explain the elements of services marketing. Illustrate your answer with suitable examples.
- 27 Outline the reasons why is it useful from a marketing perspective to classify services. Identify the most important basis for classification.
- 28 To what extent does the intangibility of service influence the promotional methods used by a service organization?
- 29 How should the service scope of a firm that targets ethical shoppers be designed?
- 30 Describe the classification of services with examples to each category.

- 31 Explain service spectrum along with its importance and need?
- 32 Performance of a service organization is dependent on its service Mix? Explain.
- 33 Why should an organizations service mission be clearly defined? What are the different ways to do that?
- 34 Find out the services mission statement for top five companies in different sectors. Study these statements and list areas of focus in them and ways to accomplish them?
- 35 How can quality service be used in manufacturing context for competitive advantage?
- 36 How is technology changing the nature of services? Elaborate in reference to the current scenario?
- 37 What distinguishes service offerings from customer service? Provide specific examples?
- 38 Give the classification of services from pure goods to pure services based on credence and experience quantities. What are the unique characteristics of services and what marketing challenges they pose? Explain with the help of an example.
- 39 Taking the example of any restaurant you are familiar with, explain the following:
 (a) Role of training and development of its employees.
 (b) Importance of physical evidence for it.
- 40 Why is it difficult to distinguish between many goods and services? Use the scale of market entities and the molecular model concepts to explain your answer.
- 41 Assume you manage a movie theatre in a big city:
 (a) Explain the underlying pattern of demand fluctuations likely to occur at the theatre
 And the challenges it would present to you as a manager. Is the pattern of demand predictable or random?
 (b) Explain demand-oriented and capacity- oriented strategies you would undertake to smoothen the peak and valleys of demand.
 (c) Explain the importance of physical evidence for a movie theatre.
- 42 Do you agree with the following statements? Justify your answer.
 (a) Pricing strategy for services includes much more than determining what to charge.
 (b) In case of services, consumers rely more on personal sources of information for pre-purchase evaluation.
- 43 How is technology changing the nature of customer service and service offerings?
- 44 What are the basic characteristics of services compared with goods? What are the implications of service characteristics for any firm of your choice?
- 45 What is the effect of physical evidence on a restaurant service quality?

UNIT – II

I Test Your Skills:

(a) Multiple Choice Questions:

- 1 Who has developed the GASs Model?
 - (a) Zeithmal and Bitner
 - (b) Zeithmal and Berry
 - (c) Zeithmal, Parsuraman and Bitner
 - (d) Zeithmal, Parsuraman and Berry

- 2 _____ extended the GAPs Model by _____ GAPs.
 - (a) ArashShahin; 2
 - (b) Dwayne D Gremler; 2
 - (c) ArashShahin; 3
 - (d) Dwayne D Gremler; 3

- 3 _____ are attributes that can be discerned only after purchase or during consumption
 - (a) Search Qualities
 - (b) Experience Qualities
 - (c) Credence Qualities
 - (d) None of the above

- 4 _____ are attributes that a customer might find difficult to evaluate even after production or consumption.
 - (a) Search Qualities
 - (b) Experience Qualities
 - (c) Credence Qualities
 - (d) None of the above

- 5 The highest level of Customer Expectation is _____.
 - (a) Ideal Expectation
 - (b) Normative Expectation
 - (c) Acceptable Expectation
 - (d) None of the above

- 6 Which of the following factors does not influence adequate service?
- (a) Lasting service intensifiers
 - (b) Temporary service intensifiers
 - (c) Self-perceived service role
 - (d) None of the above
- 7 Which of the following does not contribute to Predicted Service?
- (a) Word of mouth
 - (b) Past experience
 - (c) Personal needs
 - (d) Implicit service promises
- 8 _____ dimension of service quality refers to the employees' knowledge and courtesy and their ability to inspire trust and confidence.
- (a) Reliability
 - (b) Assurance
 - (c) Responsiveness
 - (d) None of the above
- 9 Who formulated the SERVQUAL Scale?
- (a) Zeithmal and Bitner
 - (b) Zeithmal and Berry
 - (c) Zeithmal, Parsuraman and Bitner
 - (d) Zeithmal, Parsuraman and Berry
- 10 _____ are customers who have an above average propensity to complain.
- (a) Irates
 - (b) Voicers
 - (c) Activists
 - (d) None of the above
- 11 The gap between a customer's desired service expectation and the adequate service expectation is
- (a) Zone of tolerance
 - (b) Predicted service expectation
 - (c) Derived service expectation
 - (d) Implicit service promise

- 12 The ability of the service provider and his employees to use their knowledge and courteous behavior to instill trust and confidence in customers regarding the service is referred to as: -
- (a) Assurance
 - (b) Responsiveness
 - (c) Empathy
 - (d) Reliability
- 13 When a firm's service quality specification does not match with customer expectations the gap between the two is known as _____.
- (a) Standard gap
 - (b) Service performance gap
 - (c) Communication gap
 - (d) Market information gap
- 14 A consumer has taken a club membership for his entire family. What kind of needs does he hope to fulfill by availing the club's services?
- (a) Self actualization needs
 - (b) Security needs
 - (c) Social needs
 - (d) Physiological needs
- 15 Which of the following is not a factor that will influence customer satisfaction or dissatisfaction during the service encounter?
- (a) Spontaneity
 - (b) Image
 - (c) Empathy
 - (d) Recovery
- 16 A consumer took a decision to undergo painting classes. Which need is he intending satisfy by doing so?
- (a) Ego
 - (b) Psychological
 - (c) Self-actualization
 - (d) None of the above
- 17 Personal services like tooth whitening and plastic surgery satisfy ____ needs of a pers
- (a) Ego
 - (b) Psychological
 - (c) Self-actualization
 - (d) Safety

- 18 Which of the following is not a evidence of service as experienced by the customer?
- (a) People
 - (b) Process
 - (c) Procedure
 - (d) Physical Evidence
- 19 A service guarantee must not be _____
- (a) Conditional
 - (b) Meaningful
 - (c) Easy to invoke
 - (d) Easy to communicate
- 20 Out of the following circumstances, a service guarantee should be used when: -
- (a) Service quality is truly uncontrollable
 - (b) Customers perceive high risk in the service
 - (c) Guarantee does not fit the company's image
 - (d) Existing service quality in the company is poor
- 21 Which amongst the following is a dimension of credence qualities?
- (a) Competence
 - (b) Communications
 - (c) Tangibility
 - (d) Responsiveness
- 22 Which of the following is true as per Pareto's rule?
- (a) 15% of customers generate 75% of the revenues of an organization.
 - (b) 20% of customers generate 80% of the revenues of an organization.
 - (c) 30% of customers generate 85% of the revenues of an organization.
 - (d) 15% of customers generate 90% of the revenues of an organization.
- 23 Identify the risk that arises from a bad product/service choice, that harms one's self ima
- (a) Psychological risk
 - (b) Physical risk
 - (c) Social risk
 - (d) Time risk
- 24 The ability of the service provider to accurately perform the promised service is referred to as: -
- (a) Assurance

- (b) Responsiveness
 - (c) Reliability
 - (d) Tangibles
- 25 Which of the following is not an external factor that influences consumer behavior?
- (a) Social class
 - (b) Culture
 - (c) Service personnel behavior
 - (d) Reference groups
- 26 Which of the following is not a factor that will influence customer satisfaction or dissatisfaction during the service encounter?
- (a) Spontaneity
 - (b) Image
 - (c) Empathy
 - (d) Recover
- 27is the difference between customer expectations and perceptions.
- (a) Customer Delight
 - (b) Customer Satisfaction
 - (c) Customer Gap
 - (d) The supplier Gap
- 28 Which of the following is difficult to evaluate?
- (a) Jewellery
 - (b) Auto repair
 - (c) Furniture
 - (d) Clothing
- 29 Evaluation of Medical Diagnosis service is mainly depends on
- (a) High in experience quality
 - (b) High in credence quality
 - (c) High in search quality
 - (d) Both a and c
- 30 The level of service consumers actually expect from a service firm is the:
- (a) Adequate service level.
 - (b) Desired service level.
 - (c) Ideal service level.
 - (d) Predicted service level

- (e) Zone of tolerance.
- 31 Consumer behaviour is a term that refers to
- (a) Organizational and institutional buying behaviour
 - (b) Organizational and consumer buying behaviour
 - (c) Commercial and government buying behaviour
 - (d) Individual and/or household buying behavior
- 32 Which of the following is NOT an example of consumer behaviour:
- (a) Claire buying a new car
 - (b) Ashley buying a new home theatre/cinema system
 - (c) Sarah deciding on a college or university to attend
 - (d) Marcus ordering a new computer system for his work
- 33 Which of the following is NOT an internal factor that influences the consumer product acquisition process include
- (a) Learning
 - (b) Family
 - (c) Self-concept
 - (d) Perceptions
- 34 With respect to consumer behaviour, one's friends, and relatives could be considered a:
- (a) Impersonal influence
 - (b) Reference group influence
 - (c) Perceptual influence
 - (d) Institutional influences
- 35 With respect to consumer behaviour, the function of one's perceptions, learning and memory processes is to:
- (a) Attend to messages
 - (b) Filter messages
 - (c) Store messages
 - (d) All of the above
- 36 Which of the following is typically NOT a result of recognizing the importance of ethnic groups by marketers?
- (a) Use of an undifferentiated one-size-fits-all marketing strategy
 - (b) Different pricing strategies for different groups
 - (c) Variations in product offerings to suit the wants of a particular group

- (d) Study of ethnic buying habits to isolate market segments
- 37 The single group within society that is most vulnerable to reference group influence is
- (a) The older consumer who feels somewhat left out of things
 - (b) Married women, many of whom feel a need for stability in their lives
 - (c) New immigrants who really want to assimilate into their new culture
 - (d) Children, who base most of their buying decisions on outside influences
- 38 Which of the following can be described as an affective mental state?
- (a) Attitudes
 - (b) Opinions
 - (c) Values
 - (d) Conative
- 39 Early adopters, of which opinion leaders are large comprised, tend to be:
- (a) Generalized; that is, they tend to lead the group on most issues
 - (b) More likely to buy new products before their friends do and voice their opinions about them
 - (c) From the upper class; people from other classes are more likely to be followers
 - (d) Quiet, withdrawn people who don't make fashion statements or take risks easily
- 40 An imbalance between a consumer's actual and desired state in which recognition that a gap or problem needs resolving is called
- (a) Motive development
 - (b) An attitudes
 - (c) A self-concept
 - (d) Product Evaluation
- 41 _____ cost refers to the product's purchase cost plus the discounted cost of maintenance and repair less the discounted salvage value
- (a) Total
 - (b) Variable
 - (c) Life cycle
 - (d) Net
 - (e) Out of pocket

- 42 Successful service companies focus their attention on both their customers and their employees. They understand _____, which links service firm profits with employee
- (a) Customer satisfaction.
 - (b) Internal marketing
 - (c) Service-profit chains
 - (d) Interactive marketing
 - (e) Service differentiation
- 43 If a firm is practicing _____, the firm is training and effectively motivating its customer-contact employees and all of the supporting service people to work as a team to provide customer satisfaction.
- (a) Double-up marketing
 - (b) Internal marketing
 - (c) Interactive marketing
 - (d) Service marketing
- 44 Which of the following is not an element of physical evidence?
- (a) Employee Dress
 - (b) Employee Training
 - (c) Equipment
 - (d) Facility Design
- 45 Which of the following is not an element of people?
- (a) Motivation
 - (b) Teamwork
 - (c) Flow of activities
 - (d) Customer training
- 46 Standardized and customized flow of activities, simple and complex number of steps and customer involvement by which a service is delivered is called
- (a) Place Mix
 - (b) Physical evidence mix
 - (c) Process mix
 - (d) People mix
- 47 _____ is a tool for simultaneously depicting the service process, the points of customer contact and the evidence of service from the customer's point of view.
- (a) Front of Planning

- (b) Service Blueprinting
 - (c) Service standardization
 - (d) None of these
- 48 _____ is the physical surroundings or the physical facility where the service is produced, delivered and consumed.
- (a) Servicespace
 - (b) Servicescape
 - (c) Serviceplace
 - (d) Servicescope
- 49 _____ are the only service distributors which do not require direct human interactions.
- (a) Electronic channels
 - (b) SST's
 - (c) Direct Service channels
 - (d) Speculative channels
- 50 In the absence of a physical product, service providers need to consider the use of _____ that enable customers to make a judgment on the service quality.
- (a) Intangible clues
 - (b) Tangible clues
 - (c) Blueprint
 - (d) Performance measures
- 51 Understanding the customer is a critical step toward minimizing or completely eliminating the:
- (a) knowledge gap
 - (b) standards gap
 - (c) delivery gap
 - (d) communications gap
 - (e) confirmation gap
- 52 Which of the following is NOT a factor influencing the delivery gap?
- (a) willingness to perform
 - (b) employee-job fit
 - (c) role ambiguity
 - (d) overpromising
 - (e) inadequate support

- 53 Which of the following statements pertaining to the SERVQUAL scale is correct?
- (a) SERVQUAL compares perceptions to what customers would normally expect
 - (b) SERVQUAL is a 22-item scale
 - (c) SERVQUAL consists of four service quality dimensions
 - (d) SERVQUAL compares perceptions to what a customer should expect from a firm the delivers high-quality services
 - (e) All the above statements are incorrect
- 54 Which of the following is a major criticism of the SERVQUAL scale?
- (a) short questionnaire
 - (b) validity of the five service quality dimensions
 - (c) does not predict consumer purchase intention
 - (d) contact personnel
 - (e) none of the above
- 55 Research that examines the customer's perspective of a firm's strengths and weaknesses is called:
- (a) customer research
 - (b) employee survey
 - (c) noncustomer research
 - (d) customer complaints
 - (e) service quality survey
- 56 Loyal customers offer advantages with regard to:
- (a) revenue growth.
 - (b) cost savings.
 - (c) willingness to provide referrals.
 - (d) willingness to pay premium prices.
 - (e) all of the above
- 57 The core of a CRM program is:
- (a) customer surveys.
 - (b) customer acquisition.
 - (c) a customer database.
 - (d) a JIT analysis.
 - (e) all of the above
- 58 Which of the following is the MOST important component of a CIF analysis?
- (a) response information

- (b) purchase history
- (c) customer descriptors
- (d) contact history
- (e) customer value

59 The process of analyzing a database is called:

- (a) CIF.
- (b) data mining.
- (c) CAD-CAM.
- (d) demographic analysis.
- (e) customer categorization.

60 Satisfaction is BASICALLY a function of:

- (a) price paid.
- (b) advertising.
- (c) perception.
- (d) distribution.
- (e) quality.

61. Human resource policies aimed at delivering superior service quality has the following steps:

- (a) Hire the right people,
- (b) Develop employees to deliver quality service
- (c) Provide needed support systems and retain the best people
- (d) all of the above

62. Tell which statements are incorrect?

- (a) Customers can coproduce services.
- (b) Customers can be educated to take part in service coproduction.
- (c) Once customers are taught to coproduce services, they can be left alone to produce their own services.
- (d) Customer coproduction can range from co-producing the complete service through producing the full service.

63. Fundamentally, conflict arising in a service situation between any two parties

- (a) depends on the level of concern for self and for others.
- (b) high level of concern for self and high level of concern for others leads to collaboration.
- (c) high level of concern for self and low level of concern for others leads to a competitive scenario.
- (d) all of the above.

64. Matching the demand and supply of service
- (a) is required as supply is delivered during interactions between the supplier and the customer.
 - (b) can be done by servicing customers during non-peak periods.
 - (c) can be done by increasing supply during periods.
 - (d) all of the above.
65. Importance should be given to the servicescape and equipment in the “service factory” as (choose the statement which is false)
- (a) the servicescape provides tangible cues to customers regarding the quality of the service.
 - (b) the servicescape should be safe for customers who would be visiting the service factory.
 - (c) the servicescape and equipment are paid for by the customers.
 - (d) signage in the servicescape is important for customers to negotiate their way in the service
66. The 6Ms model of integrated marketing communication does not consist of
- (a) Market, Mission
 - (b) Message, Media
 - (c) Media, Motives
 - (d) Money, Measurement
67. Pricing a new service does not consist of which of the following?
- (a) Selecting the pricing objective
 - (b) Determining the price elasticity of demand
 - (c) Estimating costs
 - (d) Estimating price
68. Customers should be retained by a service business because retained customers (Choose the false statement)
- (a) are profitable in the long run
 - (b) are retired and cannot do their work by themselves
 - (c) do not mind small increases in price
 - (d) advise other customers to purchase from the service business
69. Which of the following should not be done with service customers when they are aggrieved with a service failure?
- (a) apologise for the service failure

- (b) make good (recover) the service
- (c) laugh as much as possible so that customers start laughing and forget about the failed service
- (d) look at the situation from the customer's point of view and satisfy or even delight them

70. Service providers are afraid of providing unconditional service guarantees as
- (a) they fear that some customers would take wrong advantage of the guarantee
 - (b) there might be situations outside the control of the service provider due to which the service has failed
 - (c) service employees would give away unnecessary goodies to aggrieved customers, thereby incurring losses for the company
 - (d) all of the above

Ans. (1)(c), (2)(c), (3)(a), (4)(c), (5)(c), (6)(a), (7)(a), (8)(b), (9)(c), (10)(b), (11)(c), (12)(c), (13)(a), (14)(c), (15)(c), (16)(b), (17)(d), (18)(b), (19)(c), (20)(b), (21)(a), (22)(a), (23)(b), (24)(a), (25)(c), (26)(a), (27)(c), (28)(b), (29)(b), (30)(d), (31)(d), (32)(d), (33)(b), (34)(b), (35)(d), (36)(a), (37)(d), (38)(a), (39)(b), (40)(a), (41)(c), (42)(c), (43)(b), (44)(b), (45)(c), (46)(c), (47)(b), (48)(b), (49)(a), (50)(b), 51(a), 52(d), 53(d), 54(b), 55(a), 56(d), 57(c), 58(c), 59(a), 60(a), (61)(d), (62)(c), (63)(d), (64)(d), (65)(c), (66)(c), (67)(d), (68)(b), (69)(c), (70)(d).

II Short Answer Type Questions:

- 1 How is Customer Gap different from Producer Gap provided in the GAPs model service quality?
- 2 What risk(s) does a consumer perceive in purchase of a particular service?
- 3 Write a short note on Service Roles and Scripts.
- 4 What are the various national and personal variables that cause differences in decision making of different consumers?
- 5 How are Customer Expectations different from Customer Perceptions?
- 6 Explain the concept of Zone of Tolerance.
- 7 'Zones of Tolerance vary for service dimensions'. Comment.
- 8 Do Customer Satisfaction and Service Quality convey the same meaning? Why or why not?
- 9 What do you understand by Service E-quality?
- 10 Why is a service encounter important?
- 11 What do you understand by Technology based Service encounters? Site examples from the Indian Industry.
- 12 In what ways do emotions and moods influence consumer behavior?

- 13 Briefly explain the gaps model of service quality. Illustrate your answer with suitable examples
- 14 Discuss the customers' role as a productive resource for the firm?
- 15 Write short note on service recovery.
- 16 Briefly explain the Gaps model of service quality mix. Illustrate your answer with suitable examples.
- 17 Critically assess the usefulness of the SERVQUAL technique for measuring quality in an industry of your choice?
- 18 Write a brief on the relationship between consumer behavior and service marketing?
- 19 How is the Gap model realized? State the different angles of evaluation?
- 20 In what ways services fluctuates the moods and emotions of consumer?
- 21 Which one of the gap is harder to close? Why?
- 22 Give different dimensions of service quality in case of health services?
- 23 How a service provider should define customer satisfaction for his firm?
- 24 Describe remote encounter, phone encounter and face to face encounter?
- 25 What can be the reasons for lower customer satisfaction?
- 26 There are 4 new service categories of innovations – state the 4 categories and provide industry examples of how a service organisation can use these strategies to develop and move forward.
- 27 Discuss the pros and cons of major service innovations. Give examples of organisations that have introduced major service innovations.
- 28 Explain what are the factors determining customer expectations and perception in services?
- 29 What are the stages in Service Life Cycle? Explain.
- 30 Discuss the evolution of service sector?
- 31 Discuss the reasons why personal sources of information tend to be more important for consumers of services.
- 32 Discuss the managerial implications of the client-company interface during the consumption stage.
- 33 Why would a manager want to know the importance customers place on each of the five service quality dimensions?
- 34 Why is it important to measure and monitor customer satisfaction and service quality?
- 35 How customers respond to Service Failure?

III Long Answer Type Questions:

- 1 Explain the GAPs model of service quality in detail with the help of an example an Indian Service Firm.

- 2 What strategies can a service firm adopt to minimize service gaps? Explain with help of examples from the hospitality sector.
- 3 How does a consumer make decisions about the purchase of a service? Elaborate the complete process and enlist the various factors that influence the consumer's decision making process.
- 4 How is post-experience evaluation by customers important in services marketing?
- 5 What are the various possible levels of customer satisfaction? What shapes customers' expectations?
- 6 What issues do the service marketers face about customer expectations?
- 7 A variety of factors affect influence customer expectations. How can service marketers influence these factors?
- 8 Define Customer Satisfaction. What are the determinants of Customer Satisfaction?
- 9 Define Service Quality? What are its various dimensions? Give examples of Indian Service Firms that excel in providing Service Quality across its various dimensions.
- 10 Define a service encounter. What are its various types and themes?
- 11 Define a Service Failure. How do consumers react to it?
- 12 Define Service Recovery. Why is it needed? What are customers' recovery expectations?
- 13 What are the various service recovery strategies that service marketers may adopt?
- 14 What do you understand by Service Switching? What are the causes behind service switching?
- 15 Define a Service guarantee. What are the benefits of providing service guarantees?
- 16 What are the various types of service guarantees that a firm can provide to its customers? Under what circumstances is providing a service guarantee infeasible?
- 17 Air Deccan has captured a significant market share in the airline market within a short period after its launch. Sensing the market potential, many companies are entering into this segment (low-cost airlines). What strategies can the company adopt in order to manage customer service expectations in such a competitive environment?
- 18 A new BPO company is deciding upon the service quality standards it wants to enforce. The top management had earlier fixed quality standards based on industry benchmarks. But this initiative did not yield the desired result. Now the management has appointed Mr. K. P. Singh a leading service industry expert, to look into the matter. Singh has suggested that the service quality standards need to be based on customer service expectations rather than on industry benchmarks. What do you think can customer expectations be in this case?
- 19 What perceived risks might a customer face when purchasing tourism products?
- 20 BK Fast Foods is the oldest restaurant chain operating in Southern India. However, in recent past its sales have been dipping and the customer traffic to its outlets dwindling. It hired Markfist, a market research agency to analyze reasons for its poor performance. The study conducted by Markfist revealed that customer perceived it as "tired brand" which

- and lost its relevance in the present day environment. What are the various ways in which BK Fast Foods can change the perceptions of the consumers?
- 21 A marketing analyst commented, “Usually services are high on experience qualities and credence qualities while products are high on search qualities. This makes judging the quality of services difficult, for the customers.” Explain this statement in detail.
- 22 Mediciti Hospitals, a multi-specialty hospital chain, has branches in all the four metro cities. As part of the exercise to improve the customer service at the hospital, it wants to analyze the adequate service expectations and the factors that affect the adequate service expectations of the customers. What are the possible factors that affect the adequate service expectations in the context of healthcare service?
- 23 SQL services, a renowned call center in Delhi, conducted a customer satisfaction survey for its clients in India and abroad. The results of the survey were interesting. Clients abroad rated the services rendered by the company on a lower scale compared to domestic clients. How can an awareness of the criteria that affect customers' service experience help SQL satisfy foreign clients with their service?
- 24 According to analysts, one of the key reasons for the poor showing of Public sector airline major, Indian Airlines, is the growing ‘customer dissatisfaction’ with its services. What strategies should Indian Airlines implement to enhance customer satisfaction?
- 25 OSS couriers, an established player in the corporate overnight courier delivery service, witnessed continuous growth rate since its inception. It has many firsts to its name – having its own fleet, use of IT and providing varied services. However, in the past three years, OSS’s customer base and sales volumes moved south. A survey conducted by the company’s management revealed that customers were dissatisfied with the poor customer service and frequent service failures. What service recovery steps can OSS take to regain its customers?
- 26 Shop n Style, a popular South Indian departmental store chain, has roped in RetailProwess, a leading retail consulting firm, to fine tune its service delivery process. RetailProwess has developed a service quality program that specified processes and service quality standards to be adopted at each of its departmental stores. How can Shop n Style maintain service quality in all its stores spread across South India?
- 27 What kind of actions customers can take in response to service failure? Why is it important for a service firm to have a strong service recovery strategy? Illustrate your answer with suitable examples.
- 28 Explain the differences between ‘search, experience and credence’ qualities. Discuss their implications for services marketers. Give suitable examples
- 29 What is the difference between desired service and adequate service? What should a service marketer need to understand both types of service expectations?
- 30 What mind of actions customers can take in response to service failure? Why is it important for a service firm to have a strong service recovery strategy? Illustrate your answer with suitable examples.

- 31 In what ways do buying process for airline travel typically differ between private buyers and business buyers? How should airlines respond to these differences?
- 32 “There is no such thing as service industries where service components are greater or less than those of other industries. Everybody is in service industry” do you agree with this statement of Theodore Levitt? Explain with examples?
- 33 Assume that you are a manager of health club. Discuss general strategies you might use to maximize customers positive perception of club. How would you know about your success?
- 34 Describe a remote encounter, Face-to-Face encounter that you have had recently. How did you evaluate the encounter and what were the most important factors in determining the satisfaction and dissatisfaction in each case?
- 35 Discuss the differences between the perceptions of service quality and customer satisfaction.
- 36 Can Gap 4 be closed prior to the closing of the other three gaps? Elaborate with example?
- 37 Think about a service you receive is there a gap between expectation and perception of that service? How will you overcome that dissonance?
- 38 What is customer Satisfaction? And why is it important? Discuss how the customer satisfaction can be influenced through the correct understanding of gap definitions?
- 39 Describe encounter cascade for an air flight? What are the most important encounters in these cascades?
- 40 List the five dimensions of service quality and describe the services provided by a firm you do business with (doctor, lawyer etc) on each of these dimension?
- 41 List and discuss the seven classifications of the continuum of new service development.
- 42 The service developments are summarized into four dimensions. State the four dimensions and give examples of how organisations have customers use the new services offered.
- 43 Discuss the eight activities that create and encourage innovation and creativity.
- 44 There are six drivers for change – list and discuss each one with examples from the service industry.
- 45 As a doctor who wants to open a clinic, how he can map customer expectations and perceptions. What steps can be taken to manage the demand and supply in case of discharge of their services.
- 46 How does the communications gap relate to success in e-business?
- 47 Discuss the basics of the SERVQUAL measurement instrument in terms of how “gap scores” are calculated for each of the five service quality dimensions.
- 48 What is a script and how does it relate to the way customer satisfaction evaluations are formed?
- 49 Define and discuss the subclass failures associated with the implicit/explicit request Failure category.
- 50 What is the service recovery paradox? What should managers learn from the service recovery paradox?

- 51 What is the difference between desired service and adequate service? Why would a service marketer need to understand both types of service expectations?
- 52 Do you believe that any of your service expectations are unrealistic? Which ones? Should a service marketer try to address unrealistic customer expectations?
- 53 In your opinion, what service companies have effectively built customer franchises?
- 54 Should service marketers delight their customers? Comment on the statement.
- 55 Describe a remote encounter, a technology-mediated encounter and a face to face encounter that you have had recently. How did you evaluate the encounter?

UNIT – III

I Test Your Skills:

(a) Multiple Choice Questions:

- 1 KFC which has its only outlet at Bangalore in the country is all set to open its retail outlets in Delhi and Hyderabad. Which stage of the PLC is it in?
- (a) Introduction
 - (b) Growth
 - (c) Maturity
 - (d) Decline
- 2 Segmenting the market according to the customer use of the service is an example of _____ segmentation
- (a) Demographic
 - (b) Geographic
 - (c) Behavioral
 - (d) Psychographic
- 3 The intangible aspect of a service spring forth for which of the following service product levels?
- (a) Actual product level
 - (b) Core product level
 - (c) Augmented product level
 - (d) Potential product level
- 4 Which of the following is not a type of positioning strategy used in service marketing?
- (a) Attribute positioning
 - (b) Celebrity positioning

- (c) Competitor positioning
 - (d) Category positioning
- 5 Which of the following is not a market penetration strategy?
- (a) Maintaining or increasing the market share of existing services
 - (b) Entering new markets with the existing services
 - (c) Driving away competitors by restructuring a market
 - (d) Inducing existing customers to use the services frequently
- 6 Which of the following is not an approach to pricing in services?
- (a) Risk based approach
 - (b) Cost based approach
 - (c) Competition based approach
 - (d) Demand based approach
- 7 Which of the following is not an issue in the pricing of services?
- (a) Availability of raw materials
 - (b) Competitor pricing
 - (c) Positioning
 - (d) Demand levels
- 8 Identify the factor that does not play a major role in setting the pricing objectives of a service organization.
- (a) How would a company like to position its services?
 - (b) Are the prices chosen compatible with the corporate objectives?
 - (c) How do the shareholders react to the price changes made by the company?
 - (d) What is the duration of the life cycle of the services?
- 9 Which of the following is not a type of broadcast media used for advertising?
- (a) TV
 - (b) Radio
 - (c) Newspapers
 - (d) Internet

- Which type of positioning involves communicating two or more contradicting features?
- 10
- (a) Under positioning
 - (b) Over positioning

- (c) Confused positioning
 - (d) Irrelevant positioning
- 11 Which of the following is not a necessary strategy in the effective promotion of services?
- (a) Effective planning
 - (b) Perfect timing
 - (c) Adherence to legal regulations
 - (d) Employee motivation
- 12 Which amongst the following is not true regarding the promotional strategies of services?
- (a) Intermediaries have a key role in the promotion of services
 - (b) Service personnel play a larger role in promoting services
 - (c) Physical evidence tangibilizes the services
 - (d) Services cannot be inventoried
- 13 Which of the following is not a consideration in deciding the marketing channel for services?
- (a) Channels should ensure easy accessibility
 - (b) Channels should cover all target markets
 - (c) Channels should ensure expansion at any cost to the service provider
 - (d) Channels should ensure value addition to the customers
- 14 Location decision is not important for _____
- (a) Insurance company
 - (b) Bank
 - (c) Retail outlet
 - (d) Health club
- 15 Which of the following is not a benefit of direct distribution of services?
- (a) Control over operations
 - (b) Healthy customer relationships
 - (c) Flexibility
 - (d) Reduced risk
- 16 In planning a service process, a service provider takes all the following important decisions except
- (a) Conversion process

- (b) Legal restrictions
 - (c) Flow of process
 - (d) Layout design
- 17 Which of the following is not an element of blueprinting in a service process?
- (a) Onstage employee actions
 - (b) Line of visibility
 - (c) Customer role
 - (d) Support processes
- 18 Which of the following is not an influencing factor in process efficiency?
- (a) Technology
 - (b) External environment
 - (c) Planning
 - (d) Location and décor
- 19 Which of the following is not a major element of physical evidence?
- (a) Conduct of support staff
 - (b) Price of service
 - (c) Physical environment
 - (d) Conduct of service personnel
- 20 The importance of physical environment as an element of physical evidence springs forth through all of the following except
- (a) Layout
 - (b) Communications
 - (c) Atmosphere
 - (d) Aesthetics
- 21 Which of the following may not be an objective of focusing on physical evidence by a service firm?
- (a) Differentiation from competitors
 - (b) Increased productivity
 - (c) Creating a good impression
 - (d) Creating awareness about its services
- 22 Which of the following is not a type of demand-based pricing strategy?
- (a) Market skimming
 - (b) Penetration pricing

- (c) Destroyer pricing
 - (d) Discounts and sales
- 23 Which of the following is not an essential step in building a service blueprint?
- (a) Identifying process
 - (b) Identifying customer segment
 - (c) Mapping customer's view
 - (d) Mapping complexities
- 24 Which of the following factors does not influence service delivery?
- (a) The service provider
 - (b) The level of customer interaction
 - (c) The complexity of the service
 - (d) The legal aspects connected to it
- 25 Which of the following groups is called boundary spanners?
- (a) Top management
 - (b) Front line employees
 - (c) Market research analysts
 - (d) All the above
- 26 Which of the following initiatives will not help a company retain the best people?
- (a) Treat employees as customers
 - (b) Measure and reward strong service performance
 - (c) Include employees in the company's vision
 - (d) Provide supportive technology and equipment
- 27 Which of the following is not a cost-based pricing?
- (a) Cost-plus pricing
 - (b) Contribution pricing
 - (c) Working back method
 - (d) Penetration pricing
- 28 Which among the following is not one of the requirements for effective segmentation of markets?
- (a) Measurability
 - (b) Accessibility
 - (c) Substitutability
 - (d) Validity

- 29 What is the process of offering customized services to individual customers by using flexible processes, without foregoing the advantages of mass production?
- (a) Market specialization
 - (b) Full market coverage
 - (c) Mass customization
 - (d) Mass marketing
- 30 Which of the following is not a strategic management task of a retailer?
- (a) Identifying target markets
 - (b) Inventory management
 - (c) Store design and layout
 - (d) Pricing decisions
- 31 Which is the nearest in meaning to the word 'Augmented Service'?
- (a) Supplementary Service
 - (b) Increased Service
 - (c) Support Service
 - (d) Auxiliary Service
 - (e) Peripheral Service
- 32 Most service marketers in the west compete at ___product/service level
- (a) Core
 - (b) Augmented
 - (c) Expected
 - (d) Tangible
 - (e) Potential
- 33 The stage of the service life cycle in which marketers become more cost conscious is:
- (a) Maturity
 - (b) Introduction
 - (c) Decline
 - (d) Growth
 - (e) Revival
- 34 Branding in a service can be developed through various ways. Music World outlets run by franchisees are an example of
- (a) Manufacturer branding strategy
 - (b) Licensed branding strategy

- (c) Multi-product branding strategy
 - (d) Multi-branding strategy
 - (e) Concentrated-branding strategy
- 35 Qatar Airways' first-class passengers sit in a semi-private pear-wood berth that convert into a bed, thus providing more comfort on long flights. This service is an example of the airlines
- (a) Standardized service
 - (b) Core service
 - (c) Customized service
 - (d) Supplementary service
 - (e) Component service
- 36 In Arab countries like Saudi Arabia, charging interest on a loan is against the "Muslim law". Therefore, banks operating in these countries customize their product offering as per the local requirements. Which parameter of assessing globalization level of a firm does this example explain?
- (a) Responding to changes in environment
 - (b) Achieving desirable balance between globalization and customization
 - (c) Presence in strategic markets
 - (d) Consistency in quality and pricing of services
 - (e) Location of value-adding activities
- 37 The _____ concept holds that consumers will favor those products that offer the most quality, performance, or innovative features.
- (a) Production
 - (b) Product
 - (c) Selling
 - (d) Marketing
 - (e) Societal marketing
- 38 The additional consumer service and benefits built around the actual product is known as
- (a) Core product
 - (b) Expected product
 - (c) Augmented product
 - (d) Basic product
 - (e) Potential product.
- 39 Which of the following statements best reflects the definition of a product?
- (a) A product is anything that is offered to the market for attention

- (b) Services are intangible and do not result in the ownership of anything
 - (c) Organizations tend to compete at the augmented product level
 - (d) The core product is what consumers really seek when obtaining a product
 - (e) All of the above statements are true vis-à-vis definition of a product.
- 40 Heterogeneity of services among telecom service providers makes which method of pricing a major problem?
- (a) Demand based pricing approach
 - (b) Competition based pricing approach
 - (c) Perceived value based pricing approach
 - (d) Costing based pricing approach
 - (e) Discount based pricing approach
- 41 The consumer management areas of particular importance to service marketers are:
- (a) Managing customer participation
 - (b) Managing customer waits
 - (c) Managing uncooperative customers
 - (d) Customer relationship management (CRM)
 - (e) All of the above
- 42 Efforts to transform customers into partial employees should not be interpreted as the firm's way of distancing itself from the customer. This is consistent with which of the following guidelines for increasing customer participation:
- (a) Develop customer trust
 - (b) Promote the benefits and stimulate trial
 - (c) Understand customer habits
 - (d) Pretest new procedures
 - (e) Monitor and evaluate performance
- 43 Part of the problem when transforming from full-service to self-service is that businesses tend to forget why customers might prefer using full-service options in the first place. This is consistent with which of the following guidelines for increasing customer participation:
- (a) develop customer trust
 - (b) promote the benefits and stimulate trial
 - (c) understand customer habits
 - (d) pre-test new procedures
 - (e) monitor and evaluate performance

- 44 Part of the problem when transforming from full-service to self-service is that the new procedures themselves are flawed and/or difficult to understand. Of the guidelines presented below, which would minimize this type of problem from occurring? This is consistent with which of the following guidelines for increasing customer participation:
- (a) develop customer trust
 - (b) promote the benefits and stimulate trial
 - (c) understand customer habits
 - (d) pre-test new procedures
 - (e) monitor and evaluate performance
- 45 When service is produced via a cooperative effort between customers and service providers, this is referred to as:
- (a) Co-production
 - (b) Intangibility
 - (c) Heterogeneity
 - (d) Inseparability
 - (e) Perishability
- 46 Co-production of services is made possible due to the _____ inherent in the production of services.
- (a) Homogeneity
 - (b) Intangibility
 - (c) Heterogeneity
 - (d) Inseparability
 - (e) Perishability
- 47 Which of the following is not a typical benefit associated with self-service?
- (a) Convenience
 - (b) Cost savings
 - (c) Customization
 - (d) Standardization
 - (e) All of the above are benefits of self-service
- 48 Disney informs guests how long the wait will be along various points of the lines that form for each of its attractions. This strategy helps minimize the effects of which of the following "principles of waiting?"
- (a) pre-process waits feel longer than in process waits
 - (b) unoccupied time feels longer than occupied time
 - (c) unfair waits are longer than equitable waits
 - (d) the more valuable the service, the longer the customer will wait

- (e) uncertain waits are longer than known, finite waits
- 49 Compared with low-contact services, customers of high-contact services are more likely to judge service quality on the basis of:
- (a) Price of the service
 - (b) Processes used in carrying out the service
 - (c) Intangible outcomes eg. The performance of an investment portfolio
 - (d) Tangible outcomes
- 50 In the absence of a physical product, service providers need to consider the use of _____ that enable customers to make a judgment on the service quality.
- (a) Intangible clues
 - (b) Tangible clues
 - (c) Blueprint
 - (d) Performance measures
- 51 Which of the following is an example of a tangible component provided by a hotel?
- (a) Wake-up call
 - (b) Guest rooms
 - (c) Room service
 - (d) Express check-out
 - (e) Guaranteed reservations
- 52 Service design often differs from product design for which one of these considerations?
- (a) its life cycle
 - (b) customer interface
 - (c) cost and value
 - (d) legal environment
- 53 The ability of a product, part or service to perform its intended function under an appropriate set of conditions is its:
- (a) robustness.
 - (b) quality.
 - (c) appropriateness.
 - (d) reliability.
- 54 To build a world-class service brand there are three things you will need to define or create:
- (a) The brand's personality.

- (b) The relationship the brand has with the target segment.
 - (c) Visual icons, symbols or other representations of the brand such as the logo or a character.
 - (d) All the above.
- 55 Service marketers consider which of the following?
- (a) People, Products Process.
 - (b) People/Participants, Physical evidence, Process.
 - (c) Participants, Physical evidence, Products
 - (d) People/Participants, Physical evidence, Placement.
- 56 Three types of customer expectations can be identified:
- (a) Fuzzy expectations, Explicit expectations, Implicit expectations
 - (b) Internal expectations; Explicit expectations, Implicit expectations.
 - (c) Internal expectations, External expectations, Implicit expectations.
 - (d) None of the above
- 57 Perceived Service Quality concept includes which of the following?
- (a) Credibility, Security, Process
 - (b) Courtesy, Access, Choice
 - (c) Access, Service, Communication
 - (d) Reliability, Courtesy, Communication
- 58 Quality Gaps include:
- (a) The Management Perception Gap, The Market Communication Gap, The Quality Improvement Gap
 - (b) The Service Delivery Gap, The Market Communication Gap; The Information Gap
 - (c) The Management Perception Gap; The Quality Specification Gap; The Service Delivery Gap
 - (d) The Service Delivery Gap, The Management Perception Gap, The implementation Gap
- 59 The Perceived Service Quality means that the perceived or experienced service is not consistent with the expected service. This gap results in the following: Which one is NOT true?
- (a) An increase in corporate costs
 - (b) Bad word of mouth
 - (c) A negative impact on corporate or local image
 - (d) Negatively confirmed quality

- 60 The Zone of Tolerance concept assumes:
- (a) That customers can tolerate a variation in the real experiences and still consider them acceptable.
 - (b) That customers do not have expectations of a service attribute on a single level.
 - (c) That customers' expectations exist on two levels.
 - (d) All the above are true
- 61 The new product pricing strategy through which the companies set lower prices of services to gain large market share is classified as
- (a) optional product pricing
 - (b) skimming pricing
 - (c) penetration pricing
 - (d) captive product pricing
- 62 The pricing strategy in which prices are set lower to actual price to trigger short term sales is classified as
- (a) promotional pricing
 - (b) short term pricing
 - (c) quick pricing
 - (d) cyclical pricing
- 63 The pricing strategy in which company divides location into different sectors and charge same price for each sector is classified as
- (a) freight on board origin pricing
 - (b) zone pricing
 - (c) basing point pricing
 - (d) uniform delivered pricing
- 64 The kind of reduction made to those buyers who buy large volumes of products is classified as
- (a) cash discount
 - (b) seasonal discount
 - (c) functional discount
 - (d) quantity discount
- 65 The marketing services agencies includes
- (a) Marketing consulting firms
 - (b) Media firms
 - (c) Marketing research firms

- (d) All of above
- 66 Which of the following is not the element of traditional marketing mix
- (a) Production
 - (b) Place
 - (c) Price
 - (d) Promotion
- 67 Which of the following is an element of people component of an Airline company's service marketing mix
- (a) Pilot
 - (b) Baggage handler
 - (c) customer
 - (d) All the above
- 67 The maintenance and business advisory services are included in
- (a) business services
 - (b) business supplies
 - (c) industry capital items
 - (d) accessory equipment
68. The pure tangible good and pure services are two extremes of
- (a) market offering
 - (b) exchange of goods
 - (c) ownership
 - (d) logistic channels
69. The services or products that customers buy immediately after noticing are classified as
- (a) augmented product or services
 - (b) convenience products and services
 - (c) shopping goods or services
 - (d) sought products or services
70. The marketing services agencies
- (a) Marketing consulting firms
 - (b) Media firms
 - (c) Marketing research firms
 - (d) All of above d

Ans. (1)(a), (2)(c), (3)(b), (4)(b), (5)(b), (6)(d), (7)(d), (8)(a), (9)(b), (10)(a), (11)(a), (12)(c), (13)(c), (14)(c), (15)(a), (16)(b), (17)(b), (18)(c), (19)(a), (20)(c), (21)(a), (22)(d), (23)(d), (24)(b), (25)(b), (26)(b), (27)(a), (28)(b), (29)(a), (30)(b), (31)(b) (32)(b), (33)(c), (34)(b),(35)(d), (36)(b), (37)(b), (38)(c), (39)(e), (40)(b), (41)(d), (42)(a),(43)(c),(44)(c),(45)(a),(46)(d),(47)(d),(48)(e),(49)(b), (50) (b), 51(b) ,52(b),53(d), 54(d), 55(b) ,56(a), 57(d), 58(c), 59(a), 60 (d), 61(c), 62 (a), 63 (b), 64 (d), 65 (d), 66(a), 67(a), 68(a), 68(b), 70(d)

II Short Answer Type Questions:

- 1 Define a Service Blueprint
- 2 What do you understand by Quality Function Deployment?
- 3 Write a short note on high performance service innovations.
- 4 Draw out the components of physical evidence.
- 5 What are the different types of services capes?
- 6 Enlist the guidelines for creating an effective physical evidence strategy
- 7 Write a short note on emotional labor
- 8 How can a firm conduct an internal customer audit?
- 9 Write a brief note on integrated services marketing communications.
- 10 How is pricing of services different than that of goods?
- 11 Explain the elements of services marketing mix. Illustrate your answer with suitable examples
- 12 Explain the services production continuum giving a suitable example.
- 13 Write short note on service blueprinting.
- 14 Briefly explain the services triangle giving suitable examples.
- 15 Why are service employees critical to the success of any service organization?
- 16 Discuss customer's role as productive resource and contributor of the firm.
- 17 What is the risk of attempting to describe services in words alone?
- 18 Why is it challenging to design and develop services?
- 19 Explain the house of service quality?
- 20 Explain how the price of a service is related to its quality?
- 21 Why is it challenging to develop and design a service?
- 22 What are the risks of defining the services in the world alone?
- 23 Explain the house of service quality?
- 24 Think of a new service you want to develop being an entrepreneur?
- 25 Why is everyone not affected in exactly the same way by the servicescape?
- 26 Discuss the basic concepts behind satisfaction based, relationship, and efficiency pricing.
- 27 Define price bundling and provide three reasons why it makes sense for service firms to engage in price bundling practices.
- 28 Why is developing an effective process strategy particularly important for service firms?

- 29 Discuss the process associated with managing an effective communication strategy.
 - 30 Why is the development of an effective positioning strategy particularly important for service firms?
 - 31 Briefly discuss Service Blueprinting and its importance
 - 32 Is pricing of services different than pricing of products? Discuss
 - 36 Write a note on role of Segmentation in Airlines industry
-

III Long Answer Type Questions:

- 1 What are the various types of new services that an organization may develop? What risks does the organization face while describing a new service to be developed?
- 2 Elaborate the new service development process.
- 3 Elaborate the components of a service blueprint. Describe the service blueprint for a hotel service.
- 4 Explain how service blueprints are created.
- 5 How does Physical Evidence affect customers' expectations? Explain in the context of the Hospitality and Tourism Industry.
- 6 Describe the strategic role of servicescape and develop a framework for understanding servicescape effects on customer behavior.
- 7 Why are service employees important? How do they effect service quality?
- 8 Elaborate the various human resource strategies for delivering service quality through employees of an organization.
- 9 Explain the importance of customers in service delivery with reference to their level of involvement in the services. What different roles do customers perform in service delivery?
- 10 Devise the strategies for enhancing customer participation in service delivery with reference to the fast-food, healthcare and beauty & salon services.
- 11 In what different ways can services be delivered to customers?
- 12 What are the common issues involved in hiring intermediaries for service delivery? How can these be handled effectively?
- 13 What are the various approaches for managing service promises?
- 14 What are the various approaches to pricing services?
- 15 Describe the four customer definitions of value. What different pricing strategies are available for these value definitions?
- 16 What factors does a service marketer take into consideration while planning a service process? How can a service marketer alter his service positioning by altering his present service process structure?
- 17 What are the various factors influencing service process efficiency?

- 18 In India, the average attrition rate in the BPO sector is approximately 30-35 percent. Maintaining low attrition levels in this industry has become a major challenge to employers as the demand exceeds the supply of qualified professionals. Many BPO majors are now concentrating on designing various internal marketing programs to motivate their employees. How will an emphasis on motivation, an essential component of internal marketing programs, reduce attrition rates and influence the quality of services delivered by the company?
- 19 It is highly essential for any company to develop a two-way communication with their customers. Organizations should not be under the mistaken impression that advertisements in different media, direct marketing letters, exhibition stalls, and brochures are a means of interacting with customers. The interaction process starts only after the customer responds to this communication. In what way can an understanding of this aspect enable cellular operators to improve communications and relationships with customers?
- 20 Wipro gives significant importance to employee empowerment as part of its internal marketing program. It has developed an intranet channel called 'Channel W', which features on the desktop of every employee. The channel features various business related programs as well as personal entertainment programs with the objective of binding employees together. Besides, the channel helps generate and sustain interest among employees by enabling the company to share its success and views through this two-way communication channel. What do you understand by employee empowerment and how does it add to better customer service?
- 21 Avishkar Advertising is a small ad agency that had established itself by providing advertising services to companies in the healthcare industry. However, things changed with the entry of advertising agencies like Euro-RSCG, MAA-Bozell, FCB-Ulka and TBWA that began working with Pharmaceutical companies like Knoll, Torrent, and Novartis on the strength of their international alliances. Bigger agencies like O&M, Lowe and McCann also set up separate divisions for healthcare communications. What kind of pricing objective and pricing strategy should Avishkar adopt to tide over this situation?
- 22 The world's largest independent IT training company, the US-based New Horizons, has entered India at a time when the domestic computer education market is struggling in the wake of the global technology meltdown. What factors should New Horizons consider when making channel decisions? Other than franchising, which delivery channel can the company opt for if it wants to reach a large number of customers at their convenience and yet keep down costs?
- 23 In the IT services sector, a constant upgrade in the skills of mid-level managers is essential to retain the competitive edge and keep the customer happy. In what way will a continuous employee training program help an IT services organization like Ramco Systems to provide value-added services to its clients as well as to motivate and retain employees?
- 24 Marketing analysts point out that the 4P's of marketing mix (product, price, place, promotion) that are used for marketing of products may not be enough for service

- providers to consider in developing effective marketing strategies. They say three additional elements people, physical evidence and process along with the 4 P's, can help address the needs of services marketing completely. Explain in detail about these three elements that are unique to services marketing?
- 25 “People, one of the services marketing mix elements not just refers to front-line employees, but also the customers.” Explain this statement by taking any service as an example.
- 26 Pantaloon Retail India Ltd, a leading retailer in India with brands Pantaloons, Big Bazaar, Food Bazaar, and Gold Bazaar, has recently entered into mall management services by opening a chain of malls in various cities under the brand ‘Central’. It leases its mall to various consumer product manufacturers and service providers. In November 2004, it opened ‘Hyderabad Central’ with an investment of Rs 70 crore. While deciding the leasing rate for the stores in the mall, what pricing objective will Pantaloon seek to implement?
- 27 IndiaTV is a new Hindi news channel launched in the cluttered Indian television channel market with well-entrenched names like NDTV, ZeeNews, Aajtak, and StarNews. Mr.Rajat Sharma the head of IndiaTV wants to establish the channel as a “mouthpiece of the common man.” As the channel is free-to-air, its only source of revenue is advertising. Therefore, while pricing the advertising space in the channel what are various factors that the channel management must keep in mind?
- 28 SGS Bank is a fifty-year-old private sector bank with 5 lakh loyal customers. However, in the recent past it has witnessed an exodus of its customers to new generation private banks that offer technology driven services. To arrest the depletion of the customer base, SGS has decided to upgrade its technology and redesign its service offerings. The company wants to develop a service blueprint, which will guide it in redesigning its services. What steps should a bank take to develop a service blueprint?
- 29 ‘Coffee House’ a coffee bean exporter sensing the high market potential of coffee bars, is planning to launch a coffee bar chain in India called “Timepass”. It wants to position its coffee bar chain as an up market leisure hangout for customers. As it lacks knowledge and experience in the coffee retailing industry, the company is undecided about the design aspects of the coffee bars. What decisions relating to the elements of physical evidence are to be taken by ‘Coffee House’?
- 30 Many service providers have adopted the Internet as a channel to distribute their services. For example Air Deccan and Indian Railways offer online booking services to their customers. Even banks, which use traditional distribution channels, are offering online banking services. What are the advantages and disadvantages of using electronic channels?
- 31 Why it is important to understand the consumer buying behaviour? Explain the difference between “Search, Experience and credence” qualities. Discuss their implications for services marketers. Give suitable examples.
- 32 What is the difference between desired service and adequate service? Why would a services marketer need to understand both types of service expectations?
- 33 Discuss the strategic role of physical evidence of a service firm. Give examples

- 34 Discuss the customer's role as a potential competitor. Describe a time when you chose to provide a service for yourself rather than pay someone to provide service for you. Why did you decide to provide service yourself?
- 35 Compare and contrast the blueprint of airlines and hotel industry?
- 36 Explain service communication mix and its various elements?
- 37 How might a service blueprint be used for marketing, human resource, and operation decisions? Support your answers with the help of examples.
- 38 Which form of internal marketing communication so important in services firm? Is it important in product firms?
- 39 Consider the specific pricing strategies for each of the four customer value definitions? Which of these strategies can be adopted and used with other value definitions?
- 40 How can an effective physical evidence strategy help close providers gap 2?
- 41 Assume that you are a multiproduct service company that wants to grow through adding new services. Describe a logical process you might use to introduce new service in the market?
- 42 Compare and contrast the blueprint of a restaurant and a saloon?
- 43 Develop a service blueprint for a technology delivered service?
- 44 How might a service blueprint be used for marketing, human resource, and operations management?
- 45 In case of airlines, what type of possible customer complaints can be there? What methods of service recovery can be adopted to handle the lost customers in case of airlines? What types of justices can be provided to customers in case of their complaints. Illustrate with example.
- 46 What is the concept of Moments of Truth in case of services? How can it be implemented in case of healthcare and wellness services? Suggest a suitable communication mix in case of these services.
- 47 Define flat-rate pricing and provide an explanation for why a service firm may want to pursue a flat-rate pricing strategy.
- 48 Compare Thompson's perfect-world model to the focused factory and plant-within-a-plant concepts.
- 49 What is buffering? How do the strategies of anticipating, smoothing, and rationing relate to buffering?
- 50 Discuss some specific examples of how the customer's involvement in the service encounter influences the operational efficiency of the average service firm.
- 51 Discuss the relevance of low-contact versus high contact service firms with respect to location, layout, product design, and process design decisions.
- 52 What is the difference between desired service and adequate service? Why would a service marketer need to understand both types of service expectations?
- 53 Briefly explain service triangle giving suitable examples. Why are service employees critical to success of any service organization?

- 54 What is the significance of development of new services in a service organization??
Elaborate the new service development process with the help of suitable examples
- 55 “The service scape in which the service is delivered and consumed may influence customer as well as employee responses.” Elaborate.

UNIT – IV

I Test Your Skills:

(a) Multiple Choice Questions:

- 1 Service Guarantees are not appropriate when
- (a) It is easy to invoke
 - (b) Buyer resistance is high
 - (c) It involves restitution
 - (d) Price of the service is low
 - (e) It is not easy to invoke
- 2 Low cost airlines have changed the face of airline travel in India. In this scenario, which of the followings strategies cannot be considered as a good marketing strategy for an airline like Air Sahara?
- (a) Remove non-value added cost
 - (b) Provide better service quality
 - (c) Stop special offers and discount schemes
 - (d) Develop trade alliances with travel agents
- 3 Yield Management assumes importance in the context of
- (a) Waiting line strategies
 - (b) Supply and demand management
 - (c) Retention strategies
 - (d) Repositioning
 - (e) New acquisition strategies
- 4 In the event of a mistake in service delivery, the organization’s priority should
- (a) Justify its actions
 - (b) Protect its employees
 - (c) Revise the procedures
 - (d) Service recovery
 - (e) Apologize to its customers

- 5 Benchmarking is a process of comparison between the performance characteristics of separate, often competing organization, intended to enable each participant to improve its own performance in the marketplace. The process of benchmarking involves five steps. Which one of the following is the fourth step in the process of benchmarking?
- (a) The organization has to identify the critical business processes or areas that need to be benchmarked for improvement
 - (b) The organization has to determine the methods to be used for data collection from the company used for benchmarking
 - (c) The management should introduce the necessary changes in the organization to remove the performance gap and improve the service quality
 - (d) The organization has to choose companies, that have excelled in those areas processes for benchmarking
 - (e) The management should analyze the differences between the processes in the two companies to identify its area for improvement
- 6 Which level of investment in customer relationship building typified by the company like dell.com working continuously with their customers to discover ways to perform better?
- (a) Reactive Marketing
 - (b) Accountable Marketing
 - (c) Proactive Marketing
 - (d) Partnership Marketing
 - (e) Alliance Marketing
- 7 The tourism industry is dependent on various factors like the location of the country, its culture and tradition, the social and political status etc. This dependency has resulted in some unique characteristics or features of the industry. Which of the following are the characteristics of tourism industry?
- I. Stable location.
 - II. Intangibility.
 - III. Huge financial investments.
 - IV. Stable demand.
- (a) Both (I) and (III) above
 - (b) Both (II) and (IV) above
 - (c) (I), (II) and (III) above
 - (d) (I), (III) and (IV) above
 - (e) All (I), (II), (III) and (IV) above

- 8 A service organization can deliver quality service to its customers if it follows a systematic method in identifying the customers' needs. Christopher Lovelock suggested that the various supplementary services offered across various industries can be grouped into eight categories. Which of the following is not one of these categories?
- (a) Order-giving
 - (b) Hospitality
 - (c) Consultation
 - (d) Safekeeping
 - (e) Billing
- 9 Airlines can try to influence demand for their products and control the perishability characteristic of service by:
- (a) Creating a slogan that focuses on service reliability
 - (b) Doing away with the poor image of airplane food
 - (c) Offering roomier seats
 - (d) Cultivating non-peak demand
 - (e) Standardizing the service process and providing more training to flight personnel
- 10 A customer comes to a restaurant and demands a table facing the street which is already occupied for the evening. The Floor Manager's ability to deal with the customer is an example of the restaurant's ability in:
- (a) Recovery
 - (b) Adaptability
 - (c) Level of trust
 - (d) Coping
 - (e) Strategy
- 11 The relationship between a company and its customers needs to be mutually rewarding and fulfilling. Which of the following is not the four R's of rewarding relationships?
- (a) Realization
 - (b) Reimbursement
 - (c) Relevance and respect
 - (d) Response
 - (e) Relationship
- 12 To produce a better match between the number of people who want to eat at a restaurant on weekends and the availability of food and personnel to provide service to those people, a restaurant can:
- (a) Use a price equilibrium strategy
 - (b) Eliminate the reservation system

- (c) Eliminate complementary services
 - (d) Hire part-time employees
 - (e) Do all of the above
- 13 Service organizations often tend to ignore the feeling of customers when they are kept waiting. —The psychology of waiting lines“ is an article written by David Maister with various principles to provide more insights into ‘waiting‘ for both customers as well as service providers. Which of the following is not true about the principles of waiting?
- (a) Pre-process waits seem longer than in-process waits
 - (b) Anxiety makes the waiting period seem longer
 - (c) Unexplained waits are shorter than explained waits
 - (d) Physical discomfort makes waiting feel longer
 - (e) Unfair waits are longer than equitable waits
- 14 Eating out in a restaurant with white linen napkins, candlelight, and a wine list is an example of which of the following categories?
- (a) A pure tangible good
 - (b) A tangible good with accompanying services
 - (c) A hybrid
 - (d) A major service with accompanying minor goods and services
 - (e) A pure service
- 15 All of the following statements about customer waiting time are true except:
- (a) Unoccupied waiting time appears to be longer than occupied waiting time.
 - (b) Waiting before the service seems longer than waiting during the service encounter.
 - (c) Customer anxiety makes waiting seem longer.
 - (d) Waits that are explained seem shorter than waits that are not explained.
 - (e) The more expensive and the more important a service is to the customer, the less they are willing to wait for service.
- 16 If the marketing department for a tutoring service hires a class of graduate students to conduct and tabulate research on consumer rankings of its educational offerings, the tutoring service is increasing its productivity through:
- (a) Adopting a manufacturing approach
 - (b) Requiring service providers to work more quickly
 - (c) Increasing the quality of service provided by surrendering some quantity
 - (d) Doing away with obsolete methodology
 - (e) Finding a more effective way to perform a necessary task

- 17 Which of the following statements can be associated with the phenomenon of Marketing Myopia?
- (a) The firm produces large quantities of products to decrease the cost per unit, ignoring market requirements
 - (b) The firm believes that there are no major competitors
 - (c) The firm increases the product price, in the belief that general public is growing richer by the day
 - (d) All of the above
- 18 Companies are now offering services like selling and delivering products over the internet. What is this kind of business service known as?
- (a) Outsourcing
 - (b) E-commerce
 - (c) Reengineering
 - (d) BPOing
- 19 What is benchmarking?
- (a) A PA system
 - (b) A measure of productivity
 - (c) A standard against which performance is measured
 - (d) A process where a firm sets a target for itself
- 20 The mutual fund market can be segmented based on the investment objective of the investors. Since customer needs are different, the market can be segmented into the various funds based on the differences. Which of the following funds provides capital appreciation over the medium to long term?
- (a) Income funds
 - (b) Growth funds
 - (c) Tax saving schemes
 - (d) Money market funds
 - (e) Balanced funds.
- 21 The world's largest industry in the private sector and highest projected generator of jobs is:
- (a) Business services
 - (b) The hospitality industry
 - (c) Health services
 - (d) Professional services
 - (e) Retail

- 22 The service sector that is the fastest growing sector in terms of employment is:
- (a) Wholesale and retail trade
 - (b) Transportation and warehousing
 - (c) Financial activities
 - (d) Professional and business services
 - (e) Education and health services
- 23 The leisure and hospitality industry comprises a variety of services. Which of the following is not one of them?
- (a) Food service
 - (b) Lodging
 - (c) Travel and tourism
 - (d) Meeting and convention planning
 - (e) All the above are part of the hospitality industry
- 24 The professional and business sector includes all of the following except:
- (a) Computer services
 - (b) Legal advice
 - (c) Hospitals
 - (d) Accounting
 - (e) Architectural
- 25 Which one of the following can be considered a high-contact service?
- (a) Postal service
 - (b) Health care
 - (c) Banking
 - (d) Dry cleaning
- 26 ICICI-Pru Life Insurance has introduced a new Insurance product for children with a very lower expense ratio. The pricing strategy followed would be:
- (a) Market skimming
 - (b) Price discrimination
 - (c) Penetration pricing
 - (d) Return on investment
 - (e) Cost plus margin
- 27 The main enabling factor for the global reach of services is:
- (a) Airline connectivity
 - (b) Customer demands

- (c) Government rules
 - (d) Technology
 - (e) Intangibility
- 28 Some three star hotels like Taj Tri-Star at Hyderabad offer a free dinner to kids accompanying adults, during a promotional campaign. This is an example of
- (a) Sampling
 - (b) Quantity promotion
 - (c) Premiums
 - (d) Coupons
 - (e) Refunds and future discounts
- 29 80/20 rule is:
- (a) Percentage of marks obtained by the service providers
 - (b) 20% of customers produce 80% of sales
 - (c) A simple mathematical equation whose answer is 4
 - (d) A salesman incentive scheme
 - (e) Measurability of executive's performance
- 30 Low cost airlines have changed the face of airline travel in India. In this scenario, which of the following strategies cannot be considered as a good marketing strategy for an airline like Air Sahara?
- (a) Remove non-value added cost
 - (b) Provide better service quality
 - (c) Stop special offers and discount schemes
 - (d) Develop trade alliances with travel agents
- 31 Which one of the following belongs to Trade services?
- (a) Consulting, finance and banking.
 - (b) Retailing, maintenance and repair.
 - (c) Communications and transportation.
 - (d) Restaurants and health care
- 32 Which one of the following belongs to social/personal services?
- (a) Consulting, finance and banking.
 - (b) Retailing, maintenance and repair.
 - (c) Communications and transportation.
 - (d) Restaurants and health care

- 33 Which one of the following belongs to Infrastructure services?
- (a) Consulting, finance and banking.
 - (b) Retailing, maintenance and repair.
 - (c) Communications and transportation.
 - (d) Restaurants and health care
- 34 Which one of the following belongs to public administration services?
- (a) Education and Government.
 - (b) Retailing, maintenance and repair.
 - (c) Communications and transportation.
 - (d) Restaurants and health care.
- 35 _____ firms may serve the business market, the private individual or may serve bothmarket segments.
- (a) Consumer oriented service.
 - (b) Professional services.
 - (c) Personal services.
 - (d) Trade services.
- 36 Quality circle was born in the year_____.
- (a) 1973
 - (b) 1965
 - (c) 1971
 - (d) 1963
- 37 Identify the one which comes under service marketing _____.
- (a) insurance
 - (b) motor cars
 - (c) refrigerators
 - (d) television
- 38 Service sector that provided outsourced services such as advertising, credit reporting andcollection and building maintenance to businesses is known as _____.
- (a) business services.
 - (b) hospitality services.
 - (c) health care services.
 - (d) professional services.

- 39 Services such as hospitals, physicians, group practices and home health care that provide physical care to consumers is known as _____.
- (a) business services.
 - (b) hospitality services.
 - (c) health care services.
 - (d) professional services.
- 40 Services such as accounting, engineering, research and management consulting provided by firms traditionally classified as _____.
- (a) business services.
 - (b) hospitality services.
 - (c) health care services.
 - (d) professional services.
- 41 Maintenance and business advisory services are included in
- (a) business services
 - (b) business supplies
 - (c) industry capital items
 - (d) accessory equipment
- 42 Pure tangible good and pure services are two extremes of
- (a) market offering
 - (b) exchange of goods
 - (c) ownership
 - (d) logistic channels
- 43 Marketing services agencies includes
- (a) Marketing consulting firms
 - (b) Media firms
 - (c) Marketing research firms
 - (d) All of above
- 44 Factors that can help in differentiation of services includes
- (a) delivery and installation
 - (b) customer training and consultation
 - (c) ordering ease
 - (d) all of above

- 45 Degree to which manufactured units are identical and meet specification given by customers is classified as
- (a) reliability
 - (b) durability
 - (c) performance quality
 - (d) conformance quality
- 46 The service sector that is the fastest growing sector in terms of employment is:
- (a) Wholesale and retail trade
 - (b) Transportation and warehousing
 - (c) Financial activities
 - (d) Professional and business services
 - (e) Education and health services
- 47 Which sector should have the most concern for environmental issues?
- (a) Transport services
 - (b) Professional and Business Services
 - (c) Wholesale and Retail Trade
 - (d) Education and Health Services
 - (e) Other Services
- 48 Traditional service classification schemes include all of the following except:
- (a) the degree of tangibility
 - (b) skill level of the provider
 - (c) appearance of the provider
 - (d) the degree of customer contact
 - (e) the goal of the service providers
- 49 An e-service is a (an) _____ available via the net.
- (a) service
 - (b) business process
 - (c) application
 - (d) information technology resource
 - (e) all of the above
- 50 The growth in the number of time-pressured consumers has led to an increase in time-savings services such as:
- (a) Restaurants
 - (b) Housekeeping
 - (c) Hairstyling shops

- (d) Tax preparation
 - (e) All of the above
- 51 If you are staying in a five star hotel, you are an
- (a) Extra high budgeted tourist
 - (b) Guest of the hotel
 - (c) Middle budgeted tourist
 - (d) Guest of the company that has invited you
52. A Dharamshala is suitable for
- (a) Those business man who can stay in graded hotels
 - (b) Low income families
 - (c) Only rich merchants
 - (d) All the above
- 53 What is the main feature of a time share establishment
- (a) It is a private property
 - (b) Its rooms / resources are shared by guests / tourists according to specified time schedules.
 - (c) It is a facility of one star grade
 - (d) None of these
- 54 Community-driven tourism planning to ensure that tourism develops in harmony with community wishes is an example of a solution to what problem in terms of destinations?
- (a) Conflict within tourist resorts
 - (b) Conflict in shared destinations
 - (c) A Lack of complementarity
 - (d) A Cultural Appraisal
- 55 In terms of a destination, what do attractions do?
- (a) Support visitors at the destination
 - (b) Reduce tension between visitors and residents
 - (c) Generate the visit to a destination
 - (d) Inform local residents of the benefits of tourism
- 56 The increased professionalism in the management of attractions has resulted in, what?
- (a) The adoption of marketing philosophy
 - (b) Better training for personnel
 - (c) Closer match between the market and the supply of attractions
 - (d) All of the Above

- 57 Amenities, support facilities and services, tend to be operated by what type of enterprises?
- (a) Medium and Large-Sized enterprises
 - (b) Small and Large-sized enterprises
 - (c) Small and Medium-sized enterprises
 - (d) Large-sized enterprises
- 58 Park and Ride Schemes, Cycle Ways and Explorer Buses are examples of what?
- (a) Attractions
 - (b) Amenities
 - (c) Innovative Ancillary services
 - (d) Innovative transport provision
- 59 What does DMO stand for?
- (a) Demand Marketing Organization
 - (b) Demand Management Organization
 - (c) Destination Marketing Organization
 - (d) Destination Management Organization
- 60 Investment, Capacity Constraints and Tourist Impacts are examples of what?
- (a) Supply Side Factors
 - (b) Demand Side Factors
 - (c) Destination Factors
 - (d) Marketing Factors
- 61 The channel alternative need to be assessed on basis of
- (a) Economic criteria
 - (b) Control criteria
 - (c) Adaptive criteria
 - (d) All of the above
- 62 The purpose of any service business is to:
- (a) maximize short-term profit
 - (b) attract new customers
 - (c) boost short-term sales
 - (d) create and maintain profitable customers
- 63 The two main industries that comprise the activities we call tourism are:
- (a) computer and Internet industries

- (b) hospitality and travel industries
 - (c) fashion and accessories industries
 - (d) furniture and home improvement industries
- 64 Industries that do not compromise the activities that are called tourism is.
- (a) the restaurant and travel industries
 - (b) the hospitality and travel industries
 - (c) the mining and groceries
 - (d) the hospitality and destination industries
- 65 What does FMCG stand for?
- (a) 'free moving consumer goods'
 - (b) 'fast moving consultation groups'
 - (c) 'fast moving consumer groups'
 - (d) 'fast moving consumer goods'
- 66 Service is somewhat like a rental. The statement is
- (a) incorrect
 - (b) correct
 - (c) somewhat correct
 - (d) none of the above
67. Services Marketing is an attractive field of study for India because:
- (a) Services contribute to more than half of India's GDP
 - (b) Services are delivered by more than half of India's population
 - (c) Services are more important than agriculture and manufacturing
 - (d) All of the above
68. You watch the scenery while travelling in a bus from one city to another. This is an example of
- (a) superior service quality
 - (b) by-service
 - (c) waste service
 - (d) augmented service
- 69 The target group for Education loans is _____
- (a) All colleges
 - (b) All parents
 - (c) Meritorious students seeking higher Education
 - (d) All of these

- 70 Customization' means _____
- (a) Tailor-made products and services for each customer
 - (b) Customers selling goods
 - (c) Tailor-made products for each staff
 - (d) A selling process

Ans: (1)(b), (2)(c), (3)(b), (4)(d), (5)(e), (6)(d), (7)(a), (8)(a), (9)(d), (10)(d), (11)(b), (12)(d), (13)(c), (14)(c), (15)(e), (16)(e), (17)(d), (18)(b), (19)(d), (20)(b), (21)(c), (22)(e), (23)(e), (24)(c), (25)(c), (26)(c), (27)(d), (28)(d), (29)(b), (30)(c), (31)(b), (32)(d), (33)(c), (34)(c), (35)(a), (36)(d), (37)(a), (38)(a), (39)(c), (40)(d), (41)(a), (42)(a), (43)(a), (44)(d), (45)(d), (46)(e), (47)(a), (48)(e), (49)(e), (50)(e), 51(a), 52(b), 53(b), 54(b), 55(c), 56(d), 57(c), 58(d), 59(d), 60(a), 61(d), 62(d), 63(b), 64(c), 65(c), 66(b), 67(a), 68(b), 69(c), 70(a)

II Short Answer Type Questions:

- 1 Highlight the major characteristics of the Hotel Industry.
- 2 What have been the recent trends in the hotel industry?
- 3 Highlight the major characteristics of the Banking Industry.
- 4 Highlight the major characteristics of the Insurance Industry.
- 5 Highlight the major characteristics of the Tourism Industry.
- 6 Highlight the major characteristics of the Healthcare Industry.
- 7 Define a bank. What factors influence the location decision for a bank?
- 8 How is market segmentation different for banking and insurance industries?
- 9 Define Insurance. What are various types of insurance?
- 10 What have been the recent trends in insurance marketing?
- 11 Write a note on technology in Services
- 12 What do you understand by delivering services through the web?
- 13 Explain the customer's role in SERVICES?
- 14 What are Hospitality Services?
- 15 Explain in brief the role of technology in services.
- 16 Explain the process of delivering services through the web.
- 17 Explain the role of customers in services.
- 18 How can service marketing being done in health care?
- 19 Explain the role of services marketing in health sector?
- 20 Give the note on service failure in hospitality sector?
- 21 Services marketing can be a major contributor in tourism industry? How?
- 22 How the effectiveness of the services can be evaluated in case of Hospitality Services?

- 23 How the effectiveness of the services can be evaluated in case of Banking Industry?
- 24 How the effectiveness of the services can be evaluated in case of Health care Services?
- 25 How the effectiveness of the services can be evaluated in case of Tourism services?
- 26 Write notes on the extended marketing mix of financial services.
- 27 Who is typically more brand loyal—a consumer of goods or a consumer of services? Please explain.
- 28 Discuss the reasons why personal sources of information tend to be more important for consumers of services.
- 29 Discuss the managerial implications of the client-company interface during the consumption stage.
- 30 What is a script and how does it relate to the manner in which customer satisfaction evaluations are formed?
- 31 Explain the relevance of the perceived-control model as it relates to the post consumption stage.
- 32 Write a note on Service marketing in Health sector
- 33 Discuss the elements of tourism industry in the Indian context
- 34 What is the role of Government agencies on the current status of Indian Airlines Industry? Discuss
- 35 Discuss the role of advertising and branding in financial services

III Long Answer Type Questions:

- 1 How does environment impact the Indian hospitality industry?
- 2 On what basis is market segmentation done for the hotel industry?
- 3 Elaborate the hotel industry marketing mix.
- 4 What approaches to market segmentation are followed while segmenting markets of the tourism industry?
- 5 Write a detailed note on the tourism industry of India. What recent trends has the industry witnessed? How has recession impacted the tourism industry?
- 6 Elaborate the Banking sector marketing mix. What recent trends have affected the product and promotion mix of the banking industry?
- 7 Develop the services marketing mix for an insurance company.
- 8 Discuss the recent trends in the Indian Healthcare Industry and also develop its service marketing mix.
- 9 Write a detailed note on the Indian Banking sector. How demographic factors, personalized loans and credit quality programs drive the market? What are the various opportunities and challenges of this industry?
- 10 ABN-Amro Bank has surprised the banking industry by announcing the lowest interest rate of 6.5% for its housing loans, which is 1% less than what other banks are offering.

- What kind of pricing strategy has ABN-Amro Bank adopted in this case? Describe the pricing strategy.
- 11 Insurance companies sell their services mainly through agents and brokers, instead of selling them through their own personnel. What are the major reasons for their adopting such a distribution strategy?
 - 12 Many banks are now targeting high net-worth individuals (HNI's) for expanding their business. In view of the competitive banking environment, what should a bank do to establish long-term relationships with customers in the target segment?
 - 13 Analysts are of the view that after telecom and banking, it is the insurance sector that is focusing on relationship marketing since insurance companies are putting in extensive efforts to retain existing customers and attract new customers. Comment on the efficacy of relationship marketing for insurance companies in India. What benefits can these companies accrue?
 - 14 ICICI Ltd has launched e-portals as part of its relationship marketing strategy, targeted to fulfill the local needs of people in major cities. For instance, Cafemumbai.com is a portal that ICICI has set up to cater to the local needs of the people of Mumbai. The portal has a search facility and also provides information on weather, train and bus routes, travel schedules, and other essential services ranging from the legal to the environmental. What steps would ICICI have followed in order to come up with this relationship marketing strategy?
 - 15 The Indian subcontinent has great potential for tourism. The government has recently decided to attract foreign tourists by highlighting the natural and cultural beauty of India. To promote tourism, it is leasing out some railway routes to private tour operators. The idea is to promote more projects like "Palace on Wheels". An interested private company has won a contract to operate a rail route for a period of 10 years. Evaluate the service product that the company would like to pursue in the project.
 - 16 The Marriott Group is planning to open a new hotel in Bangalore. It has already established itself in the market as a premium class hotel chain. How should Marriott plan the marketing mix for the new location?
 - 17 Corporate Healthcare is seen as one of the fastest growing segments in the Indian economy with foreigners accounting for about 12 per cent of all patients in top hospitals like Lilavati, Jaslok, Breach Candy, Apollo, and Wockhardt. This is because medical care costs only one-fifth as much as it costs in the West. In what way can the physical environment help corporate hospitals in India to woo foreign patients, considering the fact that hospital ambience is a prerequisite to attract them?
 - 18 By 2020, India is expected to be the leading tourist destination in South Asia with more than eight million tourist arrivals. Foreign hotel chains like Marriott, Intercontinental, Four Seasons, and Shangri-La have already started refurbishing their hotels and services in the light of these forecasts. How can existing Indian luxury hotels such as Indian Hotels, ITC,

- and Hotel Leela Ventures use supplementary services to differentiate themselves and face competition from foreign chains?
- 19 What is customer satisfaction and why is it so important? Discuss the factors that influence the customer satisfaction.
 - 20 Critically analyze the marketing efforts made by (a) A company in healthcare sector, (b) A company in banking sector. How well have they succeeded in differentiating its services from that of their competitors? Explain analytically?
 - 21 Using a service company of your choice, analyze how price discriminations are practiced between different groups of customers?
 - 22 Give marketing implications in all the sectors: Hospitality, Health care, Airlines and Banking and insurance?
 - 23 Develop a blueprint for Hotel Industry? Also explain the point of contact with specific examples?
 - 24 Develop services triangle for an airlines company describing all three sides in detail.
 - 25 How service industry can help in the overall development of the economy. Explain considering different service sectors and their importance for development?
 - 26 Critically examine the health sector and explain how it can be improved with the help of better services and delivery.
 - 27 How the services and its quality decide the \success and failure of any service sector company? Illustrate with the help of live examples and their implications?
 - 28 How online services are different from traditional services?
 - 29 How a service provider cans differentiate its services effectiveness according to the sector?
 - 30 Construct a service blueprint for hospitality sector (any firm)?
 - 31 Hotel industry has gained strong momentum in the recent years. How services have helped it to flourish and grow?
 - 32 Services are difficult to be sold as compared to goods in the banking and insurance industry? Comment with examples?
 - 33 For tourism services what blueprinting can be done? What methods can be adapted to position tourism services? How these services can be distributed to get maximum benefits.
 - 34 Explain the process of Decision making in case of Services. Give any model which can help in understanding consumer Decision making in case of insurance services.
 - 35 What strategies have the insurance industry utilized in its attempt to minimize the effects of intangibility? Of the companies that have actively attempted to minimize the effects, have some companies done a better job than others? Please explain.
 - 36 Discuss the pros and cons of having the customer involved in the production process.
 - 37 Discuss the reasons why the centralized mass production of services is challenging.
 - 38 What is meant by the term “other customers” and why is their influence so much greater for services compared to goods?

- 39 Suggest a company that has a good employer brand. What does the brand stand for, and how has the brand been created?
- 40 Marketing experts suggest that the 4P's of traditional marketing mix may not be enough for service providers to consider in developing effective marketing strategies. What are the additional elements that can help address the needs of services marketing completely. Explain
- 41 Insurance companies generally sell their services through agents and brokers, instead of their own sales personnel. What do you think may be the reasons for their adopting such a distribution strategy? Explain.
- 42 Elaborate the service marketing mix with reference to organization in the Banking sector. What recent trends have affected the product and promotion mix of the banking industry
- 43 Discuss the benefits and problems of service distribution through franchising from the franchiser's view point.
- 44 Why is it not possible to adopt a 'defect free ' or Zero defect quality approach in services. Discuss with the help of suitable examples
- 45 You have been asked to make a need gap analysis for an airline regarding CRM system. What goals and tasks audit would you do to make the analysis

QUESTION BANK

INTERNATIONAL FINANCIAL MANAGEMENT

MS 221

QUESTION BANK
INTERNATIONAL FINANCIAL MANAGEMENT - MS 221
MBA III

UNIT – I

I Test Your Skills:

(a) Multiple Choice Questions:

1. Recently, the UK experienced an annual balance of trade representing a _____.
 - (a) large surplus (exceeding £100 billion)
 - (b) level of zero
 - (c) small surplus
 - (d) deficit

2. An increase in the current account deficit will place _____ pressure on the home currency value, other things equal.
 - (a) upward
 - (b) downward
 - (c) no
 - (d) upward or downward (depending on the size of the deficit)

3. Which of the following would likely have the least direct influence on a country's current account?
 - (a) inflation.
 - (b) national income.
 - (c) exchange rates.
 - (d) tariffs.
 - (e) a tax on income earned from foreign stocks.

4. The North American Free Trade Agreement (NAFTA) increased restrictions on:
 - (a) trade between Canada and Mexico.
 - (b) trade between Canada and the U.S.
 - (c) direct foreign investment in Mexico by U.S. firms.
 - (d) none of the above.

5. The primary component of the current account is the:
 - (a) balance of trade.
 - (b) balance of capital market flows.
 - (c) balance of money market flows.
 - (d) unilateral transfers.

6. A General Agreement on Tariffs and Trade (GATT) accord in 1993 called for:
 - (a) increased trade restrictions outside of North America.
 - (b) lower trade restrictions around the world.
 - (c) uniform environmental standards around the world.

- (d) uniform worker health laws.
7. _____ is (are) income received by investors on foreign investments in financial assets (securities).
- Portfolio income
 - Unilateral transfers
 - Direct foreign income
 - Factor income
8. The World Bank's Multilateral Investment Guarantee Agency (MIGA):
- offers various forms of export insurance.
 - offers various forms of import insurance.
 - offers various forms of exchange rate risk insurance.
 - provides loans to developing countries.
 - offers various forms of political risk insurance.
9. Based on the text, it should be obvious that markets are _____ in reality, and consequently, monopolistic advantages _____ be exploited.
- Perfect; may possibly
 - Perfect; cannot
 - Imperfect; may possibly
 - Imperfect; cannot
10. If countries are highly influential upon each other, the correlations of their economic growth levels would likely be _____. A firm would benefit _____ by diversifying sales among these countries relative to another set of countries that were not influential upon each other.
- high and positive; more
 - high and positive; less
 - close to zero; more
 - close to zero; less
11. Which of the following is a reason to consider international business?
- economies of scale.
 - exploit monopolistic advantages.
 - diversification.
 - all of the above
12. Assume a U.S. firm initiates direct foreign investment in the U.K.. If the British pound is expected to appreciate against the dollar, the dollar value of earnings remitted to the parent should _____. The parent may request that the subsidiary _____ in order to benefit from the expectation about the pound.
- increase; postpone remitting earnings until the pound strengthens
 - decrease; postpone remitting earnings until the pound strengthens
 - decrease; remit earnings immediately before the pound strengthens
 - increase; remit earnings immediately before the pound strengthens

- 13 A country with high unemployment could best increase its employment by:
- (a) encouraging foreign firms to establish subsidiaries that produce the same products local firms produce.
 - (b) encouraging foreign firms to establish licensing arrangements for products local firms produce.
 - (c) encouraging foreign firms to establish subsidiaries that produce products local firms do not produce.
 - (d) none of the above would reduce employment.
- 14 Which of the following is not true regarding host government attitudes towards foreign direct investment (FDI)?
- (a) Host governments may offer incentives to MNCs in the form of subsidies in certain circumstances.
 - (b) Host governments generally perceive FDI as a remedy to eliminate a country's political problems.
 - (c) The ability of a host government to attract FDI is dependent on the country's markets and resources.
 - (d) Some types of FDI will be more attractive to some governments than to others.
 - (e) All of the above are true.
- 15 When a firm perceives that a foreign currency is _____, the firm may attempt direct foreign investment in that country, as the initial outlay should be relatively _____.
- (a) overvalued; high
 - (b) overvalued; low
 - (c) undervalued; high
 - (d) undervalued; low
- 16 To enter markets where superior profits are possible, an MNC should:
- (a) acquire a competitor that has controlled its local market.
 - (b) establish a subsidiary or acquire a competitor in a new market.
 - (c) establish a subsidiary in a market where tougher trade restriction will adversely affect the firm's export volume.
 - (d) establish subsidiaries in markets whose business cycles differ from those where existing subsidiaries are based.
- 17 When economic conditions of two countries are _____, then a firm would _____ its risk by operating in both countries instead of concentrating just in one.
- (a) highly correlated; reduce
 - (b) not highly correlated; reduce
 - (c) not highly correlated; not reduce
 - (d) none of the above

- 18 Consider an exporter that sells its accounts receivables off to another firm that becomes responsible for obtaining cash from the various importers. This reflects:
- (a) accounts receivable financing.
 - (b) consignment.
 - (c) factoring.
 - (d) a letter of credit.
- 19 Consider an exporter that is willing to send goods to the importer without a guaranteed payment by the bank. The bank provides a loan to the exporter that is backed by the value of the exported goods. This reflects:
- (a) accounts receivable financing.
 - (b) forfaiting.
 - (c) factoring.
 - (d) a letter of credit.
- 20 A _____ provides a summary of freight charges and conveys title to the merchandise.
- (a) letter of credit
 - (b) banker's acceptance
 - (c) bill of lading
 - (d) bill of exchange
- 21 With _____, the exporter ships the goods to the importer while still retaining actual title to the merchandise.
- (a) a letter of credit arrangement
 - (b) an open account arrangement
 - (c) a draft arrangement
 - (d) a consignment arrangement
22. A bill of exchange requesting the bank to pay the face amount upon presentation of documents is a:
- (a) banker's acceptance.
 - (b) time draft.
 - (c) letter of credit.
 - (d) sight draft.
23. Countertrade represents foreign trade:
- (a) restrictions imposed by the government on imports from another country.
 - (b) restrictions imposed by the government on exports sent from the country.
 - (c) transactions that force the sales of goods of one country to be linked to the purchase or exchange of goods from the country.
 - (d) financing provided to an exporter in exchange for goods provided to the creditor by the exporter.
24. Which of the following is not a payment method used for international trade?
- (a) consignment.
 - (b) open account.

- (c) factoring.
 - (d) draft.
 - (e) letter of credit.
25. Which of the following is not true regarding letters of credit?
- (a) They are issued by banks on behalf of the importer promising to pay the exporter.
 - (b) A revocable letter of credit can be cancelled or revoked at any time without prior notification to the beneficiary.
 - (c) They guarantee that the goods shipped are the goods purchased.
 - (d) All of the above are true.
26. A banker's acceptance is a draft drawn on and accepted by a(n) _____.
- (a) bank
 - (b) importer
 - (c) exporter
 - (d) none of the above
27. A(n) _____ is an unconditional promise drawn by one party, instructing the buyer to pay the face amount upon presentation.
- (a) draft
 - (b) bill of lading
 - (c) trade acceptance
 - (d) letter of credit
28. In balance of payments accounting, a credit entry for the home country is
- (a) an international transaction in which foreigners make payments to residents of the home country
 - (b) one in which residents of the home country make payments for foreigners
 - (c) one which results from an import of goods into the home country
 - (d) one which results from an outflow of capital from the home country to a foreign country
29. If the value of exports for a country is \$35,500,000 and the value of imports is \$35,000,000, the balance of trade can be described as
- (a) in surplus but unfavorable
 - (b) showing a gain in real goods but in deficit
 - (c) in deficit and favorable
 - (d) in surplus, favorable and +\$500,000
30. All of the following statements are explanations of the reason for short-term capital transfers from Country X to Country Y EXCEPT
- (a) Political instability in Country X
 - (b) Lower interest rates in Country X
 - (c) Lower interest rates in Country Y
 - (d) Country X has made it known that it is considering devaluation of its currency

31. Multinational firms face exposure to many different types of international risk. Which of the following is not a type of exposure?
- (a) diversifiable risk
 - (b) political risk
 - (c) foreign economies
 - (d) exchange rate movements
32. A firm expects to receive \$20,000 from domestic operations and 20,000 British pounds (£) from a business in England. If the pound's value is \$1.25, the expected total dollar cash flows are:
- (a) \$40,000
 - (b) \$36,000
 - (c) \$45,000
 - (d) \$20,000
33. When a country realizes a deficit on its current account:
- (a) Its net foreign investment position becomes positive
 - (b) It becomes a net demander of funds from other countries
 - (c) It realizes an excess of imports over exports on goods and services
 - (d) It becomes a net supplier of funds to other countries
34. Reducing a current account deficit requires a country to:
- (a) Increase private saving relative to investment
 - (b) Increase private consumption relative to saving
 - (c) Increase private investment relative to consumption
 - (d) Increase private investment relative to saving
35. Reducing a current account deficit requires a country to:
- (a) Increase the government's deficit and increase private investment relative to saving
 - (b) Increase the government's deficit and decrease private investment relative to saving
 - (c) Decrease the government's deficit increase private investment relative to saving
 - (d) Decrease the government's deficit and decrease private investment relative to saving
36. Reducing a current account surplus requires a country to:
- (a) Increase the government's deficit and increase private investment relative to saving
 - (b) Increase the government's deficit and decrease private investment relative to saving
 - (c) Decrease the government's deficit and increase private investment relative to saving
 - (d) Decrease the government's deficit and decrease private investment relative to saving
37. Concerning a country's business cycle, rapid growth of production and employment is commonly associated with:
- (a) Large or growing trade deficits and current account deficits
 - (b) Large or growing trade deficits and current account surpluses
 - (c) Small or shrinking trade deficits and current account deficits
 - (d) Small or shrinking trade deficits and current account surpluses

38. The burden of a current account deficit would be the *least* if a nation uses what it borrows to finance:
- (a) Unemployment compensation benefits
 - (b) Social Security benefits
 - (c) Expenditures on food and recreation
 - (d) Investment on plant and equipment
39. On the balance-of-payments statements, merchandise imports are classified in the:
- (a) Current account
 - (b) Capital account
 - (c) Unilateral transfer account
 - (d) Official settlements account
40. The balance of international indebtedness is a record of a country's international:
- (a) Investment position over a period of time
 - (b) Investment position at a fixed point in time
 - (c) Trade position over a period of time
 - (d) Trade position at a fixed point in time
41. Which of the following exchange rate policies uses a target exchange rate, but allows the target to change?
- (a) fixed exchange rate
 - (b) flexible exchange rate
 - (c) crawling peg
 - (d) moving target
42. A firm that buys foreign exchange in order to take advantage of higher foreign interest rates is
- (a) speculating.
 - (b) demonstrating purchasing power parity.
 - (c) engaging in interest rate arbitrage.
 - (d) responding to fluctuations in the business cycle.
 - (e) ignoring the nominal rate of exchange.
43. Suppose the euro is subject to a floating exchange rate system and that E is the number of dollars per unit of foreign exchange. If E increases, then the dollar
- (a) depreciates.
 - (b) appreciates.
 - (c) is devalued.
 - (d) is revalued.
 - (e) Both A and C.
44. When an individual or firm in a particular country requests that a bank sell foreign exchange, the bank will probably
- (a) call a foreign bank and arrange a purchase.
 - (b) call the central bank and arrange a purchase.
 - (c) call another bank customer with foreign exchange holdings.
 - (d) call another domestic bank and arrange a purchase.
 - (e) call a foreign exchange broker and arrange a purchase.

- 45 In order to protect against foreign exchange risk, firms can use
- (a) the spot market for foreign exchange.
 - (b) interest rate arbitrage.
 - (c) purchasing power parity.
 - (d) the forward market for foreign exchange.
 - (e) the J-curve.
- 46 Covered interest arbitrage involves both
- (a) the purchase of a foreign asset and a forward contract in the market for foreign exchange.
 - (b) the purchase of a domestic asset and a spot contract in the market for foreign exchange.
 - (c) the sale of a foreign asset and the purchase of a forward contract in the market for foreign exchange.
 - (d) the sale of domestic stocks and the purchase of foreign bonds.
 - (e) None of the above.
- 47 All else equal and under a system of floating exchange rates, if a country enters a period of exceptionally strong growth,
- (a) the pressure on its currency is to revalue.
 - (b) the pressure on its currency is to devalue.
 - (c) the pressure on its currency is to depreciate.
 - (d) the pressure on its currency is to appreciate.
 - (e) Both A and D.
- 48 All else equal, if Euro Area raises its interest rates,
- (a) the dollar depreciates.
 - (b) the U.S. demand for euros increases.
 - (c) the Euro Area supply of euros increases.
 - (d) Both A and B.
 - (e) Both A and C.
- 49 An Austrian firm that buys foreign exchange because its managers expect the euro to depreciate is
- (a) increasing the supply of foreign exchange.
 - (b) increasing the demand for foreign exchange.
 - (c) speculating.
 - (d) Both A and B.
 - (e) Both B and C.
50. Suppose the exchange rates between the United States and Euro Area are in long-run equilibrium as defined by the idea of purchasing power parity. If the law of one price holds perfectly, then differences between U.S. and Euro Area rates of inflation would
- (a) have no effect on nominal exchange rates.
 - (b) be completely offset by changes in the real exchange rate.
 - (c) be completely offset by changes in the nominal exchange rate.

- (d) violate the conditions for the law of one price.
 - (e) lead to a change in the real purchasing power of each country's currency when it is converted to the other country's currency.
51. An increase in the current account deficit will place _____ pressure on the home currency value, other things equal.
- (a) upward
 - (b) downward
 - (c) no
 - (d) upward or downward (depending on the size of the deficit)
52. Which of the following would likely have the least direct influence on a country's current account?
- (a) inflation.
 - (b) national income.
 - (c) exchange rates.
 - (d) tariffs.
 - (e) a tax on income earned from foreign stocks.
53. The North American Free Trade Agreement (NAFTA) increased restrictions on:
- (a) trade between Canada and Mexico.
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 - (c) direct foreign investment in Mexico by U.S. firms.
 - (d) none of the above.
54. The primary component of the current account is the:
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 - (c) balance of money market flows.
 - (d) unilateral transfers.
55. A General Agreement on Tariffs and Trade (GATT) accord in 1993 called for:
- (a) increased trade restrictions outside of North America.
 - (b) lower trade restrictions around the world.
 - (c) uniform environmental standards around the world.
 - (d) uniform worker health laws.
56. _____ is (are) income received by investors on foreign investments in financial assets (securities).
- (a) Portfolio income
 - (b) Unilateral transfers
 - (c) Direct foreign income
 - (d) Factor income
57. The World Bank's Multilateral Investment Guarantee Agency (MIGA):
- (a) offers various forms of export insurance.

- (b) offers various forms of import insurance.
 - (c) offers various forms of exchange rate risk insurance.
 - (d) provides loans to developing countries.
 - (e) offers various forms of political risk insurance.
58. From 1944 to 1971, the exchange rate between any two currencies was typically:
- (a) fixed within narrow boundaries.
 - (b) floating, but subject to central bank intervention.
 - (c) floating, and not subject to central bank intervention.
 - (d) nonexistent; that is currencies were not exchanged, but gold was used to pay for all foreign transactions.
59. A primary result of the Bretton Woods Agreement was:
- (a) the establishment of the European Monetary System (EMS).
 - (b) establishing specific rules for when tariffs and quotas could be imposed by governments.
 - (c) establishing that exchange rates of most major currencies were to be allowed to fluctuate 1% above or below their initially set values.
 - (d) establishing that exchange rates of most major currencies were to be allowed to fluctuate freely without boundaries (although the central banks did have the right to intervene when necessary).
60. The currency of country X is pegged to the currency of country Y. Assume that country Y's currency depreciates against the currency of country Z. It is likely that country X will export _____ to country Z and import _____ from country Z.
- (a) more; more
 - (b) less; less
 - (c) more; less
 - (d) less; more
61. The Bank of England may use a stimulative monetary policy with least concern about causing inflation if the pound's value is expected to:
- (a) remain stable.
 - (b) strengthen.
 - (c) weaken.
 - (d) none of the above will have an impact on inflation.
62. Which of the following would likely have the least direct influence on a country's current account?
- (a) inflation.
 - (b) national income.
 - (c) exchange rates.
 - (d) tariffs.
 - (e) a tax on income earned from foreign stocks.

63. Over time, international trade (exports plus imports) as a percentage of GDP has:
- (a) increased for most major countries.
 - (b) decreased for most major countries.
 - (c) stayed about constant for most major countries.
 - (d) increased for about half the major countries and decreased for the others.
64. Major functions of 'IMF' are
- (a) Overseas arrangements of fixed exchange rate
 - (b) providing short term capital
 - (c) providing leadership on health matters
 - (d) both a and b
65. International Monetary Fund is classified as
- (a) intergovernmental organization
 - (b) international organization
 - (c) interregional organization
 - (d) One state organization
66. International Monetary Fund formal existence came into being in
- (a) 12 May, 1945
 - (b) 27 July, 1945
 - (c) 27 December, 1945
 - (d) 27 September, 1945
67. International Monetary Fund is headquartered in
- (a) Washington, United States
 - (b) New York City, United States
 - (c) Geneva, Switzerland
 - (d) Avenue Du Mont Blanc, Switzerland
68. How does the IMF meet its primary objective?
- (a) By promoting free international trade
 - (b) By overseeing the balance of payments, acting as a forum of world negotiation and regulating world exchange rates
 - (c) By acting as an arbitrator for the dispute settlement of world trade matters
 - (d) By aligning its primary objective with the monetary objectives of national governments
69. A eurocurrency is:
- (a) a bank deposit held in a country that does not issue that currency in which the deposit is denominated.
 - (b) the currency of European Economic and Monetary Union - called the 'euro' for short.
 - (c) a bank deposit in a non-European currency held in Europe.
 - (d) a bank deposit in a European currency held outside of Europe.
the currency of the European Union.

70. The eurocurrency market did not develop until the late 1950s because:
- the countries of the Soviet bloc did not earn dollars in foreign trade until 1958.
 - European currencies were only convertible for non-residents before 1958.
 - the major European economies had not recovered sufficiently from the effects of World War II.
 - US banks were not permitted to open branches outside the USA until 1958.
 - US central bank regulations prevented it from doing so.

Ans. (1)(d), (2)(b), (3)(e), (4)(d), (5)(a), (6)(b), (7)(d), (8)(e), (9)(c), (10)(c), (11)(d), (12)(a), (13)(c), (14)(b), (15)(d), (16)(a), (17)(c), (18)(c), (19)(a), (20)(c), (21)(d), (22)(d), (23)(c), (24)(c), (25)(c), (26)(a), (27)(a), (28)(a), (29)(d), (30)(c), (31)(c), (32)(c), (33)(b), (34)(a), (35)(d), (36)(a), (37)(a), (38)(d), (39)(a), (40)(b), (41)(c), (42) (b), (43)(d), (44)(a), (45)(b), (46)(d), (47)(a), (48)(b), (49)(a), (50)(d), 51(b), 52(e), 53(d), 54(a), 55(d), 56(e), 57(a), 58(c), 59(c), 60(b), 61(e), 62(a), 63(d), 64(b), 65(c), 66(a), 67(b), 68(a), 69(c), 70(b)

II Short Answer Type Questions:

- What are MNCs?
- What is the role of global financial manager?
- What is the IMF?
- Who runs the IMF?
- Where does the IMF get its money?
- Who can borrow from the IMF?
- How does the IMF help the needy economy?
- Does the IMF guarantee prime bank notes, prime bank guarantees, or debentures?
- What are the Articles of Agreement?
- What is an SDR?
- What is the special SDR allocation under the proposed Fourth Amendment?
- How would low-income countries benefit from an SDR allocation?
- Explain the features of Gold standard
- How to find out exchange rate in gold standard
- Explain the various types of gold standard system and its advantages
- What are the essentials to make gold system successful? Why did it fail?
- What is the fixed exchange rate system?
- Explain bretton woods and the reasons for failure?
- Enumerate the impact of euro currency on international trade?
- Throw some light on the evolution of euro markets?
- Compare Euro credit and Euro bonds.
- What is the balance of payments?
- What is the current account?
- How will you identify the surplus/deficit in BOP?
- Write short note on FDI and FII in India
- Write short note on Euro currency market

27. Distinguish between multinational corporations and transnational corporations?
28. Is BOP in equilibrium from accounting point of view?
29. Explain the concept of statistical discrepancy
30. What do you mean by capital account convertibility? Is it preferable to exchange control?
31. "Crawling peg is a compromise between fixed exchange rates and floating exchange rates." Discuss.
32. What is mint parity found in gold standard?
33. Define Balance of payments. What is the need to monitor it?
34. What is the relationship between the current account balance and a country's saving and investment?
35. What is the difference between an adjustable peg, a crawling peg and a managed float?
36. What are the current sources of international liquidity?
37. Describe the current situation of exchange rate agreements.
38. What is the Eurocurrency market and what is its function?
39. In what way is the Eurocurrency market different from an internal credit market?
40. If the Balance of Payment of a country is adverse, then which institution will help that country?

III Long Answer Type Questions:

1. What do you mean by global financial environment? Discuss the global financial instruments and institutions?
2. What is the IMF's mission and how has that changed over time?
3. What is the current relationship between the IMF and World Bank? How has that changed over time? Do their functions overlap?
4. How does the IMF set its policies? How open is the IMF to outside scrutiny and participation?
5. What is structural adjustment? What are the economic and social impacts of structural adjustment?
6. How the Asian financial crisis of 1997 start and what did was the IMF's response?
7. How do multinational corporations benefit from IMF policies? What is the IMF's approach to helping countries that are deeply in debt?
8. When will the general SDR allocation become effective and how will it benefit member countries?
9. Explain briefly the need for an efficient and sound international monetary system with special focus on gold standard and Bretton woods standard?
10. Distinguish between the fixed & floating exchange rate regime?
11. What is the Euro Market? How to Detect Counterfeit Euro Currency? Briefly discuss the evolution of euro currency markets in details?
12. Explain Global financial markets with reference to international money and capital market?
13. Discuss the various methods employed for determination of foreign exchange with special emphasis on Balance of Payment (BOP)
14. What does a current account deficit? Is that positive for a nation? Briefly describe the factors that can contribute to a country's Current Account deficit?

15. Explain the relation of the current account and the capital (= financial) account? Why are statistical discrepancies in the balance of payments so large?
16. What is the relation between the capital account and the international investment position of a country?
17. What is BOP? What are its components? Give the outline of BOP statements.
18. What are the errors and omissions in BOP? In the accounting sense, BOP always balances. Explain the statement.
19. "Devaluation will lead to a J-curve effect on the balance of payments." Discuss.
20. "Devaluation is a sign of economic failure and will do little to help improve the balance of payments or economic performance." Discuss.
21. "A current account deficit is not necessarily a bad thing." Discuss this statement.
22. Outline the historical framework of various exchange rate regimes on a global basis highlighting the role of IMF.
23. Define Balance of payments. What is the need to monitor it?
24. "A devaluation will lead to a deterioration of the current account." Discuss this statement with reference to the elasticity approach to devaluation.
25. "A devaluation will lead to a J-curve effect on the balance of payments." Discuss.
26. "Devaluation is a sign of economic failure and will do little to help improve the balance of payments or economic performance." Discuss.
27. "A current account deficit is not necessarily a bad thing." Discuss this statement.
28. Do you agree that floating exchange rate regime is a better option than the fixed exchange rate regime?
29. Write a note on the developments in the European Monetary Union.
30. Discuss the reasons why a global recession (for example, the recent sub-prime crisis) encourages the governments to impose more trade restrictions. What kind of trade restrictions were imposed by the US Government after sub-prime crisis?
31. Discuss the potential implications of capital account convertibility for the currency of a developing economy like India?
32. Discuss the relevance of Foreign Direct Investment vis-à-vis Foreign Institutional Investment for Indian economy. Can a high level of FDI or FII also pose some challenge?
33. Outline the major factors that have been responsible for the growth of the Eurocurrency markets. What advantages or special features can these markets offer compared to borrowing from domestic markets? Are there any drawbacks?
34. Discuss the main function of IMF. Discuss the evolution of IMF. Critically examine the IMF financing facilities and policies to help member to correct balance of payments problems in a manner that promotes sustained growth.
35. Outline the historical framework of various exchange rate regimes on a global basis highlighting the role of IMF.
36. Why must the sum of the capital account and the current account be equal to zero? How are discrepancies accounted for?
37. A credit entry in the balance of payments represents a demand for local currency whereas a debit entry represents a supply of local currency. Explain your answer.
38. What is the difference between the gold standard and the gold exchange standard? Explain the practical weaknesses of these two systems.
39. Distinguish between Autonomous and Accommodating transactions of Balance of Payment. Also explain the concept of Balance of Payment deficit in this context.

40. What is the relationship between debt and structural adjustment?

UNIT – II

I Test Your Skills:

(a) Multiple Choice Questions

1. Assume that a bank's bid rate on Swiss francs is £0.25 and its ask rate is £0.26. Its bid-ask percentage spread is:
 - (a) 4.00%.
 - (b) about 3.85%.
 - (c) 4.26%.
 - (d) about 4.17%.

2. Assume the Canadian dollar is equal to £0.51 and the Peruvian Sol is equal to £0.16. The value of the Peruvian Sol in Canadian dollars is:
 - (a) about .3621 Canadian dollars.
 - (b) about 2.36 Canadian dollars.
 - (c) about .3137 Canadian dollars.
 - (d) about 2.51 Canadian dollars.

3. _____ is not a bank characteristic important to customers in need of foreign exchange.
 - (a) Quote competitiveness
 - (b) Speed of execution
 - (c) Forecasting advice
 - (d) Advice about current market conditions
 - (e) All of the above are important bank characteristics to customers in need of foreign exchange.

4. LIBOR is:
 - (a) the interest rate commonly charged for loans between banks.
 - (b) the average inflation rate in European countries.
 - (c) the maximum loan rate ceiling on loans in the international money market.
 - (d) the maximum deposit rate ceiling on deposits in the international money market.
 - (e) the maximum interest rate offered on bonds that are issued in London.

5. From 1944 to 1971, the exchange rate between any two currencies was typically:
 - (a) fixed within narrow boundaries.
 - (b) floating, but subject to central bank intervention.
 - (c) floating, and not subject to central bank intervention.
 - (d) nonexistent; that is currencies were not exchanged, but gold was used to pay for all foreign transactions.

6. Futures contracts are typically _____; forward contracts are typically _____.
 - (a) sold on an exchange; sold on an exchange

- (b) offered by commercial banks; sold on an exchange
(c) sold on an exchange; offered by commercial banks
(d) offered by commercial banks; offered by commercial banks
7. When the foreign exchange market opens in the UK each morning, the opening exchange rate quotations will be based on the:
(a) closing prices in the U.S. during the previous day.
(b) closing prices in Canada during the previous day.
(c) prevailing prices in locations where the foreign exchange markets have been open.
(d) officially set by central banks before the U.S. market opens.
8. A share of the ADR of a Dutch firm represents one share of that firm's stock that is traded on a Dutch stock exchange. The share price of the firm was 15 euros when the Dutch market closed. As the U.S. market opens, the euro is worth \$1.10. Thus, the price of the ADR should be _____.
(a) \$13.64
(b) \$15.00
(c) \$16.50
(d) 16.50 euros
(e) none of the above
9. The value of the Australian dollar (A\$) today is £0.41. Yesterday, the value of the Australian dollar was £0.38. The Australian dollar by _____%.
(a) depreciated; 7.90
(b) appreciated; 7.90
(c) depreciated; 7.30
(d) appreciated; 7.30
10. An increase in UK interest rates relative to euro interest rates is likely to _____ the UK demand for euros and _____ the supply of euros for sale.
(a) reduce; increase
(b) increase; reduce
(c) reduce; reduce
(d) increase; increase
11. Assume the following information regarding UK and European annualized interest rates:
- | Currency | Lending Rate | Borrowing Rate |
|--------------|--------------|----------------|
| UK pound (£) | 6.73% | 7.20% |
| Euro (€) | 6.80% | 7.28% |
- Milly Bank can borrow either £20 million or €20 million. The current spot rate of the euro is £0.75. Furthermore, Milly Bank expects the spot rate of the euro to be £0.76 in 90 days. What is Milly Bank's pound profit from speculating if the spot rate of the euro is indeed £0.76 in 90 days?
(a) £251,200
(b) £251,386

- (c) £541,324
 - (d) £561,813
 - (e) £502,713
12. The equilibrium exchange rate of pounds is \$1.70. At an exchange rate of \$1.72 per pound:
- (a) U.S. demand for pounds would exceed the supply of pounds for sale and there would be a shortage of pounds in the foreign exchange market.
 - (b) U.S. demand for pounds would be less than the supply of pounds for sale and there would be a shortage of pounds in the foreign exchange market.
 - (c) U.S. demand for pounds would exceed the supply of pounds for sale and there would be a surplus of pounds in the foreign exchange market.
 - (d) U.S. demand for pounds would be less than the supply of pounds for sale and there would be a surplus of pounds in the foreign exchange market.
 - (e) U.S. demand for pounds would be equal to the supply of pounds for sale and there would be a shortage of pounds in the foreign exchange market.
13. If inflation in New Zealand suddenly increased while euro area inflation stayed the same, there would be:
- (a) an inward shift in the demand schedule for NZ\$ and an outward shift in the supply schedule for NZ\$.
 - (b) an outward shift in the demand schedule for NZ\$ and an inward shift in the supply schedule for NZ\$.
 - (c) an outward shift in the demand schedule for NZ\$ and an outward shift in the supply schedule for NZ\$.
 - (d) an inward shift in the demand schedule for NZ\$ and an inward shift in the supply schedule for NZ\$.
14. Any event that reduces the euro area demand for Japanese yen should result in a(n) _____ in the value of the Japanese yen with respect to _____, other things being equal.
- (a) increase; euro
 - (b) increase; noneuro currencies
 - (c) decrease; noneuro currencies
 - (d) decrease; euro
15. News of a potential surge in U.S. inflation and zero Chilean inflation places _____ pressure on the value of the Chilean peso. The pressure will occur _____.
- (a) upward; only after the U.S. inflation surges
 - (b) downward; only after the U.S. inflation surges
 - (c) upward; immediately
 - (d) downward; immediately
16. If a country experiences high inflation relative to the UK, its exports to the UK should _____, its imports should _____, and there is _____ pressure on its currency's equilibrium value.

- (a) decrease; increase; upward
 - (b) decrease; decrease; upward
 - (c) increase; decrease; downward
 - (d) decrease; increase; downward
 - (e) increase; decrease; upward
17. To force the value of the dollar to appreciate against the pound, the Federal Reserve should:
- (a) sell pounds for dollars in the foreign exchange market and the Bank of England should sell pounds for dollars in the foreign exchange market.
 - (b) sell dollars for pounds in the foreign exchange market and the Bank of England should sell pounds for dollars in the foreign exchange market.
 - (c) sell dollars for pounds in the foreign exchange market and the Bank of England should not intervene.
 - (d) sell dollars for pounds in the foreign exchange market and the Bank of England should sell dollars for pounds in the foreign exchange market.
18. A primary result of the Bretton Woods Agreement was:
- (a) the establishment of the European Monetary System (EMS).
 - (b) establishing specific rules for when tariffs and quotas could be imposed by governments.
 - (c) establishing that exchange rates of most major currencies were to be allowed to fluctuate 1% above or below their initially set values.
 - (d) establishing that exchange rates of most major currencies were to be allowed to fluctuate freely without boundaries (although the central banks did have the right to intervene when necessary).
19. The currency of country X is pegged to the currency of country Y. Assume that country Y's currency depreciates against the currency of country Z. It is likely that country X will export _____ to country Z and import _____ from country Z.
- (a) more; more
 - (b) more; less
 - (c) less; less
 - (d) less; more
20. The Bank of England may use a stimulative monetary policy with least concern about causing inflation if the pound's value is expected to:
- (a) remain stable.
 - (b) strengthen.
 - (c) weaken.
 - (d) none of the above will have an impact on inflation.
21. The exchange rate mechanism (ERM) crisis in 1992 represents the _____ in German interest rates that caused other European interest rates to _____, and resulted in less aggregate spending.

- (a) increase; increase
 - (b) increase; decrease
 - (c) decrease; decrease
 - (d) decrease; increase
22. As foreign exchange activity has grown:
- (a) central bank intervention has become more effective.
 - (b) central bank intervention has become more frequent.
 - (c) central bank intervention has become less effective.
 - (d) none of the above
23. Which of the following are examples of currency controls?
- (a) import restrictions.
 - (b) prohibition of remittance of funds.
 - (c) ceilings on granting credit to foreign firms.
 - (d) all of the above
24. Due to _____, market forces should realign the relationship between the interest rate differential of two currencies and the forward premium (or discount) on the forward exchange rate between the two currencies.
- (a) forward realignment arbitrage
 - (b) covered interest arbitrage
 - (c) triangular arbitrage
 - (d) locational arbitrage
25. In which case will locational arbitrage most likely be feasible?
- (a) One bank's ask price for a currency is greater than another bank's bid price for the currency.
 - (b) One bank's bid price for a currency is greater than another bank's ask price for the currency.
 - (c) One bank's ask price for a currency is less than another bank's ask price for the currency.
 - (d) One bank's bid price for a currency is less than another bank's bid price for the currency.
26. If the interest rate is lower in the U.S. than in the United Kingdom, and if the forward rate of the British pound is the same as its spot rate:
- (a) U.S. investors could possibly benefit from covered interest arbitrage.
 - (b) British investors could possibly benefit from covered interest arbitrage.
 - (c) neither U.S. nor British investors could benefit from covered interest arbitrage.
 - (d) A and B
27. Based on interest rate parity, the larger the degree by which the foreign interest rate exceeds the UK interest rate, the:
- (a) larger will be the forward discount of the foreign currency.
 - (b) larger will be the forward premium of the foreign currency.

- (c) smaller will be the forward premium of the foreign currency.
 (d) smaller will be the forward discount of the foreign currency.
28. Assume the bid rate of a Singapore dollar is £0.20 while the ask rate is £0.21 at Bank X. Assume the bid rate of a Singapore dollar is £0.22 while the ask rate is £0.23 at Bank Z. Given this information, what would be your gain if you use £1,000,000 and execute locational arbitrage? That is, how much will you end up with over and above the £1,000,000 you started with?
- (a) £11,764.
 (b) £47,619.
 (c) £36,585.
 (d) £48,710.
 (e) £18,219.
29. Assume the U.S. dollar is worth £0.55, and the Canadian dollar is worth £0.47. What is the value of the Canadian dollar in U.S. dollars to the nearest cent?
- (a) 1.54.
 (b) 0.42.
 (c) 0.15
 (d) 0.85
 (e) 1.17
30. Assume the bid rate of a Swiss franc is £0.42 while the ask rate is £0.45 at Bank X. Assume the bid rate of the Swiss franc is £0.40 while the ask rate is £0.41 at Bank Y. Given this information, what would be your gain if you use £1,000,000 and execute locational arbitrage? That is, how much will you end up with over and above the £1,000,000 you started with?
- (a) £24,340
 (b) £125,000
 (c) £150,000
 (d) £12,550
31. Assume the bid rate of an Australian dollar is £0.40 while the ask rate is £0.42 at Bank Q. Assume the bid rate of an Australian dollar is £0.415 while the ask rate is £0.419 at Bank V. Given this information, what would be your gain if you use £1,000,000 and execute locational arbitrage? That is, how much will you end up with over and above the £1,000,000 you started with?
- (a) £10,003
 (b) £12,063
 (c) £14,441
 (d) £0
 (e) £18,219
32. Assume the following information:
 You have £400,000 to invest
 Current spot rate of Sudanese dinar (SDD) = £0.00317

1 year forward rate of the dinar = £0.00311
1 year interest rate in the UK = 4.0%
1 year interest rate in Sudan = 4.2%

If you conduct covered interest arbitrage, what amount will you have after 1 year to the nearest £?

- (a) £416,000.
 - (b) £424,841.
 - (c) £424,242.
 - (d) £408,911.
 - (e) none of the above
33. Arbitrageurs in foreign exchange markets:
- (a) take advantage of the small inconsistencies that develop between markets.
 - (b) attempt to make profits by outguessing the market.
 - (c) make their profits through the spread between bid and offer rates of exchange.
 - (d) need foreign exchange in order to buy foreign goods.
34. Covered interest rate parity occurs as the result of:
- (a) the actions of market-makers.
 - (b) purchasing power parity
 - (c) interest rate arbitrage.
 - (d) stabilising speculation.
35. Given the following interest rates on different currencies, which of the following is true?
Sterling 6 percent.
Euro 3.5 percent.
Dollar 6.25 percent.
Yen 0.5 percent.
- (a) The dollar must be at a forward premium to the yen because a very high percentage of world trade is carried out in dollars.
 - (b) The yen must be at a forward premium to the euro because one can borrow yen much more cheaply than euro.
 - (c) The euro must be at a forward premium to sterling because no one believes that the euro can continue to fall in value.
 - (d) The dollar must be at a forward premium to the yen because no one would be willing to hold yen at such a low rate of interest.
36. Which of the following best explains the fact that interest rates on the euro are lower than those on the pound?
Inflationary expectations are higher in the UK than in the eurozone.
- (a) British markets are offshore from mainland Europe.
 - (b) Unemployment is higher in the eurozone than in the UK.
 - (c) Bond prices are lower in the UK than in the eurozone.
 - (d) The euro is a weaker currency than sterling.

37. The euro is:
- (a) a currency, the value of which is determined by demand and supply.
 - (b) the currency of EU member countries.
 - (c) a weighted average of the currencies of EU member countries.
 - (d) a currency that is only traded offshore.
38. Overshooting models of the exchange rate are an attempt to explain:
- (a) why purchasing power parity plays no role in determining the value of a currency.
 - (b) why exchange rates are so volatile.
 - (c) why the foreign exchange market is never in equilibrium.
 - (d) why forward rates of exchange are not good predictors of future spot rates of exchange.
39. Suppose a deposit in New York earns 6 percent a year and a deposit in London earns 4 percent a year. Interest rate parity holds if the
- (a) U.S. dollar depreciates by 2 percent a year.
 - (b) U.S. dollar appreciates by 2 percent a year.
 - (c) U.K. pound depreciates by 2 percent a year.
 - (d) None of the above answers is correct because interest rate parity requires that the interest
 - (e) rates be the same in both countries.
40. When the value of one currency falls relative to another currency, the exchange rate for the first currency has
- (a) revalued.
 - (b) depreciated.
 - (c) appreciated.
 - (d) demanded.
41. Under a gold standard, countries should
- (a) keep the supply of their domestic money constant.
 - (b) keep the supply of their domestic money fixed in proportion to their gold holdings.
 - (c) keep the supply of foreign exchange less than their domestic money supply.
 - (d) restrict the demand for foreign goods.
 - (e) outlaw speculation.
42. Under a fixed exchange standard, if the domestic demand for foreign exchange increases
- (a) the central monetary authority must meet the demand out of its reserves.
 - (b) the central monetary authority must increase the supply of domestic money.
 - (c) the fixed exchange standard will breakdown.
 - (d) inflation will increase.
 - (e) the domestic currency must be depreciated.

43. The Bretton Woods exchange rate system was an example of a
- (a) target zone.
 - (b) managed float.
 - (c) pure gold standard.
 - (d) modified gold standard.
 - (e) floating exchange rate system
44. The biggest disadvantage of a fixed exchange rate is the
- (a) increased probability of high inflation.
 - (b) tradeoff between supporting the exchange rate and adjusting the trade balance.
 - (c) tradeoff between supporting the exchange rate and maintaining full employment.
 - (d) increased probability of a trade deficit.
 - (e) tradeoff between supporting the exchange rate and maintaining a balanced budget.
45. The effect of a depreciation of the domestic currency on the trade balance is likely to
- (a) increase it in the short and long runs.
 - (b) decrease it in the short run and increase it in the long run.
 - (c) decrease it in the short and long runs.
 - (d) increase it in the short run and decrease it in the long run.
 - (e) have little or no effect.
46. Which of the following institutions is the most important participant in foreign currency markets?
- (a) A retail customer
 - (b) A commercial bank
 - (c) A foreign exchange broker
 - (d) A central bank
 - (e) None of the above.
47. An increase in the U.S. demand for the euro
- (a) causes a rise in the dollar exchange rate.
 - (b) causes the euro to appreciate.
 - (c) causes the dollar to depreciate.
 - (d) causes Euro Area goods to be relatively more expensive.
 - (e) All of the above.
48. Which of the following would NOT be a cause for an increased American demand for the euros?
- (a) The United States having lower interest rates than the Euro Area
 - (b) Increased American demand for Euro Area goods
 - (c) The expectation by speculators that the value of the euro is edging up
 - (d) More economic expansion in the United States
 - (e) None of the above.

49. Which of the following is NOT one of the determinants of the gains of adopting a single currency?
- (a) A well-synchronized business cycle involving all member countries
 - (b) The possibility of factors of production to freely move across borders
 - (c) The willingness and ability of member countries to design policies to address regional imbalances that may develop
 - (d) Widening the common market by allowing other countries to join
 - (e) None of the above.
50. If more European and Japanese firms want to build factories and expand their offshore investments in the United States, the supply of U.S. dollars on foreign exchange markets will increase as a result of this investment activity.
- (a) True
 - (b) False
51. Which of the following forecasting techniques would best represent the use of today's forward exchange rate to forecast the future exchange rate?
- (a) fundamental forecasting.
 - (b) technical forecasting.
 - (c) market-based forecasting.
 - (d) mixed forecasting.
52. If a particular currency is consistently declining substantially over time, then a market-based forecast will usually have:
- (a) underestimated the future exchange rates over time.
 - (b) overestimated the future exchange rates over time.
 - (c) forecasted future exchange rates accurately.
 - (d) forecasted future exchange rates inaccurately but without any bias toward consistent underestimating or overestimating.
53. Which of the following is true according to the text?
- (a) Forecasts in recent years have been very accurate.
 - (b) Use of the absolute forecast error as a percent of the realized value is a good measure to use in detecting a forecast bias.
 - (c) Forecasting errors are smaller when focused on longer term periods.
 - (d) None of the above.
54. Which of the following is not a forecasting technique mentioned in your text?
- (a) accounting-based forecasting.
 - (b) fundamental forecasting.
 - (c) technical forecasting.
 - (d) market-based forecasting.
55. Which of the following is not a method of forecasting exchange rate volatility?
- (a) using the absolute forecast error as a percentage of the realized value.

- (b) using the volatility of historical exchange rate movements as a forecast for the future.
 - (c) using a time series of volatility patterns in previous periods.
 - (d) deriving the exchange rate's implied standard deviation from the currency option pricing model.
56. Assume the Canadian dollar is equal to £0.51 and the Peruvian Sol is equal to £0.16. The value of the Peruvian Sol in Canadian dollars is:
- (a) about .3621 Canadian dollars.
 - (b) about 2.36 Canadian dollars.
 - (c) about .3137 Canadian dollars.
 - (d) about 2.51 Canadian dollars.
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 - (c) prevailing prices in locations where the foreign exchange markets have been open.
 - (d) officially set by central banks before the U.S. market opens.
60. The equilibrium exchange rate of pounds is \$1.70. At an exchange rate of \$1.72 per pound:
- (a) U.S. demand for pounds would exceed the supply of pounds for sale and there would be a shortage of pounds in the foreign exchange market.
 - (b) U.S. demand for pounds would be less than the supply of pounds for sale and there would be a shortage of pounds in the foreign exchange market.
 - (c) U.S. demand for pounds would exceed the supply of pounds for sale and there would be a surplus of pounds in the foreign exchange market.
 - (d) U.S. demand for pounds would be less than the supply of pounds for sale and there would be a surplus of pounds in the foreign exchange market.
 - (e) U.S. demand for pounds would be equal to the supply of pounds for sale and there would be a shortage of pounds in the foreign exchange market.

61. If inflation in New Zealand suddenly increased while euro area inflation stayed the same, there would be:
- (a) an inward shift in the demand schedule for NZ\$ and an outward shift in the supply schedule for NZ\$.
 - (b) an outward shift in the demand schedule for NZ\$ and an inward shift in the supply schedule for NZ\$.
 - (c) an outward shift in the demand schedule for NZ\$ and an outward shift in the supply schedule for NZ\$.
 - (d) an inward shift in the demand schedule for NZ\$ and an inward shift in the supply schedule for NZ\$.
62. If portable disk players made in China are imported into the United States, the Chinese manufacturer is paid with
- (a) international monetary credits.
 - (b) dollars.
 - (c) yuan, the Chinese currency.
 - (d) euros, or any other third currency.
63. In the foreign exchange market, the _____ of one country is traded for the _____ of another country.
- (a) currency; currency
 - (b) currency; financial instruments
 - (c) currency; goods
 - (d) goods; goods
64. Which of the following examples definitely illustrates a depreciation of the U.S. dollar?
- (a) The dollar exchanges for 1 pound and then exchanges for 1.2 pounds.
 - (b) The dollar exchanges for 250 yen and then exchanges for 275 francs.
 - (c) The dollar exchanges for 100 francs and then exchanges for 120 yen.
 - (d) The dollar exchanges for 120 francs and then exchanges for 100 francs
65. By definition, currency appreciation occurs when
- (a) the value of all currencies fall relative to gold.
 - (b) the value of all currencies rise relative to gold.
 - (c) the value of one currency rises relative to another currency.
 - (d) the value of one currency falls relative to another currency.
66. If U.S. inflation suddenly increased while European inflation stayed the same, there would be:
- (a) an increased U.S. demand for Euros and an increased supply of Euros for sale.
 - (b) a decreased U.S. demand for Euros and an increased supply of Euros for sale.
 - (c) a decreased U.S. demand for Euros and a decreased supply of Euros for sale.
 - (d) an increased U.S. demand for Euros and a decreased supply of Euros for sale.

67. Under a fixed exchange rate system:
- (a) central bank intervention in the foreign exchange market is often necessary;
 - (b) central bank intervention in the foreign exchange market is not necessary since rates do not move;
 - (c) central bank intervention in the foreign exchange market is not permitted.
 - (d) a forward foreign exchange market does not exist as it would be pointless since rates do not move;
68. Given a home country and a foreign country, purchasing power parity suggests that:
- (a) the home currency will appreciate if the current home inflation rate exceeds the current foreign inflation rate;
 - (b) the home currency will depreciate if the current home inflation rate exceeds the current foreign inflation rate.
 - (c) the home currency will depreciate if the current home interest rate exceeds the current foreign interest rate;
 - (d) the home currency will depreciate if the current home inflation rate exceeds the current foreign interest rate;
69. If purchasing power parity were to hold even in the short run, then:
- (a) quoted nominal exchange rates should be stable over time.
 - (b) real exchange rates should tend to increase over time;
 - (c) real exchange rates should tend to decrease over time;
 - (d) real exchange rates should be stable over time;
70. The international Fisher effect suggests that should pound interest rates exceed US dollar interest rates:
- (a) the pound's value will remain constant;
 - (b) the pound will be at a discount on the dollar;
 - (c) UK inflation rate will decrease.
 - (d) the pound will depreciate against the dollar;

Ans. (1)(c), (2)(b), (3)(e), (4)(a), (5)(a), (6)(c), (7)(c), (8)(c), (9)(c), (10)(a), (11)(a), (12)(d), (13)(a), (14)(d), (15)(c), (16)(c), (17)(a), (18)(c), (19)(c), (20)(b), (21)(a), (22)(c), (23)(d), (24)(c), (25)(b), (26)(a), (27)(a), (28)(d), (29)(d), (30)(a), (31)(d), (32)(e), (33)(a), (34)(c), (35)(b), (36)(a), (37)(a), (38)(b), (39)(a), (40)(b), (41)(c), (42) (b), (43)(d), (44)(a), (45)(b), (46)(d), (47)(a), (48)(b), (49)(a), (50)(d), 50(a), 51(b), 52(b), 53(d), 54(a), 55(a), 56(c), 57(e), 58(a), 59(c), 60(d), 61(a), 62(c), 63(a), 64(d), 65(c), 66(d), 67(a), 68(b), 69(d), 70(d).

II Short Answer Type Questions:

1. What is Foreign Exchange Market? Explain the participants.
2. Distinguish b/w direct quote and indirect quote.
3. What is the bid-ask spread?
4. How is hedging with forward contracts accomplished?
5. How are forward rates quoted?
6. How do you compute a cross-rate?
7. What is the difference between the retail or client market and the wholesale or interbank market for foreign exchange?
8. What is the difference between **exchange rate** and offshore **exchange rate**?
9. What is the difference between Spot **exchange rate** and **exchange rate**?
10. What is the difference between real **exchange rate** and nominal **exchange rate**?
11. What are the factors that determine the exchange rate?
12. What is arbitrage? Explain its types.
13. How does currency arbitrage work? If you were a trader, how would you determine if profitable arbitrage opportunities exist, at any point in time?
14. What is the difference between one-way arbitrage and triangular arbitrage?
15. Write a short note on foreign exchange market in India?
16. Explain in detail purchasing power parity (PPP) theory?
17. What is covered interest parity theory?
18. How is the **exchange rate** determined in a Floating **exchange rate**?
19. Why would you expect purchasing power parity to hold? Why does it not always hold?
20. Why would you expect covered interest rate parity to hold?
21. Why might covered interest rate parity not always hold?
22. What do you mean by exchange rate forecasting?
23. What is broken date contract in a forward market?
24. What do you mean by over the counter market?
25. Distinguish between long and short positions in respect of a currency.
26. Distinguish between two point arbitrage and triangular arbitrage.
27. Who are the participants in foreign exchange market?
28. Explain in brief different Theories of exchange rate determination
29. Write on note on Impact of recent demonetization on exchange rate of rupee
30. What is J-curve effect?
31. How do elasticities of supply and demand for imports and exports affect the supply and demand for foreign exchange?
32. How does central bank intervention in the foreign exchange market affect the money supply?
33. Do Arbitrage Opportunities Exist in the Foreign Exchange Market?
34. Identify the market fundamentals which underlie movements in exchange rates.
35. list major participants in the foreign exchange market and their functions.

III Long Answer Type Questions:

1. Give a full definition of the market for foreign exchange. Who are the market participants in the foreign exchange market? How are foreign exchange transactions between international banks settled?
2. What is meant by a currency trading at a discount or at a premium in the forward market? Why does most interbank currency trading worldwide involve the U.S. dollar?
3. Banks find it necessary to accommodate their clients' needs to buy or sell FX forward, in many instances for hedging purposes. How can the bank eliminate the currency exposure it has created for itself by accommodating a client's forward transaction?
4. Over the past six years, the exchange rate between Swiss franc and U.S. dollar, SFr/\$, has changed from about 1.30 to about 1.60. Would you agree that over this six-year period, the Swiss goods have become cheaper for buyers in the United States?
5. A foreign exchange trader with a U.S. bank took a short position of £5,000,000 when the \$/£ exchange rate was 1.55. Subsequently, the exchange rate has changed to 1.61. Is this movement in the exchange rate good from the point of view of the position taken by the trader? By how much has the bank's liability changed because of the change in the exchange rate?
6. Bring out the significance of foreign exchange markets. Discuss the mechanism of Foreign Exchange transfers
7. A bank is quoting the following exchange rates against the dollar for the Swiss franc and the Australian dollar: SFr/\$ = 1.5960--70, A\$/ \$ = 1.7225--35. An Australian firm asks the bank for an A\$/SFr quote. What cross-rate would the bank quote?
8. Suppose that the treasurer of IBM has an extra cash reserve of \$100,000,000 to invest for six months. The six-month interest rate is 8 percent per annum in the United States and 7 percent per annum in Germany. Currently, the spot exchange rate is €1.01 per dollar and the six-month forward exchange rate is €0.99 per dollar. The treasurer of IBM does not wish to bear any exchange risk. Where should he/she invest to maximize the return?
9. Explain the conditions under which the forward exchange rate will be an unbiased predictor of the future spot exchange rate.
10. Currently, the spot exchange rate is \$1.50/£ and the three-month forward exchange rate is \$1.52/£. The three-month interest rate is 8.0% per annum in the U.S. and 5.8% per annum in the U.K. Assume that you can borrow as much as \$1,500,000 or £1,000,000. a. Determine whether the interest rate parity is currently holding. b. If the IRP is not holding, how would you carry out covered interest arbitrage? Show all the steps and determine the arbitrage profit. c. Explain how the IRP will be restored as a result of covered arbitrage activities.
11. Suppose that the current spot exchange rate is €0.80/\$ and the three-month forward exchange rate is €0.7813/\$. The three-month interest rate is 5.6 percent per annum in the United States and 5.40 percent per annum in France. Assume that you can borrow up to \$1,000,000 or €800,000. a. Show how to realize a certain profit via covered interest arbitrage, assuming that you want to realize profit in terms of U.S. dollars. Also determine the size of your arbitrage profit. b. Assume that you want to realize profit in terms of euros. Show the covered arbitrage process and determine the arbitrage profit in euros.
12. What do you mean by foreign exchange market? Comment on the development of forex market in India?

13. Explain briefly Purchasing Power Parity (PPP), Interest Rate Parity (IRP), and international Fisher's effect.
14. What is unbiased forward rate theory? Distinguish briefly between asset approach and technical approach
15. Discuss the implications of the interest rate parity for the exchange rate determination.
16. Explain the purchasing power parity, both the absolute and relative versions. What causes the deviations from the purchasing power parity?
17. Discuss the implications of the deviations from the purchasing power parity for countries' competitive positions in the world market.
18. Explain and derive the international Fisher effect.
19. Derive and explain the monetary approach to exchange rate determination.
20. Explain the random walk model for exchange rate forecasting. Can it be consistent with the technical analysis?
21. How does the forecasting horizon affect the choice of a forecasting model? "Short-term exchange rate forecasting requires a strong emphasis on economic fundamentals." True or False? Explain.
22. Explain the difference between an accurate forecast and a useful forecast. Who needs an accurate forecast?
23. What is the difference between real exchange rate forecasting and nominal exchange rate forecasting? Which one is the most useful to financial planners and foreign currency traders?
24. Briefly explain the impact of Macro-economic factors on exchange rates. What is the need to control exchange rates by central bank? Quote two strategies adopted by RBI recently to protect the declining Rupee.
25. Highlight the salient features of foreign exchange management Act, 1999 & Reserve Bank of India Act, 1934 & Income tax Act, 1961 regulating the foreign exchange markets in India.
26. What do you mean by Fisher effect? Is it true that interest rate differential equals inflation rate differential?
27. "The spot exchange rate in a floating rate regime is determined by the supply and demand forces." Explain.
28. Explain covered interest arbitrage with suitable example. Is it different from uncovered interest arbitrage?
29. How is speculation done in forward market?
30. Comment on the structure of Indian foreign exchange market.
31. Is Forecasting of exchange rate relevant? Discuss.
32. The Reserve Bank of India has not reduced the interest rates despite increasing pressure to do so. Giving the reasons for this, the RBI asserts that the rates will only reduce when inflation settles down to a low level. Using this situation as a case, explain the relationship between inflation, interest rates and exchange rates.
33. Explain the concept of Direct and Indirect exchange rates with the help of examples.
34. Briefly explain the impact of Macro-economic factors on exchange rates. What is the need to control exchange rates by central bank? Quote two strategies adopted by RBI recently to protect the declining Rupee.

35. Highlight the salient features of foreign exchange management Act, 1999 & Reserve Bank of India Act, 1934 & Income tax Act, 1961 regulating the foreign exchange markets in India.
36. According to monetary approach to the balance of payments, what is the policy variable that the authorities can use to assure equilibrium in the supply and demand for foreign currency?
37. Where will a disequilibrium between the supply and demand for money manifest itself?
38. Are there any situations when sterilizing the monetary effects of central bank intervention in the foreign exchange market must be justified?
39. Discuss how market fundamentals and market expectations interact to influence exchange rates.
40. Explain how the volatility of exchange rates is influenced by the phenomenon of overshooting.

UNIT - III

I Test Your Skills:

(a) Multiple Choice Questions

1. Kalons Ltd. is a UK-based MNC that frequently imports raw materials from Canada. Kalons is typically invoiced for these goods in Canadian dollars and is concerned that the Canadian dollar will appreciate in the near future. Which of the following is not an appropriate hedging technique under these circumstances?
 - (a) purchase Canadian dollars forward.
 - (b) purchase Canadian dollar futures contracts.
 - (c) purchase Canadian dollar put options.
 - (d) purchase Canadian dollar call options.
2. Which of the following is the most likely strategy for a UK firm that will be receiving Swiss francs in the future and desires to avoid exchange rate risk (assume the firm has no offsetting position in francs)?
 - (a) purchase a call option on francs.
 - (b) sell a futures contract on francs.
 - (c) obtain a forward contract to purchase francs forward.
 - (d) all of the above are appropriate strategies for the scenario described.
3. Which of the following is true?
 - (a) Most forward contracts between firms and banks are for speculative purposes.
 - (b) Most future contracts represent a conservative approach by firms to hedge foreign trade.
 - (c) The forward contracts offered by banks have maturities for only four possible dates in the future.
 - (d) none of the above

4. European currency options can be exercised _____; American currency options can be exercised _____.
- (a) any time up to the expiration date; any time up to the expiration date
 - (b) any time up to the expiration date; only on the expiration date
 - (c) only on the expiration date; only on the expiration date
 - (d) only on the expiration date; any time up to the expiration date
5. A UK corporation has purchased currency call options to hedge a 70,000 dollar payable. The premium is £0.015 and the exercise price of the option is £0.54. If the spot rate at the time of maturity is £0.59, what is the total amount paid by the corporation if it acts rationally?
- (a) £36,750
 - (b) £1,050
 - (c) £37,800
 - (d) £38,850
6. Conditional currency options are:
- (a) options that do not require premiums.
 - (b) options where the premiums are canceled if a trigger level is reached.
 - (c) options that allow the buyer to decide what currency the option will be settled in.
 - (d) none of the above
7. Which of the following are true regarding the options markets?
- (a) Hedgers and speculators both attempt to lower risk.
 - (b) Hedgers attempt to lower risk, while speculators attempt to make riskless profits.
 - (c) Hedgers and speculators are both necessary in order for the market to be liquid.
 - (d) All of the above
8. The premium of a currency put option will increase if:
- (a) the volatility of the underlying asset goes up.
 - (b) the time to maturity goes up.
 - (c) the spot rate declines.
 - (d) none of the above
9. Which of the following is true of options?
- (a) The writer decides whether the option will be exercised.
 - (b) The writer pays the buyer the option premium.
 - (c) The buyer decides if the option will be exercised.
 - (d) More than one of these.
10. The purchase of a currency put option would be appropriate for which of the following?
- (a) Investors who expect to buy a foreign bond in one month.
 - (b) Corporations who expect to buy foreign currency to finance foreign subsidiaries.
 - (c) Corporations who expect to collect on a foreign account receivable in one month.
 - (d) All of the above

11. The spot rate for the Singapore dollar is £0.320. The 30-day forward rate is £0.325. The forward rate contains an annualized _____ of _____%.
- discount; -18.75
 - premium; 18.75
 - discount; -18.46
 - premium; 18.46
 - premium; 1.56
12. Translation exposure reflects:
- the exposure of a firm's ongoing international transactions to exchange rate fluctuations.
 - the exposure of a firm's local currency value to transactions between foreign exchange traders.
 - the exposure of a firm's financial statements to exchange rate fluctuations.
 - the exposure of a firm's cash flows to exchange rate fluctuations.
13. Diz ltd. is a UK-based MNC with net cash inflows of euros and net cash inflows of Swiss francs. These two currencies are highly correlated in their movements against the dollar. Yanta ltd is a UK-based MNC that has the same level of net cash flows in these currencies as Diz ltd except that its euros represent net cash outflows. Which firm has a higher exposure to exchange rate risk?
- Diz ltd
 - Yanta ltd
 - the firms have about the same level of exposure.
 - neither firm has any exposure.
14. Which of the following operations benefits from depreciation of the firm's local currency?
- borrowing in a foreign country and converting the funds to the local currency prior to the depreciation.
 - purchasing foreign supplies.
 - investing in foreign bank accounts denominated in foreign currencies prior to depreciation of the local currency.
 - A and B
15. Magent ltd. is a UK company that has exposure to the Swiss franc (SF) and Danish kroner (DK). It has net inflows of SF 200 million and net outflows of DK 500 million. The present exchange rate of the SF is about £0.22 while the present exchange rate of the DK is £0.05. Magent ltd. has not hedged these positions. The SF and DK are highly correlated in their movements against the pound. If the pound weakens, then Magent ltd. will:
- benefit, because the pound value of its SF position exceeds the pound value of its DK position.
 - benefit, because the pound value of its DK position exceeds the pound value of its SF position.
 - be adversely affected, because the pound value of its SF position exceeds the pound value of its DK position.

- (d) be adversely affected, because the pound value of its DK position exceeds the pound value of its SF position.
16. A firm produces goods for which substitute goods are produced in all countries. Appreciation of the firm's local currency should:
- increase local sales as it reduces foreign competition in local markets.
 - increase the firm's exports denominated in the local currency.
 - increase the returns earned on the firm's foreign bank deposits.
 - increase the firm's cash outflow required to pay for imported supplies denominated in a foreign currency.
 - none of the above
17. Subsidiary A of Mega plc has net inflows in Australian dollars of A\$1,000,000, while Subsidiary B has net outflows in Australian dollars of A\$1,500,000. The expected exchange rate of the Australian dollar is £0.30. What is the net inflow or outflow as measured in pounds?
- £150,000 outflow
 - £150,000 inflow
 - £1,666,000 inflow
 - £1,666,000 outflow
18. If an MNC expects cash inflows of equal amounts in two currencies, and the two currencies are _____ correlated, the MNC's transaction exposure is relatively _____.
- negatively; high
 - negatively; low
 - positively; low
 - none of the above
19. The maximum one-day loss computed for the value-at-risk (VAR) method, does not depend on:
- the expected percentage change in the currency for the next day.
 - the standard deviation of the daily percentage changes in the currency over a previous period.
 - the current level of interest rates.
 - the confidence level used.
20. Volusia, plc is a UK-based exporting firm that expects to receive payments denominated in both euros and Canadian dollars in one month. Based on today's spot rates, the pound value of the funds to be received is estimated at £500,000 for the euros and £300,000 for the Canadian dollars. Based on data for the last fifty months, Volusia estimates the standard deviation of monthly percentage changes to be 8 percent for the euro and 3 percent for the Canadian dollar. The correlation coefficient between the euro and the Canadian dollar is 0.30. What is the portfolio standard deviation?
- 3.00%.
 - 5.44%.

- (c) 17.98%.
 (d) none of the above
21. The _____ the percentage of an MNC's business conducted by its foreign subsidiaries, the _____ the percentage of a given financial statement item that is susceptible to translation exposure.
 (a) greater; smaller
 (b) smaller; greater
 (c) greater; greater
 (d) none of the above
22. Consider an MNC that is exposed to the Taiwan dollar (TWD) and the Egyptian pound (EGP). 25% of the MNC's funds are Taiwan dollars and 75% are pounds. The standard deviation of exchange movements is 7% for Taiwan dollars and 5% for pounds. The correlation coefficient between movements in the value of the Taiwan dollar and the pound is .7. Based on this information, the standard deviation of this two-currency portfolio is approximately:
 (a) 5.13%.
 (b) 2.63%.
 (c) 4.33%.
 (d) 5.55%
23. Assume zero transaction costs. If the 90-day forward rate of the euro is an accurate estimate of the spot rate 90 days from now, then the real cost of hedging payables will be:
 (a) positive.
 (b) negative.
 (c) positive if the forward rate exhibits a premium, and negative if the forward rate exhibits a discount.
 (d) zero.
24. An example of cross-hedging is:
 (a) find two currencies that are highly positively correlated; match the payables of the one currency to the receivables of the other currency.
 (b) use the forward market to sell forward whatever currencies you will receive.
 (c) use the forward market to buy forward whatever currencies you will receive.
 (d) B and C
25. The real cost of hedging payables with a forward contract equals:
 (a) the nominal cost of hedging minus the nominal cost of not hedging.
 (b) the nominal cost of not hedging minus the nominal cost of hedging.
 (c) the nominal cost of hedging divided by the nominal cost of not hedging.
 (d) the nominal cost of not hedging divided by the nominal cost of hedging.

26. Foghat Co. has 1,000,000 euros as receivables due in 30 days, and is certain that the euro will depreciate substantially over time. Assuming that the firm is correct, the ideal strategy is to:
- (a) sell euros forward.
 - (b) write euro currency put options.
 - (c) purchase euro currency call options.
 - (d) purchase euros forward.
 - (e) remain unhedged.
27. A _____ involves an exchange of currencies between two parties, with a promise to re-exchange currencies at a specified exchange rate and future date.
- (a) long-term forward contract
 - (b) currency swap
 - (c) parallel loan
 - (d) money market hedge

28. Assume that Parker Company will receive SF 200,000 in 360 days. Assume the following interest rates:

	UK	Switzerland
360-day borrowing rate	7%	5%
360-day deposit rate	6%	4%

Assume the forward rate of the Swiss franc is £0.44 and the spot rate of the Swiss franc is £0.42. If Parker Company uses a money market hedge, what equivalent amount could it receive in 360 days?

- (a) £101,904
 - (b) £101,923
 - (c) £88,769
 - (d) £84,919
 - (e) £72,307
29. Assume that Kramer Co. will receive SF 800,000 in 90 days. Today's spot rate of the Swiss franc is £0.42, and the 90-day forward rate is £0.425. Kramer has developed the following probability distribution for the spot rate in 90 days:

Possible Spot Rate in 90 Days	Probability
£0.41	10%
£0.42	20%
£0.43	40%
£0.44	30%

The probability that the forward hedge will result in more dollars received than not hedging is:

- (a) 10%.
- (b) 20%.
- (c) 30%.
- (d) 50%.
- (e) 70%.

30. Assume that Patton Co. will receive 100,000 New Zealand dollars (NZ\$) in 180 days. Today's spot rate of the NZ\$ is £0.35, and the 180-day forward rate is £0.36. A call option on NZ\$ exists, with an exercise price of £0.37, a premium of £0.01, and a 180-day expiration date. A put option on NZ\$ exists with an exercise price of £0.36, a premium of £0.01, and a 180-day expiration date. Patton Co. has developed the following probability distribution for the spot rate in 180 days:

Possible Spot Rate in 90 Days	Probability
£0.30	10%
£0.35	60%
£0.40	30%

- The probability that the forward hedge will result in more U.S. dollars received than the options hedge is _____ (deduct the amount paid for the premium when estimating the U.S. dollars received on the options hedge).
- (a) 10%
(b) 30%
(c) 40%
(d) 70%
(e) none of the above
31. Which of the following is the least effective way of hedging transaction exposure in the long run?
(a) long-term forward contract.
(b) parallel loan.
(c) currency swap.
(d) money market hedge.
32. In a forward hedge, if the forward rate is an accurate predictor of the future spot rate, the real cost of hedging payables will be:
(a) highly positive.
(b) zero.
(c) highly negative.
(d) none of the above
33. The potential effect of exchange rate fluctuations on foreign direct investment is expressed as _____ exposure.
(a) translation
(b) transaction
(c) conversion
(d) economic
(e) subjective
34. Which of the following is not one of the steps for currency exposure management:
(a) forecast the degree of exposure

- (b) develop a reporting system to monitor exposure and exchange rate movements
 - (c) buying additional foreign subsidiaries
 - (d) assign responsibility for hedging exposure
 - (e) select appropriate hedging tools
35. Operational techniques include:
- (a) diversification of a company's operations
 - (b) purchasing of currency options
 - (c) exposure netting
 - (d) both A and C
 - (e) all of the above
36. All of the following are types of financial instruments except for:
- (a) currency forward contracts
 - (b) currency futures contracts
 - (c) currency options
 - (d) swap agreements
 - (e) money-market hedge
37. There are important differences between translation, transaction, and economic exposure. Which of the following statements regarding these differences is true?
- (a) translation and economic exposure look to the future impact of an exchange-rate change which has occurred or may occur
 - (b) translation and transaction exposure involve actual or potential cash-flow changes
 - (c) transaction and economic exposure are the same kind and they do not differ in degree
 - (d) economic exposure is essentially objective because it depends on outstanding obligations which existed before changes in exchange rates
 - (e) economic exposure is essentially subjective because it depends on estimated future cash flows for an arbitrary time horizon
38. A(n) _____ hedge protects the company from adverse exchange rate movements but allow the company to benefit from favorable movements.
- (a) balance-sheet
 - (b) forward market
 - (c) money market
 - (d) options market
 - (e) swap agreement
39. Which of the following are rules to use when choosing between forward contracts and currency options:
- (a) When the quantity of a foreign-currency cash outflow is known, buy the currency forward.
 - (b) When the quantity of a foreign-currency cash outflow is unknown, buy the currency forward.

- (c) When the quantity of a foreign-currency cash flow is partially known and partially uncertain, use a forward contract to hedge the known and unknown portions.
 - (d) When the quantity of a foreign-currency cash inflow is known, buy the currency forward.
 - (e) When the quantity of a foreign-currency cash inflow is known, buy the currency forward and buy a call option of the currency.
40. An American firm has just bought merchandise from a British firm for £50,000 on terms of net 90 days. The U.S. company has purchased a 3-month call option of 50,000 pounds at a strike of \$1.7 per pound and premium cost of \$0.02 per pound. On the day the option matures, the spot exchange rate is \$1.8 per pound. Should the U.S. company exercise the option at that time or buy British pounds in the spot market?
- (a) exercise the option
 - (b) buys British pound spot
 - (c) does not make any difference
 - (d) cannot tell
 - (e) none of the above
41. Translation exposure reflects:
- (a) the exposure of a firm's ongoing international transactions to exchange rate fluctuations.
 - (b) the exposure of a firm's local currency value to transactions between foreign exchange traders.
 - (c) the exposure of a firm's financial statements to exchange rate fluctuations.
 - (d) the exposure of a firm's cash flows to exchange rate fluctuations.
42. Diz ltd. is a UK-based MNC with net cash inflows of euros and net cash inflows of Swiss francs. These two currencies are highly correlated in their movements against the dollar. Yanta ltd is a UK-based MNC that has the same level of net cash flows in these currencies as Diz ltd except that its euros represent net cash outflows. Which firm has a higher exposure to exchange rate risk?
- (a) Diz ltd
 - (b) Yanta ltd
 - (c) the firms have about the same level of exposure.
 - (d) neither firm has any exposure.
43. Which of the following operations benefits from depreciation of the firm's local currency?
- (a) borrowing in a foreign country and converting the funds to the local currency prior to the depreciation.
 - (b) purchasing foreign supplies.
 - (c) investing in foreign bank accounts denominated in foreign currencies prior to depreciation of the local currency.
 - (d) A and B

44. Magent ltd. is a UK company that has exposure to the Swiss franc (SF) and Danish kroner (DK). It has net inflows of SF 200 million and net outflows of DK 500 million. The present exchange rate of the SF is about £0.22 while the present exchange rate of the DK is £0.05. Magent ltd. has not hedged these positions. The SF and DK are highly correlated in their movements against the pound. If the pound weakens, then Magent ltd. will:
- benefit, because the pound value of its SF position exceeds the pound value of its DK position.
 - benefit, because the pound value of its DK position exceeds the pound value of its SF position.
 - be adversely affected, because the pound value of its SF position exceeds the pound value of its DK position.
 - be adversely affected, because the pound value of its DK position exceeds the pound value of its SF position.
45. A firm produces goods for which substitute goods are produced in all countries. Appreciation of the firm's local currency should:
- increase local sales as it reduces foreign competition in local markets.
 - increase the firm's exports denominated in the local currency.
 - increase the returns earned on the firm's foreign bank deposits.
 - increase the firm's cash outflow required to pay for imported supplies denominated in a foreign currency.
 - none of the above
46. Subsidiary A of Mega plc has net inflows in Australian dollars of A\$1,000,000, while Subsidiary B has net outflows in Australian dollars of A\$1,500,000. The expected exchange rate of the Australian dollar is £0.30. What is the net inflow or outflow as measured in pounds?
- £150,000 outflow.
 - £150,000 inflow
 - £1,666,000 inflow.
 - £1,666,000 outflow.
47. Assume zero transaction costs. If the 90-day forward rate of the euro is an accurate estimate of the spot rate 90 days from now, then the real cost of hedging payables will be:
- positive.
 - negative.
 - positive if the forward rate exhibits a premium, and negative if the forward rate exhibits a discount.
 - zero.
48. An example of cross-hedging is:
- find two currencies that are highly positively correlated; match the payables of the one currency to the receivables of the other currency.
 - use the forward market to sell forward whatever currencies you will receive.
 - use the forward market to buy forward whatever currencies you will receive.
 - B and C

49. The real cost of hedging payables with a forward contract equals:
- (a) the nominal cost of hedging minus the nominal cost of not hedging.
 - (b) the nominal cost of not hedging minus the nominal cost of hedging.
 - (c) the nominal cost of hedging divided by the nominal cost of not hedging.
 - (d) the nominal cost of not hedging divided by the nominal cost of hedging.
50. Foghat Co. has 1,000,000 euros as receivables due in 30 days, and is certain that the euro will appreciate substantially over time. Assuming that the firm is correct, the ideal strategy is to:
- (a) sell euros forward.
 - (b) write euro currency put options.
 - (c) purchase euro currency call options.
 - (d) purchase euros forward.
 - (e) remain unhedged.
51. A _____ involves an exchange of currencies between two parties, with a promise to re-exchange currencies at a specified exchange rate and future date.
- (a) long-term forward contract
 - (b) parallel loan
 - (c) currency swap
 - (d) money market hedge

52. Assume that Parker Company will receive SF 200,000 in 360 days. Assume the following interest rates:

	UK	Switzerland
360-day borrowing rate	7%	5%
360-day deposit rate	6%	4%

Assume the forward rate of the Swiss franc is £0.44 and the spot rate of the Swiss franc is £0.42. If Parker Company uses a money market hedge, what equivalent amount could it receive in 360 days?

- (a) £101,904
 - (b) £101,923
 - (c) £88,769
 - (d) £84,919
 - (e) £72,307
53. Assume that Kramer Co. will receive SF 800,000 in 90 days. Today's spot rate of the Swiss franc is £0.42, and the 90-day forward rate is £0.425. Kramer has developed the following probability distribution for the spot rate in 90 days:

Possible Spot Rate in 90 Days	Probability
£0.41	10%
£0.42	20%

£0.43	40%
£0.44	30%

The probability that the forward hedge will result in more dollars received than not hedging is:

- (a) 10%.
- (b) 20%.
- (c) 30%.
- (d) 50%.
- (e) 70%.

54. Assume that Patton Co. will receive 100,000 New Zealand dollars (NZ\$) in 180 days. Today's spot rate of the NZ\$ is £0.35, and the 180-day forward rate is £0.36. A call option on NZ\$ exists, with an exercise price of £0.37, a premium of £0.01, and a 180-day expiration date. A put option on NZ\$ exists with an exercise price of £0.36, a premium of £0.01, and a 180-day expiration date. Patton Co. has developed the following probability distribution for the spot rate in 180 days:

Possible Spot Rate in 90 Days	Probability
£0.30	10%
£0.35	60%
£0.40	30%

The probability that the forward hedge will result in more U.S. dollars received than the options hedge is _____ (deduct the amount paid for the premium when estimating the U.S. dollars received on the options hedge).

- (a) 10%
- (b) 30%
- (c) 40%
- (d) 70%
- (e) none of the above

55. Which of the following is the least effective way of hedging transaction exposure in the long run?

- (a) long-term forward contract.
- (b) currency swap.
- (c) Parallel Loan
- (d) Money Market Hedge

56. In a forward hedge, if the forward rate is an accurate predictor of the future spot rate, the real cost of hedging payables will be:

- (a) highly positive.
- (b) zero.
- (c) highly negative.
- (d) none of the above

57. With regard to hedging translation exposure, translation losses _____; and gains on forward contracts used to hedge translation exposure _____.
- are not tax deductible; are taxed
 - are not tax deductible; are not taxed
 - are tax deductible; are taxed
 - are tax deductible; are not taxed
58. Assume a UK firm uses a forward contract to hedge all of its translation exposure. Also assume that the firm underestimated what its foreign earnings would be. Assume that the foreign currency depreciated over the year. The firm would generate a translation _____, which would be _____ than the gain generated by the forward contract.
- loss; smaller
 - gain; larger
 - loss; larger
 - gain; smaller
59. An effective way for an MNC to assess its economic exposure is to look at the firm's:
- income statement.
 - retained earnings.
 - liquidity.
 - level of stockholder's equity.
60. As opposed to transaction exposure, managing economic exposure involves developing a _____ solution.
- short-term
 - immediate
 - long-term
 - none of the above
61. Spears Co. will receive SF1,000,000 in 30 days. Use the following information to determine the total dollar amount received (after [accounting](#) for the option premium) if the firm [purchases](#) and exercises a put option:
- Exercise price = \$.61
 Premium = \$.02
 Spot rate = \$.60
 Expected spot rate in 30 days = \$.56
 30 day forward rate = \$.62
- \$630,000.
 - \$610,000.
 - \$600,000.
 - \$590,000.
 - \$580,000.

62. When the dollar strengthens, the reported consolidated earnings of U.S. based MNCs are _____ affected by translation exposure. When the dollar weakens, the reported consolidated earnings are _____ affected.

- (a) favorably; favorably affected but by a smaller degree
- (b) favorably; favorably affected by a higher degree
- (c) unfavorably; favorably affected
- (d) favorably; unfavorably affected

63. Which one of the following areas is NOT a way companies often respond to exchange rate risk when they alter their product strategy?

- (a) shifting the firm's manufacturing base to another country
- (b) the timing of new-product introduction
- (c) changing the size of its product line
- (d) product innovation with advanced technology

64. The real cost of hedging payables with a forward contract equals:

- (a) the nominal cost of hedging minus the nominal cost of not hedging.
- (b) the nominal cost of not hedging minus the nominal cost of hedging.
- (c) the nominal cost of hedging divided by the nominal cost of not hedging.
- (d) the nominal cost of not hedging divided by the nominal cost of hedging.

65. A perfect hedge (full coverage) on translation exposure can usually be achieved when:

- (a) using the money market hedge.
- (b) using the forward hedge.
- (c) using the futures hedge.
- (d) none of the above, since a perfect hedge is nearly impossible.

66. A call option exists on British pounds with an exercise price of \$1.60, a 90-day expiration date, and a premium of \$.03 per unit. A put option exists on British pounds with an exercise price of \$1.60, a 90-day expiration date, and a premium of \$.02 per unit. You plan to purchase options to cover your future receivables of 700,000 pounds in 90 days. You will exercise the option in 90 days (if at all). You expect the spot rate of the pound to be \$1.57 in 90 days. Determine the amount of dollars to be received, after deducting payment for the option premium.

Choices:

- (a) \$1,169,000.
- (b) \$1,099,000.
- (c) \$1,106,000.
- (d) \$1,143,100.
- (e) \$1,134,000.

67. If a firm based in the Netherlands wishes to avoid the risk of exchange rate movements, and is due to receive USD100,000 in 90 days, it could:

- (a) sell US dollars 90 days from now at the spot rate.
- (b) enter into a 90-day forward sale of US dollars for euros;
- (c) purchase US dollars 90 days from now at the spot rate;
- (d) enter into a 90-day forward purchase of US dollars for euros;

68. A forward currency transaction:

- (a) Sets the future date when delivery of a currency must be made at an unknown spot exchange rate
- (b) Calls for exchange in the future of currencies at an agreed rate of exchange
- (c) Means that delivery and payment must be made within one business day (USA/Canada) or two business days after the transaction date
- (d) Is always at a premium over the spot rate
- (e) None of the above is correct

69. Two important practical differences between the monetary/non-monetary method and the current rate method of translation is found in their treatment of:

- (a) Fixed assets and owner's equity
- (b) Issued share capital and retained earnings
- (c) Inventories and fixed assets
- (d) Monetary assets
- (e) Cash and accounts receivable

70. If the Indian subsidiary of a US firm has net exposed assets of Rp9,000,000 and the Indian rupee drops in value from Rp45.00/\$ to Rp50.00/\$, the US firm has a translation:

- (a) Loss of \$25,000
- (b) Gain of \$20,000
- (c) Loss of \$20,000
- (d) Gain of \$25,000
- (e) Gain of Rp25,000

Ans. (1)(c), (2)(b), (3)(d), (4)(d), (5)(d), (6)(b), (7)(c), (8)(d), (9)(c), (10)(b),(11)(b), (12)(c), (13)(a), (14)(c), (15)(a), (16)(e), (17)(a), (18)(b), (19)(c), (20)(b), (21)(c), (22)(a), (23)(d), (24)(a), (25)(a), (26)(a), (27)(c), (28)(d), (29)(c), (30)(d), (31)(d), (32)(c), (33)(d), (34)(c), (35)(d), (36)(e), (37)(e), (38)(d), (39)(a), (40)(a), (41)(c), (42)(a), (43)(c), (44)(a), (45)(e), (46)(a), (47)(d), (48)(a), (49)(a), (50)(a), (51)(c), (52)(d), (53)(c), (54)(d), (55)(d), 56(b), 57(a), 58(c), 59(a), 60(c), 61(d), 62(c), 63(c), 64(a), 65(b), 66(c), (67)(b), (68)(b), (69)(c), (70)(c)

II Short Answer Type Questions:

1. What is foreign exchange exposure?
2. What factors contribute to risk and exposure?
3. What is accounting exposure?
4. How does it differ from economic/operating exposure?
5. How can firms hedge operating exposure?
6. What are the different types of exchange exposure that the multinational companies are exposed to?
7. Explain various types of risk and exposure and internal techniques used to deal with?
8. Discuss the exposure and risk occurring due to changes in interest rate and exchange rates?

9. What is foreign exchange risk?
10. How do we measure foreign exchange risk and foreign exchange exposure?
11. What is the relevance of country risk?
12. How do we estimate country risk?
13. What do you mean by currency risk? Explain with examples.
14. How do firms hedge transactions exposure using forwards, futures, swaps and options?
15. Bring out the arguments in favor and against of hedging?
16. Distinguish b/w forwards and future contract?
17. How can the companies cover their position by using currency future market?
18. What do you mean by currency futures? What are its features?
19. Explain with example, how options are used to cover exchange risk.
20. Explain both the currency SWAPs and currency options.
21. What are the different types of financial SWAPs?
22. Write short note on Currency Swaps
23. Distinguish between translation exposure and transaction exposure
24. What do you mean by consolidated net transaction exposure?
25. What is Balance sheet hedge?
26. Explain parallel loans.
27. Name the major techniques of contractual hedge.
28. Explain money market hedge.
29. What are the components of an option premium
30. Write a short note on: (a) Forward vs. Future contract
31. List different types of Exchange rate risks.
32. How would you define transaction exposure? How is it different from economic exposure?
33. Using an example, discuss the possible effect of hedging on a firm's tax obligations.
34. Explain cross-hedging.
35. Should a firm hedge? Why or why not?

III Long Answer Type Questions:

1. Give a general definition of “foreign exchange exposure” as it relates to the operations of a multinational enterprise. Explain the differences among transaction, operating, and translation exposure.
2. Is there any difference between translation exposure and transaction exposure? Explain with the help of example.
3. What is tax exposure and how does it relate to the triumvirate of transaction, operating, and translation exposure?
4. Explain the difference between transaction and operating exposure? Identify and create a hypothetical example for each of the four causes of transaction exposure?
5. What do you mean by transaction exposure? Why does the holding of foreign currency cash balances not lead to transaction exposure?
6. Discuss and compare hedging transaction exposure using the forward contract vs. money market instruments. When do the alternative hedging approaches produce the same result?
7. Recent surveys of corporate exchange risk management practices indicate that many U.S. firms simply do not hedge. How would you explain this result?

8. Should a firm hedge? Why or why not? Using an example, discuss the possible effect of hedging on a firm's tax obligations.
9. What is a hedge? Proponents of the efficient market hypothesis argue that an MNE should not hedge because investors can hedge themselves if they do not like the foreign exchange risks carried by the firm. Assess this argument.
10. Explain the difference between a natural hedge and a contractual hedge. Give a hypothetical example.
11. Cray Research sold a super computer to the Max Planck Institute in Germany on credit and invoiced DM 10 million payable in six months. Currently, the six-month forward exchange rate is \$1.50/DM and the foreign exchange advisor for Cray Research predicts that the spot rate is likely to be \$1.43 in six months. (a) What is the expected gain/loss from the forward hedging? (b) If you were the financial manager of Cray Research, would you recommend hedging this DM receivable? Why or why not? (c) Suppose the foreign exchange advisor predicts that the future spot rate will be the same as the forward exchange rate quoted today. Would you recommend hedging in this case? Why or why not?
12. Explain cross-hedging and discuss the factors determining its effectiveness.
13. What do you mean by the term hedging by derivatives? Discuss and compare the costs of hedging via the forward contract and the options contract.
14. What are the advantages of a currency options contract as a hedging tool compared with the forward contract?
15. Suppose your company has purchased a put option on the German mark to manage exchange exposure associated with an account receivable denominated in that currency. In this case, your company can be said to have an 'insurance' policy on its receivable. Explain in what sense this is so.
16. What do you mean by derivatives? Explain the basic differences between the operation of a currency forward market and a futures market.
17. In order for a derivatives market to function two types of economic agents are needed: hedgers and speculators. Explain.
18. How can the FX futures market be used for price discovery? Why are most futures positions closed out through a reversing trade rather than held to delivery?
19. Assume today's settlement price on a CME DM futures contract is \$0.6080/DM. You have a short position in one contract. Your margin account currently has a balance of \$1,700. The next three days' settlement prices are \$0.6066, \$0.6073, and \$0.5989. Calculate the changes in the margin account from daily marking-to-market and the balance of the margin account after the third day?
20. List the arguments (variables) of which a FX call or put option model price is a function. How does the call and put premium change with respect to a change in the arguments?
21. Economic Exposure is managed through various marketing, production and financial management strategies, as the traditional hedging tools are not appropriate techniques for managing economic exposure. Discuss different types of strategies a firm can adopt to manage economic exposure.
22. How do you arrive at the amount of real operating exposure?
23. Do the different methods of translation arrive at different sizes of translation exposure?
24. What are the techniques adopted for the natural hedge?
25. How do you hedge real operating exposure?
26. Explain the concept of Economic Exposure. How can Economic Exposure be managed?

27. How can transnational companies use currency futures
28. Economic Exposure is managed through various marketing, production and financial management strategies, as the traditional hedging tools are not appropriate techniques for managing economic exposure. Discuss different types of strategies a firm can adopt to manage economic exposure.
29. What are fixed rate currency swaps and how can they be used?
30. What are the costs involved in participating forwards? Compare this type of coverage with simple option coverage.
31. Why does an at the money purchased horizontal spread give a positive outcome when the spot rate remains unchanged?
32. Discuss and compare hedging transaction exposure using the forward contract vs. money market instruments. When do the alternative hedging approaches produce the same result?
33. Discuss and compare the costs of hedging via the forward contract and the options contract.
34. What are the advantages of a currency options contract as a hedging tool compared with the forward contract?
35. Suppose your company has purchased a put option on the German mark to manage exchange exposure associated with an account receivable denominated in that currency. In this case, your company can be said to have an 'insurance' policy on its receivable. Explain in what sense this is so.

UNIT - IV

I Test Your Skills:

(a) Multiple Choice Questions

1. If a UK parent is setting up a French subsidiary, and funds from the subsidiary will be periodically sent to the parent, the ideal situation from the parent's perspective is a _____ after the subsidiary is established.
 - (a) strengthening euro
 - (b) stable euro
 - (c) weak euro
 - (d) B and C are both ideal.
2. Assume the parent of a UK-based MNC plans to completely finance the establishment of its US subsidiary with existing funds from retained earnings in UK operations. According to the text, the discount rate used in the capital budgeting analysis on this project should be most affected by:
 - (a) the cost of borrowing funds in the U.K.
 - (b) the cost of borrowing funds in the U.S.
 - (c) the parent's cost of capital.
 - (d) A and B

3. A firm considers an exporting project and will invoice the exports in pounds. The expected cash flows in pounds would be more difficult if the currency of the foreign country is _____.
- (a) fixed
 - (b) volatile
 - (c) stable
 - (d) none of the above, as the firm is not exposed
4. Other things being equal, firms from a particular home country will engage in more international acquisitions if they expect foreign currencies to _____ against their home currency, and if their cost of capital is relatively _____.
- (a) appreciate; low
 - (b) appreciate; high
 - (c) depreciate; high
 - (d) depreciate; low
5. The impact of blocked funds on the net present value of a foreign project will be greater if interest rates are _____ in the host country and there are _____ investment opportunities in the host country.
- (a) very high; limited
 - (b) very low; limited
 - (c) very low; numerous.
 - (d) very high; numerous
6. A French-based MNC has just established a subsidiary in Algeria. Shortly after the plant was built, the MNC determines that its exchange rate forecasts, which had previously indicated a slight appreciation in the Algerian dinar were probably false. Instead of a slight appreciation, the MNC now expects that the dinar will depreciate substantially due to political turmoil in Algeria. This new development would likely cause the MNC to _____ its estimate of the previously computed net present value.
- (a) lower
 - (b) increase
 - (c) lower, but not necessarily if the MNC invests enough in Algeria to offset the decrease in NPV
 - (d) increase, but not necessarily if the MNC reduces its investment in Algeria by an offsetting amount
 - (e) none of the above
7. Assume that Baps Corporation is considering the establishment of a subsidiary in Norway. The initial investment required by the parent is \$5,000,000. If the project is undertaken, Baps would terminate the project after four years. Baps' cost of capital is 13%, and the project is of the same risk as Baps' existing projects. All cash flows generated from the project will be remitted to the parent at the end of each year. Listed below are the estimated cash flows the Norwegian subsidiary will generate over the project's lifetime in Norwegian kroner (NOK):

Year 1	Year 2	Year 3	Year 4
NOK 10,000,000	NOK 15,000,000	NOK 17,000,000	NOK
20,000,000			

The current exchange rate of the Norwegian kroner is \$.135. Baps' exchange rate forecast for the Norwegian kroner over the project's lifetime is listed below:

Year 1	Year 2	Year 3	Year 4
\$.13	\$.14	\$.12	\$.15

Baps is also uncertain regarding the cost of capital. Recently, Norway has been involved in some political turmoil. What is the net present value (NPV) of this project if a 16% cost of capital is used instead of 13%?

- (a) -\$17,602.62.
 - (b) \$8,000,000.
 - (c) \$1,048,829.
 - (d) \$645,147.
8. When a foreign subsidiary is not wholly owned by the parent and a foreign project is partially
- (a) financed with retained earnings of the parent and of the subsidiary, then:
 - (b) the parent's perspective should be used to evaluate a foreign project.
 - (c) the subsidiary's perspective should be used to evaluate a foreign project.
 - (d) the foreign project should enhance the value of both the parent and the subsidiary.
 - (e) none of the above
9. An international project's NPV is _____ related to the size of the initial investment and _____ related to the project's required rate of return.
- (a) positively; positively
 - (b) positive; negatively
 - (c) negatively; positively
 - (d) negatively; negatively
10. A foreign project generates a negative cash flow in year 1 and positive cash flows in years 2 through 5. The NPV for this project will be higher if the foreign currency _____ in year 1 and _____ in years 2 through 5.
- (a) depreciates; depreciates
 - (b) appreciates; appreciates
 - (c) depreciates; appreciates
 - (d) appreciates; depreciates
11. If an MNC sells a product in a foreign country and imports partially manufactured components needed for production to that country from the U.S., then the local economy's inflation will have:
- (a) a more pronounced impact on revenues than on costs.

- (b) a less pronounced impact on revenues than on costs.
 - (c) the same impact on revenues as on costs.
 - (d) none of the above
12. Which of the following is not an example of multinational restructuring?
- (a) An MNC builds a new subsidiary in Malaysia.
 - (b) An MNC acquires a company in Germany.
 - (c) An MNC downsizes its operations in Hong Kong.
 - (d) An MNC shifts some production from its Swiss subsidiary to its Dutch subsidiary.
 - (e) All of the above are examples of multinational restructuring.
13. Which of the following is not true regarding a target's previous cash flows?
- (a) They may serve as an initial base from which future cash flows may be estimated after accounting for other factors.
 - (b) It may be easier to estimate the cash flows to be generated by a target than to estimate the cash flows to be generated from a new foreign subsidiary.
 - (c) They are always good indicators of future cash flows.
 - (d) All of the above are true.
14. Which of the following would probably not cause the stock price of a foreign target to decrease?
- (a) Its expected cash flows decline.
 - (b) General stock market conditions in the foreign country are deteriorating.
 - (c) Investors anticipate that the target will be acquired.
 - (d) All of the above will cause the target's stock price to decrease.
15. A previously undertaken project in a foreign country may no longer be feasible because:
- (a) the MNC is unable to raise sufficient funds in order to undertake the project.
 - (b) the MNC's cost of capital has decreased.
 - (c) the host government has increased its tax rates substantially.
 - (d) exchange rate projections changed from a depreciation to an appreciation of the foreign currency.
16. Other things being equal, a foreign subsidiary in China would more likely be divested by the U.S. parent if new information caused the parent to suddenly anticipate that:
- (a) the Chinese yuan would depreciate in the future.
 - (b) the Chinese yuan would appreciate in the future.
 - (c) the Chinese yuan would remain somewhat stable in the future.
 - (d) none of the above; the value of the Chinese yuan has no impact on the feasibility of a divestiture.
17. A macro-assessment of country risk:
- (a) is adjusted for the particular business of the firm involved.
 - (b) excludes all aspects relevant to a particular firm or project.
 - (c) A and B
 - (d) none of the above

18. The checklist approach:
- requires several inspections of the country being evaluated.
 - requires the use of discriminant analysis to assess country risk.
 - requires ratings and weights to be assigned to all factors relevant in assessing country risk.
 - involves the collection of independent opinions on country risk.
19. Insurance purchased to cover the risk of expropriation _____, and will typically cover _____.
- will be the same for all firms; only a portion of the firm's total exposure.
 - will be the same for all firms; all of the firm's total exposure.
 - will be dependent on the firm's risk; all of the firm's total exposure.
 - will be dependent on the firm's risk; only a portion of the firm's total exposure.
20. If a foreign country follows the "Purchase Homemade Products" philosophy, the least effective strategy would be for a UK firm to:
- use a licensing arrangement with a local firm in that country.
 - enter into a joint venture in that country.
 - develop a subsidiary (under the US name) that manufactures and sells products in that country.
 - develop a subsidiary (under the US name) that manufactures products in that country and exports them to border countries.
21. A firm may incorporate a country risk rating into the capital budgeting analysis by:
- adjusting the NPV upward if the country risk rating has fallen (implying increased risk) below a benchmark level.
 - adjusting the discount rate upward as the country risk rating decreases (implying increased risk).
 - A and B
 - none of the above
22. _____ is(are) not a form of political risk.
- Exchange rate movements
 - Attitude of consumers in the host country
 - Actions of the host government
 - Blockage of fund transfers
 - All of the above are forms of political risk
23. When quantifying country risk:
- weights should be equally allocated among factors.
 - weights should be assigned to the political and financial factors according to their perceived importance.
 - it is not generally necessary to construct separate ratings for political and financial risk since these will be equally weighed in the final analysis.

- (d) the derived factors will be identical for all MNCs conducting business in that country.
24. An argument for MNCs to have a debt-intensive capital structure is:
- (a) they are well diversified.
 - (b) foreign government tax rules may change over time.
 - (c) exposure to exchange rate fluctuations.
 - (d) exposure to fund blockage.
25. The capital asset pricing theory is based on the premise that:
- (a) only unsystematic variability in cash flows is relevant.
 - (b) only systematic variability in cash flows is relevant.
 - (c) both systematic and unsystematic variability in cash flows are relevant.
 - (d) neither systematic nor unsystematic variability in cash flows is relevant.
26. One argument for why subsidiaries should be wholly-owned by the parent is that:
- (a) the potential conflict of interests between the MNC's managers and shareholders is avoided.
 - (b) the potential conflict of interests between the MNC's majority shareholders and minority shareholders is avoided.
 - (c) the potential conflict of interests between the MNC's existing creditors is avoided.
 - (d) the potential conflict of interests between the MNC's managers and creditors is avoided.
27. Other things being equal, countries with relatively _____ populations and _____ inflation are more likely to have a low cost of capital.
- (a) young; high
 - (b) old; high
 - (c) old; low
 - (d) young; low
28. According to the text:
- (a) the cost of debt for each country is somewhat stable over time.
 - (b) the cost of debt for countries change over time, and these changes are negatively correlated.
 - (c) the cost of debt for countries change over time, and these changes are positively correlated.
 - (d) the cost of debt for countries change over time, and are not correlated.
29. Which of the following is not a factor that favorably affects an MNC's cost of capital, according to your text?
- (a) exchange rate risk.
 - (b) size.
 - (c) access to international capital markets.
 - (d) international diversification.

30. MNC Corporation has a beta of 2.0. The risk-free rate of interest is 5%, and the return on the stock market overall is expected to be 13%. What is the required rate of return on MNC stock?
- 21%.
 - 41%.
 - 16%.
 - 13%.
 - none of the above
31. In general, MNCs probably prefer to use _____ foreign debt when their foreign subsidiaries are subject to potentially _____ local currencies.
- more; strong
 - more; weak
 - less; strong
 - less; weak
 - B and D
32. To the extent that individual economies are _____ each other, net cash flows from a portfolio of subsidiaries should exhibit _____ variability, which may reduce the probability of bankruptcy.
- dependent on; less
 - independent of; less
 - dependent on; more
 - independent of; more
33. The lower a project's beta, the _____ is the project's _____ risk.
- lower; systematic
 - lower; unsystematic
 - higher; systematic
 - higher; unsystematic
34. The profitability index is:
- Net present value/Initial outlay.
 - Initial outlay/Gross present value.
 - Gross present volume/Initial outlay.
 - Gross present value/Net present value.
35. What is the maximum NPV available from the following projects?
- | Project | NPV (£m) | Initial investment (£m) |
|---------|----------|-------------------------|
| A | 1 | 0.3 |
| B | 3 | 3.5 |
| C | 5 | 2.5 |
| D | 2 | 0.5 |
| E | 10 | 10 |
- A capital constraint of £16m has been imposed on the total initial investment. The projects are divisible and each may be undertaken only once.
- £20.3m

- (b) £18m
(c) £16m
(d) £17m
36. Which of the following is a correct method of adjusting for inflation when calculating net present value?
(a) Estimate the future cash flows by multiplying by the specific inflation of each cash inflow and outflow item, and then discount using the real rate of return.
(b) Estimate the cash flows in real terms and use a real discount rate.
(c) Estimate the cash flows in money terms and use a real discount rate.
(d) Estimate the cash flows in real terms and use a money discount rate.
37. The relationship between the money rate of return, m , the real rate of return, h , and the inflation rate, i , is expressed in which of the following formulae?
(a) $h = 1 + i / 1 + m$
(b) $m = h + i$
(c) $(1 + m) = (1 + h)i$
(d) $1 + h = (1 + m) / (1 + i)$
38. Which of the following is true?
A. Risk is the probability of an outturn being less than anticipated.
B. An objective probability is one which can be established mathematically or from historical data.
C. The discount rate may be raised or lowered to allow for the risk of a project, the extent of the risk premium being based on indisputable theory.
- (a) B
(b) C
(c) A
39. Which of the following statements about sensitivity analysis is false?
(a) Sensitivity analysis allows the decision maker to direct search effort by highlighting variables which, when they change by a small percentage, have a large impact on NPV.
(b) Sensitivity analysis can be used to highlight variables of greatest significance to NPV, which then allows monitoring in the implementation phase and the drawing up of contingency plans.
(c) Sensitivity analysis allows decision makers to be more informed about project sensitivities, to know what room they have for judgemental error and decide whether they are prepared to accept the risks.
(d) Sensitivity analysis permits the decision maker to change all the variables simultaneously and thereby examine a project in various different circumstances

40. Which of the following does not obey the mean-variance rule?
- (a) Project X will be preferred to project Y if the standard deviation on X and Y is the same, but the expected return on Y is lower.
 - (b) Project X will be preferred to project Y if the expected return on X exceeds that of Y and the variance is equal to or less than that of Y.
 - (c) Project X will be preferred to project Y if the expected return on X and Y is the same, but Y has a higher standard deviation.
 - (d) Project X will be preferred to project Y if the variance of X is higher than Y and the expected return is lower than Y.
41. If a UK parent is setting up a French subsidiary, and funds from the subsidiary will be periodically sent to the parent, the ideal situation from the parent's perspective is a _____ after the subsidiary is established.
- (a) strengthening euro
 - (b) stable euro
 - (c) weak euro
 - (d) B and C are both ideal.
42. Assume the parent of a UK-based MNC plans to completely finance the establishment of its US subsidiary with existing funds from retained earnings in UK operations. According to the text, the discount rate used in the capital budgeting analysis on this project should be most affected by:
- (a) the cost of borrowing funds in the U.K.
 - (b) the cost of borrowing funds in the U.S.
 - (c) the parent's cost of capital.
 - (d) A and B
43. A firm considers an exporting project and will invoice the exports in pounds. The expected cash flows in pounds would be more difficult if the currency of the foreign country is _____.
- (a) fixed
 - (b) volatile
 - (c) stable
 - (d) none of the above, as the firm is not exposed
44. Other things being equal, firms from a particular home country will engage in more international acquisitions if they expect foreign currencies to _____ against their home currency, and if their cost of capital is relatively _____.
- (a) appreciate; low
 - (b) appreciate; high
 - (c) depreciate; high
 - (d) depreciate; low

45. The impact of blocked funds on the net present value of a foreign project will be greater if interest rates are _____ in the host country and there are _____ investment opportunities in the host country.

- (a) very high; limited
- (b) very low; limited
- (c) very low; numerous
- (d) very high; numerous

46. A French-based MNC has just established a subsidiary in Algeria. Shortly after the plant was built, the MNC determines that its exchange rate forecasts, which had previously indicated a slight appreciation in the Algerian dinar were probably false. Instead of a slight appreciation, the MNC now expects that the dinar will depreciate substantially due to political turmoil in Algeria. This new development would likely cause the MNC to _____ its estimate of the previously computed net present value.

- (a) lower
- (b) increase
- (c) lower, but not necessarily if the MNC invests enough in Algeria to offset the decrease in NPV
- (d) increase, but not necessarily if the MNC reduces its investment in Algeria by an offsetting amount
- (e) none of the above

47. Assume that Baps Corporation is considering the establishment of a subsidiary in Norway. The initial investment required by the parent is \$5,000,000. If the project is undertaken, Baps would terminate the project after four years. Baps' cost of capital is 13%, and the project is of the same risk as Baps' existing projects. All cash flows generated from the project will be remitted to the parent at the end of each year. Listed below are the estimated cash flows the Norwegian subsidiary will generate over the project's lifetime in Norwegian kroner (NOK):

Year 1	NOK 10,000,000
Year 2	NOK 15,000,000
Year 3	NOK 17,000,000
Year 4	NOK 20,000,000

The current exchange rate of the Norwegian kroner is \$.135. Baps' exchange rate forecast for the Norwegian kroner over the project's lifetime is listed below:

Year 1	\$.13
Year 2	\$.14
Year 3	\$.12
Year 4	\$.15

Baps is also uncertain regarding the cost of capital. Recently, Norway has been involved in some political turmoil. What is the net present value (NPV) of this project if a 16% cost of capital is used instead of 13%?

- (a) -\$17,602.62.
- (b) \$8,000,000
- (c) \$1,048,829.
- (d) \$645,147.

48. When a foreign subsidiary is not wholly owned by the parent and a foreign project is partially financed with retained earnings of the parent and of the subsidiary, then:
- (a) the parent's perspective should be used to evaluate a foreign project.
 - (b) the subsidiary's perspective should be used to evaluate a foreign project.
 - (c) the foreign project should enhance the value of both the parent and the subsidiary.
 - (d) none of the above
49. An international project's NPV is _____ related to the size of the initial investment and _____ related to the project's required rate of return.
- (a) positively; positively
 - (b) positive; negatively
 - (c) negatively; positively
 - (d) negatively; negatively
50. A foreign project generates a negative cash flow in year 1 and positive cash flows in years 2 through 5. The NPV for this project will be higher if the foreign currency _____ in year 1 and _____ in years 2 through 5.
- (a) depreciates; depreciates
 - (b) appreciates; appreciates
 - (c) depreciates; appreciates
 - (d) appreciates; depreciates
51. If an MNC sells a product in a foreign country and imports partially manufactured components needed for production to that country from the U.S., then the local economy's inflation will have:
- (a) a more pronounced impact on revenues than on costs.
 - (b) a less pronounced impact on revenues than on costs.
 - (c) the same impact on revenues as on costs.
 - (d) none of the above
52. Which of the following is not an example of multinational restructuring?
- (a) An MNC builds a new subsidiary in Malaysia.
 - (b) An MNC acquires a company in Germany.
 - (c) An MNC downsizes its operations in Hong Kong.
 - (d) An MNC shifts some production from its Swiss subsidiary to its Dutch subsidiary.
 - (e) All of the above are examples of multinational restructuring.
53. Which of the following is not true regarding a target's previous cash flows?
- (a) They may serve as an initial base from which future cash flows may be estimated after accounting for other factors.
 - (b) It may be easier to estimate the cash flows to be generated by a target than to estimate the cash flows to be generated from a new foreign subsidiary.
 - (c) They are always good indicators of future cash flows.
 - (d) All of the above are true.

54. Which of the following would probably not cause the stock price of a foreign target to decrease?
- (a) Its expected cash flows decline.
 - (b) General stock market conditions in the foreign country are deteriorating.
 - (c) Investors anticipate that the target will be acquired.
 - (d) All of the above will cause the target's stock price to decrease.
55. A previously undertaken project in a foreign country may no longer be feasible because:
- (a) the MNC is unable to raise sufficient funds in order to undertake the project.
 - (b) the MNC's cost of capital has decreased.
 - (c) the host government has increased its tax rates substantially.
 - (d) exchange rate projections changed from a depreciation to an appreciation of the foreign currency.
56. Other things being equal, a foreign subsidiary in China would more likely be divested by the U.S. parent if new information caused the parent to suddenly anticipate that:
- (a) the Chinese yuan would depreciate in the future.
 - (b) the Chinese yuan would appreciate in the future.
 - (c) the Chinese yuan would remain somewhat stable in the future.
 - (d) none of the above; the value of the Chinese yuan has no impact on the feasibility of a divestiture.
57. A macro-assessment of country risk:
- (a) is adjusted for the particular business of the firm involved.
 - (b) excludes all aspects relevant to a particular firm or project.
 - (c) A and B
 - (d) none of the above
58. The checklist approach:
- (a) requires several inspections of the country being evaluated.
 - (b) requires the use of discriminant analysis to assess country risk.
 - (c) requires ratings and weights to be assigned to all factors relevant in assessing country risk.
 - (d) involves the collection of independent opinions on country risk.
59. A firm may incorporate a country risk rating into the capital budgeting analysis by:
- (a) adjusting the NPV upward if the country risk rating has fallen (implying increased risk) below a benchmark level.
 - (b) adjusting the discount rate upward as the country risk rating decreases (implying increased risk).
 - (c) A and B
 - (d) none of the above
60. When quantifying country risk:
- (a) weights should be equally allocated among factors.

- (b) weights should be assigned to the political and financial factors according to their perceived importance.
 - (c) it is not generally necessary to construct separate ratings for political and financial risk since these will be equally weighed in the final analysis.
 - (d) the derived factors will be identical for all MNCs conducting business in that country.
61. The most preferred form of securities for funding by firms in the U.S. is
- (a) debt
 - (b) preferred stock
 - (c) common stock
 - (d) stock derivatives
62. Which one of the following new issues of stock has the greatest probability of lowering its cost of equity capital?
- (a) Microsoft in the New York markets
 - (b) Toyota on the Tokyo exchange
 - (c) Apple stock on the London exchange
 - (d) all of the above
63. When computing the weighted average cost of capital, the weighting should be proportional based on the _____ rather than the _____ value of the firm.
- (a) book, market
 - (b) hypothetical, book
 - (c) market, analyst's
 - (d) market, book
64. The rate of return on its existing assets that a firm must earn to maintain the current value of the firm's stock is called the:
- (a) return on equity.
 - (b) internal rate of return.
 - (c) weighted average cost of capital.
 - (d) weighted average cost of equity.
 - (e) current yield.
65. Which one of the following is a correct statement regarding a firm's weighted average cost of capital (WACC)?
- (a) An increase in the market risk premium will tend to decrease a firm's WACC.
 - (b) A reduction in the risk level of a firm will tend to increase the firm's WACC.
 - (c) A 5 percent increase in a firm's debt-equity ratio will tend to increase the firm's WACC.
 - (d) The WACC can be used as the required return for all new projects with similar risk to that of the existing firm.
 - (e) The WACC will decrease when the tax rate decreases for all firms that utilize debt financing.

66. Capital structure weights are based on the:
- market values of a firm's debt and equity.
 - market value of a firm's equity and the face value of its debt.
 - initial issue values of a firm's debt and equity.
 - book value of a firm's debt and equity.
 - firm's dividend and bond yields.
67. Which one of the following represents the best estimate for a firm's pre-tax cost of debt?
- the current yield-to-maturity on the firm's existing debt
 - the firm's historical cost of capital
 - twice the rate of return currently offered on risk-free securities
 - the current coupon on the firm's existing debt
 - the current yield on the firm's existing debt
68. A project may be regarded as high risk project when
- It has smaller variance of outcome but a high initial investment
 - It has larger variance of outcome and high initial investment
 - It has smaller variance of outcome and a low initial investment
 - It has larger variance of outcome and low initial investment
69. Following is (are) the method(s) for adjustment of risks
- Risk-adjusted Discounting Rate
 - Risk Equivalence Coefficient Method
 - Both (A) and (B)
 - None of the above
70. With limited finance and a number of project proposals at hand, select that package of projects which has
- The maximum net present value
 - Internal rate of return is greater than cost of capital
 - Profitability index is greater than unity
 - Any of the above

Ans. (1)(a), (2)(c), (3)(b), (4)(a), (5)(b), (6)(a), (7)(d), (8)(c), (9)(d), (10)(c), (11)(a), (12)(e), (13)(c), (14)(c), (15)(c), (16)(a), (17)(b), (18)(c), (19)(d), (20)(c), (21)(b), (22)(a), (23)(b), (24)(a), (25)(b), (26)(b), (27)(c), (28)(c), (29)(a), (30)(a), (31)(b), (32)(c), (33)(a), (34)(c), (35)(a), (36)(b), (37)(d), (38)(a), (39)(d), (40)(d), (41)(a), (42)(c), (43)(b), (44)(a), (45)(b), (46)(a), (47)(d), (48)(c), (49)(d), (50)(c), (51)(a), (52)(e), (53)(c), (54)(c), (55)(c), (56)(a), (57)(b), (58)(c), (59)(b), (60)(b), (61)(a), (62)(c), (63)(d), (64)(c), (65)(d), (66)(a), (67)(a), (68)(a), (69)(c), (70)(a)

II Short Answer Type Questions:

- Why is capital budgeting analysis so important to the firm?
- How is Capital Budgeting in an international context different?

3. In what respects does international capital budgeting differ from domestic capital budgeting?
4. What is the intuition behind the NPV capital budgeting framework?
5. Discuss what is meant by the incremental cash flows of a capital project.
6. Why should a foreign project be evaluated both from a project and parent viewpoint?
7. What makes the APV capital budgeting framework useful for analyzing foreign capital expenditures?
8. What is the nature of a concessionary loan and how is it handled in the APV model?
9. Write in details the shortcomings of NPV method while evaluating capital budgeting for international project.
10. How should subsidized financing be treated in international capital budgeting decision?
11. What is the traditional notion of Cost of Capital?
12. Discuss how the cost of capital is determined in segmented vs. integrated capital markets.
13. How do we estimate the cost of equity and the cost of debt in an international context?
14. How do we use proxy companies in estimating cost of equity?
15. How to limit the risk of International Business Joint Ventures
16. Why do international joint ventures fail?
17. What is an example of International joint venture?
18. Why do firm pursue international joint ventures?
19. How to make International Joint Ventures successful?
20. What are various advantages and disadvantages of international joint ventures?
21. Do you agree that the NPV rule is better than the IRR rule for international capital budgeting?
22. Is it correct to say that cost of capital varies between domestic and international capital budgeting?
23. "Parent's interest dominates while making capital budgeting analysis." Explain.
24. How do you treat the blocked funds for calculating the initial cash flow?
25. How do you compute the cost of debt and cost of equity?
26. Write short note on International Joint Venture
27. What is accounting exposure and how is it measured?
28. Define cross border risk.
29. Discuss the concept of political risk.
30. What are the problems with applying the CAPM on the international level?
31. How can exchange control factor be incorporated in international capital budgeting decision?
32. What are the two approaches used to incorporate the exchange rate and political risks in the multinational capital budgeting exercise?
33. Discuss the utility of adjusted rate of return method in incorporating political and economic risks
34. How should subsidized financing be treated in international capital budgeting decision?
35. In what respects does international capital budgeting differ from domestic capital budgeting

III Long Answer Type Questions:

1. What do you mean by International project evaluation? What problems can enter into the capital budgeting analysis if project debt is evaluated instead of the borrowing capacity created by the project?
2. Why is it important to separately identify the value of any side effects that accompany foreign investment project?
3. Discuss the difference between performing the capital budgeting analysis from the parent firm's perspective as opposed to the project perspective.
4. What do you mean by APV Approach? What is the intuition of discounting the various cash flows in the APV model at specific discount rates?
5. What are the various specific issues that deserve consideration in multinational capital budgeting that are not normally relevant for a purely domestic project?
6. Discuss the circumstances under which the capital expenditure of a foreign subsidiary might have a positive NPV in local currency terms but be unprofitable from the parent firm's perspective.
7. The Alpha Company plans to establish a subsidiary in Hungary to manufacture and sell fashion wristwatches. Alpha has total assets of \$70 million, of which \$45 million is equity financed. The remainder is financed with debt. Alpha considered its current capital structure optimal. The construction cost of the Hungarian facility in forints is estimated at HUF 2,400,000,000, of which HUF 1,800,000, and 000 is to be financed at a below-market borrowing rate arranged by the Hungarian government. Alpha wonders what amount of debt it should use in calculating the tax shields on interest payments in its capital budgeting analysis. Can you offer assistance?
8. Capital Budgeting for foreign project is considerably more complex than that in domestic case. Identify the factors that add complexity.
9. Project A has an NPV estimated to be \$2 million. This estimate has not accounted for risk, but with such a large NPV, it is reported that the project should be accepted since even a risk-adjusted NPV would likely to be positive. What would be your decision regarding acceptance or rejection of the project?
10. How can exchange control factor be incorporated in international capital budgeting decision?
11. How should MNC factor host-country inflation into its evaluation of an investment proposal? Also explain how the financing decision can influence the sensitivity of NPV to exchange rate forecasts.
12. What is international capital budgeting? International capital budgeting is a difficult task. Explain and also write a note on NPV vs. APV
13. Suppose firm projects \$5 million perpetuity from an investment of \$20 million in Spain. If the required return on this investment is 20%, how large does the probability of expropriation in year 4 have to be before the investment has a negative NPV? Assume that all cash inflows occur at the end of each year and that the expropriation, if it occurs, will occur prior to the year-4 cash inflow or not at all. There is no compensation in the event of expropriation.
14. What are the two approaches used to incorporate the exchange rate and political risks in the multinational capital budgeting exercise?

15. The Beta Corporation has an optimal debt ratio of 40 percent. Its cost of equity capital is 12 percent and its before-tax borrowing rate is 8 percent. Given a marginal tax rate of 35 percent, calculate (a) the weighted-average cost of capital, and (b) the cost of equity for an equivalent all-equity financed firm.
16. What do you mean by cost of capital? Explain why and how a firm's cost of capital may decrease when the firm's stock is cross-listed on foreign stock exchanges.
17. Highlight the major factors that need to be considered while evaluating an international project vis-à-vis a domestic one. How cost of capital is determined in such case?
18. Trade Deficit is burgeoning and short term remittances do not provide sustainable source of capital. What are the factors which can result in Balance of Payment crises? What can be the impact of Balance of Payments crises on the economy? What measures can be taken by the government to overcome it?
19. A revocable letter of credit can be revoked without the consent of the beneficiary. Therefore it is almost of no use in international trade. Do you agree? Justify. Describe the other types of letter of credit that are used in international trade.
20. In recent past Indian Government has liberalized norms related to FDI in order to attract greater Foreign Direct Investment. Give reasons why Companies take FDI and differentiate it from FII.
21. How do you compute the cash flow in international capital budgeting?
22. Explain the various methods of estimating terminal cash flow.
23. Explain the Adjusted Present Value approach.
24. How do you evaluate M&As? Explain the role of consideration value in this respect.
25. Elaborate the factors that make multinational capital budgeting problem more complicated than the domestic capital budgeting.
26. What are some of the risks connected to international investment decisions that may not exist for domestic projects?
27. Highlight the major factors that need to be considered while evaluating an international project vis-à-vis a domestic one. How cost of capital is determined in such case?
28. How does the options approach to investments differ from the traditional NPV rule?
29. In capital budgeting for an international project, how can cash flows to the parent company differ from cash flows to the project itself?
30. What is the difference between the NPV and the IRR methods for project evaluation?
31. Explain various methods of incorporating risk in international investment decision.
32. What are the various specific issues that deserve consideration in multinational capital budgeting that are not normally relevant for a purely domestic project?
33. Why should a foreign project be evaluated both from a project and parent viewpoint?
34. How should an MNC factor host-country inflation into its evaluation of an investment proposal?
35. Explain how the financing decision can influence the sensitivity of NPV to exchange rate forecasts.

QUESTION BANK

FINANCIAL MARKETS & INSTITUTIONS

MS-223

QUESTION BANK
FINANCIAL MARKETS AND INSTITUTIONS - MS-223
MBA III

UNIT – I

I Test Your Skills:

(a) Multiple Choice Questions:

- 1 Every financial market has the following characteristic:
 - (a) It determines the level of interest rates.
 - (b) It allows common stock to be traded.
 - (c) It allows loans to be made.
 - (d) It channels funds from lenders-savers to borrowers-spenders.

- 2 Financial markets have the basic function of
 - (a) bringing together people with funds to lend and people who want to borrow funds.
 - (b) assuring that the swings in the business cycle are less pronounced. assuring that governments need never resort to printing money.
 - (c) both (A) and (B) of the above.
 - (d) both (B) and (C) of the above.

- 3 Which of the following can be described as involving direct finance?
 - (a) A corporation's stock is traded in an over-the-counter market.
 - (b) People buy shares in a mutual fund.
 - (c) A pension fund manager buys commercial paper in the secondary market.
 - (d) An insurance company buys shares of common stock in the over-the-counter markets.
 - (e) None of the above.

- 4 Which of the following can be described as involving direct finance?
 - (a) A corporation's stock is traded in an over-the-counter market.
 - (b) A corporation buys commercial paper issued by another corporation.
 - (c) A pension fund manager buys commercial paper from the issuing corporation.
 - (d) Both (A) and (B) of the above.
 - (e) Both (B) and (C) of the above.

- 5 Which of the following can be described as involving indirect finance?
- (a) A corporation takes out loans from a bank.
 - (b) People buy shares in a mutual fund.
 - (c) A corporation buys commercial paper in a secondary market.
 - (d) All of the above.
 - (e) Only (A) and (B) of the above.
- 6 Which of the following can be described as involving indirect finance?
- (a) A bank buys a U.S. Treasury bill from one of its depositors.
 - (b) A corporation buys commercial paper issued by another corporation.
 - (c) A pension fund manager buys commercial paper in the primary market.
 - (d) Both (B) and (C) of the above.
- 7 Financial markets improve economic welfare because
- (a) they allow funds to move from those without productive investment opportunities to those who have such opportunities.
 - (b) they allow consumers to time their purchases better.
 - (c) they weed out inefficient firms.
 - (d) they do all of the above.
 - (e) they do (A) and (B) of the above.
- 8 Which of the following are securities?
- (a) A certificate of deposit
 - (b) A share of Texaco common stock
 - (c) A Treasury bill
 - (d) All of the above
 - (e) Only (A) and (B) of the above
- 9 Which of the following statements about the characteristics of debt and equity are true?
- (a) They can both be long-term financial instruments.
 - (b) They both involve a claim on the issuer's income.
 - (c) They both enable a corporation to raise funds.
 - (d) All of the above
 - (e) Only (A) and (B) of the above
- 10 Which of the following are long-term financial instruments?
- (a) A negotiable certificate of deposit
 - (b) A banker's acceptance
 - (c) A U.S. Treasury bond
 - (d) A U.S. Treasury bill

- 11 Which of the following are short-term financial instruments?
- (a) A negotiable certificate of deposit
 - (b) A banker's acceptance
 - (c) A U.S. Treasury bond
 - (d) Both (A) and (B) of the above
 - (e) Both (B) and (C) of the above
- 12 Which of the following are short-term financial instruments?
- (a) A banker's acceptance
 - (b) A share of Walt Disney Corporation stock
 - (c) A Treasury note with a maturity of 4 years
 - (d) All of the above
- 13 Which of the following are primary markets?
- (a) The New York Stock Exchange
 - (b) The U.S. government bond market
 - (c) The over-the-counter stock market
 - (d) The options markets
 - (e) None of the above
- 14 Which of the following are secondary markets?
- (a) The New York Stock Exchange
 - (b) The U.S. government bond market
 - (c) The over-the-counter stock markets
 - (d) The options market
 - (e) All of the above
- 15 A corporation acquires new funds only when its securities are sold
- (a) in the secondary market by an investment bank.
 - (b) in the primary market by an investment bank.
 - (c) in the secondary market by a stock exchange broker.
 - (d) in the secondary market by a commercial bank.
- 16 Intermediaries who are agents of investors and match buyers with sellers of securities are called
- (a) investment bankers.
 - (b) traders
 - (c) brokers
 - (d) dealers.
 - (e) none of the above.

- 17 Intermediaries who link buyers and sellers by buying and selling securities at stated prices are called
- (a) investment bankers.
 - (b) traders
 - (c) brokers
 - (d) dealers
 - (e) none of the above.
- 18 An important financial institution that assists in the initial sale of securities in the primary market is the
- (a) investment bank
 - (b) commercial bank.
 - (c) stock exchange.
 - (d) brokerage house
- 19 Which of the following statements about financial markets and securities are true?
- (a) Most common stocks are traded over-the-counter, although the largest corporations have their shares traded at organized stock exchanges such as the
 - (b) New York Stock Exchange.
 - (c) A corporation acquires new funds only when its securities are sold in the primary market.
 - (d) Money market securities are usually more widely traded than longer-term securities and so tend to be more liquid.
 - (e) All of the above are true.
 - (f) Only (A) and (B) of the above are true.
- 20 The lending ability of commercial bank increases when
- (a) Reserve ratio is increased
 - (b) RBI credit is reduced
 - (c) RBI sells government securities
 - (d) None of the above
- 21 RBI issues currency noted under
- (a) Minimum reserve system
 - (b) Proportional reserve system
 - (c) Maximum issue system
 - (d) None of the above

- 22 Which of the following markets is sometimes organized as an over-the-counter market?
- (a) The stock markets
 - (b) The bond markets
 - (c) The foreign exchange markets
 - (d) The federal funds market
 - (e) all of the above
- 23 Which of the following instruments is not traded in a money market?
- (a) Banker's acceptances
 - (b) U.S. Treasury Bills
 - (c) Eurodollars
 - (d) Commercial paper
 - (e) None of the above
- 24 Which of the following instruments is not traded in a money market?
- (a) Banker's acceptances
 - (b) U.S. Treasury Bills
 - (c) Eurodollars
 - (d) Commercial paper
 - (e) Residential mortgages
- 25 Which of the following instruments are traded in a capital market?
- (a) U.S. government agency securities
 - (b) Negotiable bank CDs
 - (c) Repurchase agreements
 - (d) Eurodollars
 - (e) None of the above
- 26 Which of the following instruments are traded in a capital market?
- (a) Corporate bonds
 - (b) U.S. Treasury bills
 - (c) Banker's acceptances
 - (d) Repurchase agreements
- 27 Bonds that are sold in a foreign country and are denominated in that country's currency are known as
- (a) Foreign bonds.
 - (b) Eurobonds.
 - (c) Eurocurrencies.

- (d) Eurodollars.
- 28 Bonds that are sold in a foreign country and are denominated in a currency other than that of the country in which they are sold are known as
- (a) foreign bonds.
 - (b) Eurobonds.
 - (c) Euro-currencies.
 - (d) Eurodollars.
- 29 Financial intermediaries
- (a) exist because there are substantial information and transaction costs in the economy.
 - (b) improve the lot of the small saver.
 - (c) are involved in the process of indirect finance.
 - (d) do all of the above.
 - (e) do only (A) and (B) of the above.
- 30 The main sources of financing for businesses, in order of importance, are
- (a) financial intermediaries, issuing bonds, issuing stocks.
 - (b) issuing bonds, issuing stocks, financial intermediaries.
 - (c) issuing stocks, issuing bonds, financial intermediaries.
 - (d) issuing stocks, financial intermediaries, issuing bonds.
- 31 In primary markets, the first time issued shares to be publicly traded in stock markets is considered as
- (a) traded offering
 - (b) public markets
 - (c) issuance offering
 - (d) initial public offering
- 32 The transaction cost of trading of financial instruments in centralized market is classified as
- (a) flexible costs
 - (b) low transaction costs
 - (c) high transaction costs
 - (d) constant costs

- 33 The stocks or shares that are sold to investors without transacting through financial institutions are classified as
- (a) direct transfer
 - (b) indirect transfer
 - (c) global transfer
 - (d) pension transfer
- 34 The type of financial security which have linked payoff to another issued security is classified as.
- (a) linked security
 - (b) derivative security
 - (c) payable security
 - (d) non-issuing security
- 35 In primary markets, the property of shares which made it easy to sell newly issued security is considered as
- (a) increased liquidity
 - (b) decreased liquidity
 - (c) money flow
 - (d) large funds
- 36 The depository institutions such as thrifts includes
- (a) savings associations
 - (b) savings banks
 - (c) credit unions
 - (d) all of above
- 37 The money market where debt and stocks are traded and maturity period is more than a year is classified as
- (a) shorter term markets
 - (b) capital markets
 - (c) counter markets
 - (d) long-term markets
- 38 The example of derivative securities includes
- (a) swap contract
 - (b) option contract

- (c) futures contract
 - (d) all of above
- 39 In foreign financial markets, the growth is represented by the factors such as
- (a) savings in foreign countries
 - (b) investment opportunities
 - (c) accessible information
 - (d) all of above
- 40 The authority which intervenes directly or indirectly in foreign exchange markets by Altering the interest rates is considered as
- (a) centralized instruments
 - (b) centralized stocks
 - (c) central government
 - (d) central corporations
- 41 Which of the following are functions of a financial system?
1. The operation of a payments system.
 2. Providing the means of portfolio adjustment.
 3. Helping to reduce unemployment.
 4. Channelling funds between lenders and borrowers.
 5. Helping speculators to bet on price movements.
- (a) 1 and 5
 - (b) 2, 3 and 5
 - (c) 1, 2 and 4
 - (d) 2 to 5
 - (e) All the above
- 42 Which of the following are characteristic of a financial intermediary?
1. It introduces borrowers to lenders.
 2. It has assets which exceed liabilities.
 3. It increases liquidity for lenders.
 4. It reduces transaction costs for borrowers and lenders.
 5. It makes excess profit.
- (a) 1-5
 - (b) 1, 4 and 5
 - (c) 1 only
 - (d) 1-3
 - (e) 3 and 4

- (f) 2 and 3
- 43 Which of the following are deposit-taking institutions (DTIs)?
1. Building societies.
 2. Insurance companies.
 3. Investment trust companies.
 4. Retail banks.
 5. Pension funds.
- (a) 1 and 2
(b) 1 only
(c) 2 and 5
(d) 2-4
(e) 1 and 4
(f) 3-5
- 44 The regulation of the banking industry is of particular importance in modern economies because:
- (a) banks are large and very profitable.
 - (b) everyone in the economy has a bank account.
 - (c) banks employ many people.
 - (d) banks provide the principal means of payment for the economy.
- 45 Statutory regulation is likely to create larger compliance costs than self-regulation because:
- (a) self-regulation does not involve lawyers and the courts.
 - (b) consumers are better able to assess risk under self-regulation.
 - (c) statutory regulators are often over-cautious.
 - (d) statutory regulation is controlled by consumers.
 - (e) self-regulation is never effective.
- 46 Moral hazard caused by regulation can only be removed from financial transactions if:
- (a) regulations are regularly revised to keep pace with the changing circumstances of the market.
 - (b) the regulations prevent agency capture.
 - (c) all regulation is self-regulation.
 - (d) participants in the finance industry do not feel protected by the regulations.
 - (e) regulation involves heavy compliance costs.

- 47 The public debt of a country is not necessarily a burden on the economy to the extent that:
- (a) it grows less rapidly than GDP.
 - (b) people receive good public services.
 - (c) people are happy to hold government bonds.
 - (d) it can be financed without adding to inflation.
 - (e) it is paid for by borrowing abroad.
- 48 If the public debt can be financed without adding to inflation or causing interest rates to rise, it is said to be:
- (a) only a burden on future generations.
 - (b) following the golden rule of the public finances.
 - (c) in primary balance.
 - (d) sustainable
- 49 Interest rate expectations have been thought to be an important influence on bond sales because:
- (a) government bond-holders are, by and large, are income risk averse.
 - (b) interest rates have always been very unstable.
 - (c) the bond market is dominated by people interested mainly in capital gains.
 - (d) government bond-holders hold extrapolative expectations.
- 50 The sale of government bonds overseas:
- (a) causes a fall in the domestic money supply.
 - (b) causes a deficit in the balance of payments.
 - (c) causes a smaller increase in interest rates than the sale of bonds to the domestic banking sector.
 - (d) causes a smaller increase in interest rates than the sale of bonds to the domestic private sector.
51. In indirect finance:
- (a) lenders loan to borrowers.
 - (b) an institution borrows from the lender and provides funds to the borrower.
 - (c) occurs between a borrower and lender, with or without an intermediary.
 - (d) the borrower is required to have collateral.
- 52 A loan:
- (a) is an asset for both the lender and the borrower.
 - (b) is an asset for the lender and a liability for the borrower.
 - (c) is a liability for the lender and an asset for the borrower

- (d) is a liability for both the lender and the borrower.
- 53 Which of the following is not a characteristic of a financial instrument?
- (a) The financial instrument is always issued by a bank.
 - (b) A financial instrument is a written legal obligation of one party to transfer something of value, usually money.
 - (c) The transaction in a financial instrument is specified to take place at a future date.
 - (d) A financial instrument specifies certain conditions.
- 54 Securities backed by _____ lay an important role in the financial crisis of 2007-2009?
- (a) asset backed securities.
 - (b) bonds.
 - (c) sub-prime mortgages.
 - (d) small business loans
55. Financial instruments are used
- (a) as a unit of account, as a store of value, and as a means of payment.
 - (b) as a unit of account, as a means of payment, and to transfer risk.
 - (c) as a store of value, as a means of payment, and to transfer risk.
 - (d) as a unit of account, as a store of value, and to transfer risk.
56. Two important characteristics of financial instruments are:
- (a) information communication and risk neutrality.
 - (b) risk neutrality and liquidity.
 - (c) standardization and information communication.
 - (d) liquidity and standardization.
- 57 Benefits of the merger between the NYSE and Paris-based Euronext, a pan European stock exchange include:
- (a) lower costs and speedier transactions for international financial markets.
 - (b) foreign ownership of domestic assets.
 - (c) international consolidation of financial services.
 - (d) greater the uncertainty.
58. Which of the following increases the value of a financial instrument?
- (a) smaller payments.
 - (b) payments made further in the future.

- (c) payments that are made when we need them.
 - (d) payments that are less likely to be made.
59. An example of financial instruments that are primarily used as stores of value is:
- (a) insurance contracts.
 - (b) home mortgages.
 - (c) options.
 - (d) futures contracts.
60. Financial markets serve which three purposes?
- (a) Financial markets allow-risk sharing, pool and communicate information, and offer stability.
 - (b) Financial markets allow risk sharing, offer stability, and offer liquidity.
 - (c) Financial markets offer stability, pool and communicate information, and offer liquidity.
 - (d) Financial markets allow-risk sharing, pool and communicate information, and offer liquidity.
61. Which of the following is not a function of SEBI:
- (a) Development of the Securities market
 - (b) Investor Protection
 - (c) Making the Rules and Regulation for the securities market
 - (d) Framing policies for central government operations
62. SEBI operates to fulfill the needs of these three groups, choose the one which is not in those three:
- (a) the issuers of securities
 - (b) the police
 - (c) the investors
 - (d) the market intermediaries
63. SEBI has not been vested with the following powers:
- (a) to approve by-laws of stock exchanges.
 - (b) to require the stock exchange to amend their by-laws.
 - (c) inspect the books of accounts and call for periodical returns from recognized stock exchanges.
 - (d) inspect the books of accounts of financial intermediaries.
 - (e) force certain companies to list their shares in one or more stock exchanges.
 - (f) registration brokers.

64. SEBI signs MoUs with different country's financial jurisdictions who are not a signatory to the multilateral MoU of International Organization of Securities Commissions (IOSCO).
- (a) True
 - (b) False
65. Which of the following is the disadvantage of SEBI
- (a) Ease of Trading
 - (b) Tax saving
 - (c) Money Laundering
 - (d) All of them
66. The difference between a primary market and a secondary market is
- (a) primary market is the stock market and secondary market is the market for second hand sale of securities
 - (b) a primary market helps in long-term credit and secondary market offers short-term credit
 - (c) a primary market helps in the issue of new securities those which are offered for the first time and the secondary market is for second hand sale of securities listed on the stock exchange
 - (d) a primary market is the unorganized sector and the secondary market is the organized sector for sale and purchase of securities.
67. The function of a financial system is to
- (a) establish a link between savers and investors
 - (b) link commercial banks with the Central Bank of a country
 - (c) create regulators for influencing the intermediaries
 - (d) help traders and moneylenders in the capital market
68. As a part of the capital adequacy requirement, the base minimum capital prescribed by SEBI:
- (a) varies from exchange to exchange.
 - (b) is based on the recommendations of the Kaul committee.
 - (c) is based on the recommendations of the Justice Bhagwati Committee.
 - (d) is the same across members of all exchanges.
69. Primary and secondary markets:
- (a) Compete with each other
 - (b) Complement each other
 - (c) Function independently

(d) Control each other

70. Clearing and settlement operations of NSE are carried out by:

- (a) NSDL
- (b) NSCCL
- (c) SBI
- (d) CDSL

Ans: (1)(d), (2)(a), (3)(e), (4)(e), (5)(d), (6)(a), (7)(e), (8)(d), (9)(d), (10)(c), (11)(d), (12)(a), (13)(e), (14)(e), (15)(b), (16)(d), (17)(d), (18)(a), (19)(d), (20)(d), (21)(a), (22)(e), (23)(e), (24)(e), (25)(a), (26)(a), (27)(a), (28)(b), (29)(d), (30)(a), (31)(d), (32)(b), (33)(a), (34)(b), (35)(a), (36)(d), (37)(b), (38)(d), (39)(d), (40)(c), (41)(c), (42)(e), (43)(e), (44)(d), (45)(c), (46)(d), (47)(a), (48)(d), (49)(c), (50)(d), 51(b), 52 (b), 53 (a), 54 (c), 55 (c), 56 (c), 57 (a), 58 (c), 59 (b), 60 (d), (61)(b), (62)(b), (63)(b), (64)(b), (65)(a), (66)(c), (67)(a), (68)(a), (69)(b), (70)(b).

II Short Answer Type Questions:

1. Write short note on Lease financing.
2. Explain the concept of Hire purchase.
3. Define Money Market. Name the institutions in the primary market.
4. What is Treasury bill? Explain the types, nature and characteristics of 91-day T-bill?
5. Discuss the nature and importance of Certificate of Deposit abroad.
6. Explain the salient features of Commercial Bills in India.
7. Write short note on Notice Money.
8. Explain Asset Backed Commercial Paper.
9. How does a bill of exchange come into existence?
10. Explain the nature and characteristics of commercial paper market abroad.
11. Explain in brief Promissory Note.
12. Write short note on Uniform Price Auction
13. Write a short note on: Private Placement.
14. Write a short note on Secondary Market - Capital Markets in India
15. Draw and explain Organizational structure of the Indian Financial System
16. Explain in brief the meaning and types of Financial Instruments
17. Compare and contrast Treasury Bills Market and Commercial Bills Market
18. Define Finance
19. Give the classification of Finance.
20. Explain the meaning of business Finance.
21. Define financial intermediaries.

22. What is meant by external financing?
23. What is meant by equilibrium in financial markets?
24. Write note on Open Market Operations
25. Explain Credit Rationing.
26. Briefly discuss the autonomy of monetary policy.
27. Explain the credit authorization scheme?
28. Define clearing houses.
29. Distinguish between NSE and OTCEI
30. Describe the common features of NSE and OTCEI
31. State the advantages of listing of securities on a stock exchange
32. Distinguish between speculation, investment and gambling
33. Comment on the working of SEBI
34. Explain the credit control factor used by SEBI?
35. What is Money Market?

III Long Answer Type Questions:

1. Classify the various components of financial system and bring out their features.
2. Discuss how reforms have changed the face of Indian Financial System.
3. “Financial Stability is difficult to achieve in context of growing globalization and liberalization”, comment.
4. What are the features, procedures for issue of commercial paper in India?
5. What are the features of (Certificate of Deposits) CDs and what have been the reforms in the development of CD market in India?
6. What are the reasons for an underdeveloped CD market in India?
7. What are the various theories of yield curve? How do they explain its movement?
8. In spite of the presence of Government Securities what is the need for the government to issue T-bills?
9. Describe the process of Book Building and how is it better as compared to other traditional methods of raising an IPO?
10. Who are the intermediaries involved in primary market and discuss their respective roles?
11. How safe is holding securities in e-form? What is the method of preventing any default on behalf of investors in case of dematerialization?
12. What are the determinants of Stock Index and how are the various Indices constructed?
13. What is carry forward and how is it done? What are the present regulations laid down by SEBI for carry forward of transactions?
14. Differentiate between BSE, NSE & OTCEI.
15. What are the various objectives for which SEBI has been setup? What areas does it regulate and in what ways?

16. What are the constituents of financial system? Discuss them, highlighting their role in the process of economic development.
17. Explain the role of financial institutions? How has the structure of financial institutions changed during the last two decades?
18. Discuss the role of financial markets in facilitating the economic development for a country like India.
19. Discuss the components of Indian Financial System
20. What do you understand by primary market? What is its importance? Explain the steps involved in book building process.
21. Explain the role of Financial Institutions as Intermediaries
22. Compare and contrast Primary market tools- Public Issue, Right Issue and Private Placement.
23. What are various instruments of Indian Money Markets? Briefly explain all of them.
24. What are IPO and FPO's? What ASBA stands for? What are SEBI's norms for issuing shares in the primary market? Explain the process involved.
25. Distinguish between direct and indirect financing.
26. Who are financial intermediaries? Explain the role of financial intermediaries in business finance.
27. Write an essay on the Indian financial system.
28. Explain the factors which hampered the growth of Indian Capital market?
29. What are the rights of equity shareholders?
30. Discuss the different criteria to evaluate the financial sector of a country.
31. How does financial development influence the economic development?
32. What are the different ways of classifying financial markets?
33. Critically appraise the reforms in all the markets.
34. Critically examine the theoretical basis of monetary policy of RBI.
35. How does the traditional structure of stock exchanges in India differ from modern structure?
36. Explain the role of SEBI in regulating Financial Markets in India?
37. Describe the process of demutualization of stock exchanges?
38. Enumerate the SEBI guidelines for mutual funds in India.
39. Distinguish between New Issue Market and Stock Market. Is their role complementary or competitive?
40. What are the components of a financial system? Discuss the different financial markets in a country.

UNIT - II

(a) Multiple Choice Questions:

- 1 The liquidity status of certificate of deposit which is more negotiable is considered as
 - (a) certified liquidity
 - (b) term liquidity
 - (c) more liquid
 - (d) less liquid

2. Which of the following statements about financial markets and securities are true?
 - (a) A bond is a long-term security that promises to make periodic payments called dividends to the firm's residual claimants.
 - (b) A debt instrument is intermediate term if its maturity is less than one year.
 - (c) A debt instrument is long term if its maturity is ten years or longer.
 - (d) The maturity of a debt instrument is the time (term) to that instrument's expiration date.

3. Which of the following statements about financial markets and securities are true?
 - (a) Few common stocks are traded over-the-counter, although the over-the-counter markets have grown in recent years.
 - (b) A corporation acquires new funds only when its securities are sold in the primary market.
 - (c) Capital market securities are usually more widely traded than longer term securities and so tend to be more liquid.
 - (d) All of the above are true.
 - (e) Only (A) and (B) of the above are true.

- 4 At present, the apex institution with regard to rural credit is
 - (a) RBI
 - (b) NABARD
 - (c) AR
DC
 - (d) S
B
I

- 5 Which of the following in India is an exchange bank?
 - (a) ICICI bank

- (b) CITI bank
 - (c) EXIM bank
 - (d) UCO bank
- 6 Exchange banks specialize in:
- (a) Financing foreign trade
 - (b) Promoting foreign investment
 - (c) Financing domestic trade
 - (d) All the above
- 7 The IDBI was started in
- (a) 1949
 - (b) 1964
 - (c) 1982
 - (d) 1962
- 8 The declining profits made banks to undertake the business of:
- (a) Merchant banking
 - (b) Mutual funds
 - (c) Venture capital
 - (d) all of the above
- 9 Retail banking means granting loans for:
- (a) Construction of houses
 - (b) Purchases of consumer durables
 - (c) Educational purposes
 - (d) All of these
- 10 Investment banking was developed by
- (a) Japan
 - (b) England
 - (c) USA
 - (d) None of the above
- 11 The presence of transaction costs in financial markets explains, in part, why
- (a) financial intermediaries and indirect finance play such an important role in financial markets.
 - (b) equity and bond financing play such an important role in financial markets.
 - (c) corporations get more funds through equity financing than they get from financial intermediaries.

- (d) direct financing is more important than indirect financing as a source of funds.
- 12 Financial intermediaries can substantially reduce transaction costs per dollar of transactions because their large size allows them to take advantage of
- (a) poorly informed consumers.
 - (b) standardization.
 - (c) economies of scale.
 - (d) their market power.
- 13 The presence of _____ in financial markets leads to adverse selection and moral hazard problems that interfere with the efficient functioning of financial markets.
- (a) noncollateralized risk
 - (b) free-riding
 - (c) asymmetric information
 - (d) costly state verification
- 14 When the lender and the borrower have different amounts of information regarding a transaction, _____
- (a) asymmetric information
 - (b) adverse selection
 - (c) moral hazard
 - (d) fraud
- 15 When the potential borrowers who are the most likely to default are the ones most actively seeking a loan, _____ is said to exist.
- (a) asymmetric information
 - (b) adverse selection
 - (c) moral hazard
 - (d) fraud
- 16 When the borrower engages in activities that make it less likely that the loan will be repaid, _____ is said to exist.
- (a) asymmetric information
 - (b) adverse selection
 - (c) moral hazard
 - (d) fraud
- 17 The concept of adverse selection helps to explain
- (a) which firms are more likely to obtain funds from banks and other financial intermediaries, rather than from the securities markets.

- (b) why indirect finance is more important than direct finance as a source of business finance.
 - (c) why direct finance is more important than indirect finance as a source of business finance.
 - (d) only (A) and (B) of the above.
 - (e) only (A) and (C) of the above.
- 18 Adverse selection is a problem associated with equity and debt contracts arising from
- (a) the lender's relative lack of information about the borrower's potential returns and risks of his investment activities.
 - (b) the lender's inability to legally require sufficient collateral to cover a 100 percent loss if the borrower defaults.
 - (c) the borrower's lack of incentive to seek a loan for highly risky investments.
 - (d) none of the above.
- 19 When the least desirable credit risks are the ones most likely to seek loans, lenders are subject to the
- (a) moral hazard problem.
 - (b) adverse selection problem.
 - (c) shirking problem.
 - (d) free-rider problem.
 - (e) principal-agent problem.
- 20 Financial institutions expect that
- (a) moral hazard will occur, as the least desirable credit risks will be the ones most likely to seek out loans.
 - (b) opportunistic behavior will occur, as the least desirable credit risks will be the ones most likely to seek out loans.
 - (c) borrowers will commit moral hazard by taking on too much risk, and this is what drives financial institutions to take steps to limit moral hazard.
 - (d) none of the above will occur.
- 21 Successful financial intermediaries have higher earnings on their investments because they are better equipped than individuals to screen out good from bad risks, thereby reducing losses due to
- (a) moral hazard.
 - (b) adverse selection.
 - (c) bad luck.
 - (d) financial panics.

- 22 In financial markets, lenders typically have inferior information about potential returns and risks associated with any investment project. This difference in information is called
- (a) comparative informational disadvantage.
 - (b) asymmetric information
 - (c) variant information.
 - (d) caveatvendedor.
- 23 The largest depository institution at the end of 2001 was
- (a) life insurance companies.
 - (b) pension funds.
 - (c) state retirement funds.
 - (d) none of the above.
- 24 The value of assets held by commercial banks in 2001 was \$6.7 trillion dollars, making commercial banks the
- (a) second most important sector of financial intermediaries after mutual funds.
 - (b) second most important sector of financial intermediaries after life insurance companies.
 - (c) second most important sector of financial intermediaries after private pension funds.
 - (d) largest sector of financial intermediaries.
- 25 Which of the following financial intermediaries are depository institutions?
- (a) A savings and loan association
 - (b) A commercial bank
 - (c) A credit union
 - (d) All of the above
 - (e) Only (A) and (C) of the above
- 26 Which of the following is a contractual savings institution?
- (a) A life insurance company
 - (b) A credit union
 - (c) A savings and loan association
 - (d) A mutual fund
- 27 Which of the following are not investment intermediaries?
- (a) A life insurance company
 - (b) A pension fund
 - (c) A mutual fund

- (d) Only (A) and (B) of the above
- 28 Which of the following are investment intermediaries?
- (a) Finance companies
 - (b) Mutual funds
 - (c) Pension funds
 - (d) All of the above
 - (e) Only (A) and (B) of the above
- 29 The government regulates financial markets for three main reasons:
- (a) to ensure soundness of the financial system, to improve control of monetary policy, and to increase the information available to investors.
 - (b) to improve control of monetary policy, to ensure that financial intermediaries earn a normal rate of return, and to increase the information available to investors.
 - (c) to ensure that financial intermediaries do not earn more than the normal rate of return, to ensure soundness of the financial system, and to improve control of monetary policy.
 - (d) to ensure soundness of financial intermediaries, to increase the information available to investors, and to prevent financial intermediaries from earning less than the normal rate of return.
- 30 Asymmetric information can lead to widespread collapse of financial intermediaries, referred to as a
- (a) bank holiday.
 - (b) financial panic.
 - (c) financial disintermediation.
 - (d) financial collapse.
- 31 The market value size of outstanding instruments of capital markets depends on factors
- (a) primary cash flows
 - (b) number of issued securities
 - (c) market prices of securities
 - (d) both b and c
- 32 When maturities of liabilities and assets are mismatched and risk incurred by financial intermediaries then this risk is classified as
- (a) interest rate risk
 - (b) channel rate risk
 - (c) economic risk

(d) issuance risk

33 The depository institutions includes

- (a) mutual funds
- (b) commercial banks and thrifts
- (c) savings banks
- (d) credit unions

34 The major liabilities of the commercial banks are

- (a) junk bonds
- (b) deposits
- (c) loans
- (d) swap bonds

35 The money market where securities are issued by governments to obtain funds for short term is classified as

- (a) money market instruments
- (b) capital market instruments
- (c) counter instruments
- (d) long term instruments

36 The federal funds, bankers acceptance, commercial paper and repurchase agreements are classified as

- (a) counter instruments
- (b) long term instruments
- (c) money market instruments
- (d) capital market instruments

36 In financial transactions, the risk that there will be no profit in selling of this asset is classified as

- (a) price risk
- (b) profit risk
- (c) selling risk
- (d) financial risk

- 38 The type of risk in which the value of liabilities and assets is affected by the exchange rate is classified as
- (a) economic rates
 - (b) foreign exchange risk
 - (c) selling rate
 - (d) buying rates
- 39 In commercial banks, the subordinate debentures and subordinate notes are considered as
- (a) stated rates
 - (b) banks debentures
 - (c) banks liabilities
 - (d) banks deposits
- 40 The type of financial security having payoffs which are connected to some securities Issued some time back is classified as
- (a) linked security
 - (b) previous security
 - (c) payoff security
 - (d) derivative security
- 41 A bond whose coupon rate is below the current market rate of interest will have a price:
- (a) more than its maturity value of Rs.100.
 - (b) less than its maturity value.
 - (c) equal to its maturity value
- 42 The rate of return on a bond held to maturity is known as its
- (a) duration.
 - (b) interest yield.
 - (c) present value.
 - (d) running yield.
 - (e) redemption yield.
- 43 A widening of the difference between the return on corporate bonds and on government bonds might suggest which of the following?
- (a) The economy is on the brink of recession.
 - (b) Interest rates are going to rise in future.
 - (c) Government bonds are becoming more risky compared to corporate bonds.
 - (d) Investors should avoid government bonds.

- 44 In a situation where share prices are generally depressed because long-term interest rates are expected to rise in future, a large firm looking for long-term finance would normally consider:
- (a) issuing long-dated bonds.
 - (b) making a new share issue.
 - (c) borrowing from its bank on overdraft.
 - (d) borrowing in the interbank market.
 - (e) issuing 6-month bills.
- 45 Using a supply and demand framework, what is likely to happen to share prices in general if the central bank unexpectedly raises interest rates?
- (a) The demand curve shifts to the left.
 - (b) The supply curve shifts to the left.
 - (c) Both curves shift outward.
 - (d) No changes.
 - (e) The supply curve shifts to the right.
- 46 Using a supply and demand framework, what is likely to happen to share prices in general if the central bank raises interest rates in response to a fall in the exchange rate?
- (a) The supply curve shifts to the left.
 - (b) No changes.
 - (c) Both curves shift inward.
 - (d) The supply curve shifts to the right.
 - (e) The demand curve shifts to the left.
- 47 Which of the following actions might you expect lenders to take during periods of variable and unpredictable inflation?
- (a) Reduce the amount of lending they are prepared to do.
 - (b) Increase the average length of loans they are willing to make.
 - (c) Increase the amount of lending they are prepared to do.
 - (d) Reduce the average length of loans they are willing to make.
 - (e) Reduce the spread between the bid and offer rates of interest.
- 48 A saver who is capital-risk averse is worried that interest rates in the economy might:
- (a) rise and then fall
 - (b) fall
 - (c) fall and later rise
 - (d) remain unchanged
 - (e) rise

- 49 All risk-averse savers are particularly worried by:
- (a) income risk
 - (b) foreign exchange risk
 - (c) upside risk
 - (d) default risk
 - (e) capital risk
 - (f) downside risk
- 50 In the 'walking stick' hypothesis, the yield curve slopes:
- (a) down and then up
 - (b) down
 - (c) up
 - (d) up and then down
 - (e) in an unpredictable manner
- 51 Secondary markets
- (a) engage in buying and selling that is out of the public view.
 - (b) are where governments go to finance ongoing operations.
 - (c) include centralized exchanges, over-the-counter markets, and electronic communication networks.
 - (d) include all of the above.
- 52 Financial institutions:
- (a) provide access to the financial markets.
 - (b) are also known as financial intermediaries.
 - (c) include banks, insurance companies, securities firms, and pension funds.
 - (d) include all of the above.
- 53 Debt markets:
- (a) are markets for money.
 - (b) are markets for bonds, loans, and mortgages.
 - (c) are markets for stocks.
 - (d) are markets for either stocks or bonds.
- 54 Centralized exchanges:
- (a) are electronic systems that bring buyers and sellers together for electronic execution.
 - (b) are markets where claims based on an underlying asset are traded for payment at a later date.

- (c) are markets where financial claims are bought and sold for immediate cash payment.
 - (d) are secondary markets where buyers and sellers meet in the same location.
- 55 Debt and equity markets:
- (a) are markets where financial claims are bought and sold for immediate cash payments.
 - (b) are decentralized secondary markets where dealers stand ready to buy and sell securities electronically.
 - (c) are markets where newly issued securities are sold.
 - (d) are centralized markets where buyers and sellers meet in a specific location.
56. The internal rate of return is:
- (a) the interest rate at which money is borrowed for investment.
 - (b) the interest that allows a profit.
 - (c) profit divided by investment amount.
 - (d) the interest rate that equates the present value of an investment with its cost.
57. Coupon bonds:
- (a) require borrowers to pay the lender coupon payments until maturity, when the borrower pays the principle.
 - (b) require borrowers to pay lenders coupon payments until maturity.
 - (c) require borrowers to pay lenders principle and interest at maturity.
 - (d) require only interest payments until maturity when principle and interest are paid.
58. The present value of a coupon bond is:
- (a) the present value of the coupon payments plus the future value of the principle payment.
 - (b) the sum of the coupon payments and the principle payment.
 - (c) the sum of the coupon payments.
 - (d) the present value of the coupon payments and the present value of the principle payment.
59. The real interest rate:
- (a) is the nominal interest rate + inflation.
 - (b) greater than the nominal interest rate when inflation is greater than 0.
 - (c) is the interest rate expressed in current dollar terms.
 - (d) is the inflation adjusted interest rate.

60. The nominal interest rate indicates that:
- (a) people care only about the number of dollars.
 - (b) people care about what dollars can buy.
 - (c) people want compensated only for inflation.
 - (d) people only require the opportunity cost as payment when lending.
61. The commercial paper issued with low interest rate thus the commercial paper is categorized as
- (a) payables rating
 - (b) commercial rating
 - (c) poor credit rating
 - (d) better credit rating
62. The maximum maturity days of holding commercial paper are
- (a) 170 days
 - (b) 270 days
 - (c) 120 days
 - (d) 5 days
63. In borrowing and lending of federal funds, the federal funds rate is result of function between
- (a) assets and liability
 - (b) cost and marketing
 - (c) supply and demand
 - (d) income and expense
64. The demand for heavy loans can cause
- (a) excess funds for banks
 - (b) deficiencies for banks
 - (c) organized reservation
 - (d) competitive reservations
65. The agreement which incurs the transaction between two parties and promise held that second party will sell security at specific maturity is classified as
- (a) repurchasing commercial notes
 - (b) repurchase bills
 - (c) purchase agreement
 - (d) reverse repurchase agreement

66. Which among the following was set up by RBI in 1988 jointly with public sector banks and all India Financial Institutions to develop the money market & provide liquidity to money market instruments as sequel to Vaghul Working Group recommendations?

- (a) Discount and Finance House of India Ltd (DFHI)
- (b) Central Depository Services (India) Limited (CDSL)
- (c) Financial Intelligence Unit India (FIU-IND)
- (d) None of the above

67. Which among the following is correct regarding BPLR or bench mark prime lending rate?

- (a) It is lowest interest rate below PLR charged by a bank from the best customer of the financial year
- (b) It is highest interest rate above PLR charged by a bank from the any customer of the financial year
- (c) Both (a) & (b)
- (d) None of the above

68. Which among the following coined the term “Second generation Reforms”?

- (a) World Bank
- (b) International Monetary Fund
- (c) Reserve bank of India
- (d) SBI

69. The commercial paper issued with low interest rate thus the commercial paper are categorized as

- (a) payables rating
- (b) commercial rating
- (c) poor credit rating
- (d) better credit rating

70. The maximum maturity days of holding commercial paper are

- (a) 170 days
- (b) 270 days
- (c) 120 days
- (d) 5 days

Ans. (1)(a), (2)(c), (3)(a), (4)(b), (5)(b), (6)(a), (7)(b), (8)(d), (9)(d), (10)(b), (11)(a), (12)(c), (13)(c), (14)(a), (15)(b), (16)(c), (17)(d), (18)(a), (19)(b), (20)(b), (21)(b), (22)(b), (23)(d), (24)(d), (25)(d), (26)(a), (27)(d), (28)(e), (29)(a), (30)(b), (31)(d), (32)(a), (33)(b), (34)(b), (35)(a), (36)(c), (37)(a), (38)(b), (39)(c), (40)(d), (41)(c),

(42)(e), (43)(a), (44)(a), (45)(a), (46)(b), (47)(d), (48)(e), (49)(f), (50)(d), (51) (c), (52) (b), (53) (b), (54) (d), (55)(a), (56)(d), (57) (a), (58) (d), (59) (d), (60) (b), (61) (d), (62) (b), (63) (c), (64) (b), (65) (d), (66) (a), (67) (a), (68) (b), (69) (d), (70) (b).

II Short Answer Type Questions:

1. What is mixed banking?
2. Explain a credit card?
3. What is unit banking?
4. Discuss the merits of group banking?
5. What are the subsidiary services of banks?
6. What are priority sectors? Describe Indian Banks' assistance to different sectors.
7. Explain NPAs in Banks?
8. Elucidate revolving credit?
9. Distinguish between legal mortgage and equitable mortgage.
10. What do you mean by hypothecation?
11. What do you mean by consortium advances?
12. What is the meaning of the Call Money Market? Briefly discuss the nature of this market and its working in India.
13. Explain in brief the difference between money market and capital market
14. Discuss the Recent Reforms in Call Money Market
15. Explain the prime lending rate with an example.
16. Write a note on growing Non- Performing Asset (NPAs) in banks.
17. What is MPBF? Discuss its relevance in the present times.
18. By giving suitable examples, explain the risk-return trade off.
19. Explain the concept of Universal Banking in current scenario
20. Write short notes on Disinvestments
21. Explain Income Recognition Provisioning
22. Explain Consortium Loaning. State two examples
23. What is irregular allotment.
24. What are FIIs?
25. Define allotment of shares.
26. What is the range of maturities for money market instruments?
27. What is the range of maturities for capital market instruments?
28. What is the name of the markets where previously issued financial instruments are traded?
29. What type of financial markets are corporate bonds traded in?
30. What is the problem in which one party in a financial transaction has information that is not available to the other party in the transaction?

III Long Answer Type Questions:

1. What is Universal Banking? Explain its concept with respect to Indian Banking System.
2. What are the various opportunities and challenges before Indian banks in the context of globalization?
3. What are the benefits of consortium lending over other methods? Who are the participants in consortium lending and what are their roles?
4. What are the reasons of credit gaps? How can they be eliminated?
5. What are Cooperative banks? Discuss their categories and features.
6. What is the future of Cooperative banks in India? What strategies should they adopt to improve their performance?
7. What are Development Banks? Discuss various development banks in brief in terms of their features and services offered.
8. How has development banking led to economic development in India?
9. What is the process of credit rating? What types of grading systems are used by various rating agencies in India?
10. What have been the reasons for loss of credibility of Indian rating agencies?
11. What is the need of merchant bankers for a company? What are the criteria for judging a merchant banker?
12. What is the difference between an investment banker and a merchant banker?
13. Why was disinvestment needed in India? What were the major concerns for disinvestment and what agenda did government formulate for disinvesting its strategic PSUs?
14. What are the various methods of disinvestment? Which one is considered to be the most favored method?
15. Has disinvestment been successful in India? If ye, how?
16. Explain the recommendations of Narasimham Committee and its impact on Indian banking sector.
17. Describe the achievements of commercial banks after nationalization.
18. What do you mean by NPA's in Indian banks? What measures are taken by RBI to reduce NPAs in Indian Banks?
19. "The coming time is of private players." Examine the statement in view of emerging disinvestment scenario in India.
20. How would you define the rate of return or yield? What are the different types of yield used in the financial economics?
21. Explain the various methods of measurement of interest rate risk.
22. Explain Capital adequacy norms in detail.
23. How the banking business evolved globally since 1930s? Explain drawing references to the Glasds Steagall Act 1933.

24. What are Non- Performing Assets? Discuss Income provisioning and Capital adequacy norms of banking to counter this problem.
25. Give a critical analysis of the Narasimham Committee Reports
26. Explain the various steps in Loan Pricing
27. Explain in details: Non-Performing Assets and Asset Classifications
28. Explain in detail the Role, Meaning and Importance of Financial Institutions and Banks.
29. What are Non-Performing Assets of Financial Institutions? How to manage them? What role Securitization plays in this regards? Explain the process involved.
30. What are various RBI guidelines relating to Banks in India with respect to CA Norms; Basel Norms; Repo rates; CRR; SLR etc. What are their standards prescribed and their role in governing banks in India?
31. What is E-banking? Explain the products traded in E-banking. What are the factors which have led to non- acceptability of E-banking in India? Explain with examples.
32. What reforms have taken place in Indian Financial markets with respect to banks? What different types of Financial Institutions are existing in India? Explain briefly their role and importance.
33. What are the rights shares and bonus shares? What are the provisions of the Companies Act relating to the issue of these?
34. What is new issue market? Show the difference between NIM and stock exchange.
35. Briefly explain stock Invest Scheme.
36. Explain the working of Depository System.
37. What do you mean by depository system? Explain the main features of the depository Act.
38. Bring out the differences between Capital Market and Money Market.
39. What are various components of money market? Discuss the features of each?
40. What are the deficiencies in Indian Money Market?
41. What are the features of Call Money Market in India? Discuss its functioning.
42. How has the Call Money Market in India changed over years due to various reforms implemented?
43. Write a detailed note on the various money market and capital market instruments.
44. Explain the Recent Reforms in Call Money Market
45. Elaborate Money Market instruments.

UNIT – III

Test Your Skills:

I Multiple Choice Questions:

1. In primary markets, first time issued shares to be publicly traded in stock markets is considered as
 - (a) traded offering
 - (b) public markets
 - (c) issuance offering
 - (d) initial public offering

2. Transaction cost of trading of financial instruments in centralized market is classified as
 - (a) flexible costs
 - (b) low transaction costs
 - (c) high transaction costs
 - (d) constant costs

3. Stocks or shares that are sold to investors without transacting through financial institutions are classified as
 - (a) direct transfer
 - (b) indirect transfer
 - (c) global transfer
 - (d) pension transfer

4. Type of financial security which have linked payoff to another issued security is classified as
 - (a) linked security
 - (b) derivative security
 - (c) payable security
 - (d) non-issuing security

5. In primary markets, property of shares which made it easy to sell newly issued security is considered as
 - (a) increased liquidity
 - (b) decreased liquidity
 - (c) money flow
 - (d) large funds

6. Liquidity status of certificate of deposit which is more negotiable is considered as
 - (a) certified liquidity
 - (b) term liquidity
 - (c) more liquid
 - (d) less liquid

7. Commercial paper issued with low interest rate thus commercial paper are categorized as
 - (a) payables rating
 - (b) commercial rating
 - (c) poor credit rating
 - (d) better credit rating

8. Maximum maturity days of holding commercial paper are
 - (a) 170 days
 - (b) 270 days
 - (c) 120 days
 - (d) 5 days

9. In borrowing and lending of federal funds, federal funds rate is result of function between
 - (a) assets and liability
 - (b) cost and marketing
 - (c) supply and demand
 - (d) income and expense

10. The demand for heavy loans can cause
 - (a) excess funds for banks
 - (b) deficiencies for banks
 - (c) organized reservation
 - (d) competitive reservations

11. A "hybrid" fund is one that:
 - (a) invests in both bonds and stocks
 - (b) started as a closed-end investment company, but changed to a mutual fund
 - (c) has different "loads" for different classes of investors in the fund
 - (d) can serve as an investment vehicle, but also provides check-writing privileges.

- 12 The first mutual fund was established in the:
- (a) 1890s
 - (b) 1920s
 - (c) 1940s
 - (d) 1960s
- 13 A mutual fund that invests solely in stocks would be categorized as a/an:
- (a) bond fund
 - (b) fixed income fund
 - (c) money market fund
 - (d) equity fund
- 14 A large number (about 25%) of long-term mutual funds are _____ funds, buying securities in proportions similar to those of a major stock index.
- (a) small cap
 - (b) large cap
 - (c) fixed income
 - (d) index
- 15 The bulk of the nation's money supply is created within the private banking system and is sometimes called:
- (a) inside money
 - (b) net money
 - (c) base money
 - (d) outside money
- 16 A type of bank account designed to compete with money market mutual funds, and having limited check-writing services, is known as:
- (a) wholesale CDs
 - (b) demand deposit
 - (c) repurchase agreement
 - (d) NOW account
- 17 _____ would encompass fees received by the bank, but not revenues coming from interest charges on loans.
- (a) Net interest margin
 - (b) Spread
 - (c) Non interest income
 - (d) Non interest expense

- 18 Another name used for a bank income statement is:
- (a) report of income
 - (b) statement of retained earnings
 - (c) overhead efficiency report
 - (d) report of condition
- 19 Which of the following is an advantage to investors of an open-end mutual fund?
- (a) Once all the shares have been sold, the investor does not have to put in more money.
 - (b) The investors can sell their shares in the over-the-counter market with low transaction fees.
 - (c) The fund agrees to redeem shares at any time.
 - (d) The market value of the fund's shares may be higher than the value of the assets held by the fund.
- 20 The function of a financial system is to
- (a) establish a link between savers and investors
 - (b) link commercial banks with the Central Bank of a country
 - (c) create regulators for influencing the intermediaries
 - (d) help traders and moneylenders in the capital market
- 21 In ----- Securities share bond debentures are offered to the public for subscription for raising capital or fund.
- (a) Prime Securities
 - (b) Public Securities
 - (c) Preferred Securities
 - (d) Primary Securities
 - (e) None
- 22 ADR Stands for:
- (a) Asset Depository Receipt
 - (b) Asian Depository Receipt
 - (c) American Depository Receipt
 - (d) Adjustable Depository Receipt
 - (e) American Demand Receipt
23. Which of the following is not a function of SEBI:
- (a) Development of the Securities market

- (b) Investor Protection
- (c) Making the Rules and Regulation for the securities market
- (d) Framing policies for central government operations

24. SEBI operates to fulfill the needs of these three groups, choose the one which is not in those three:

- (a) the issuers of securities
- (b) the police
- (c) the investors
- (d) the market intermediaries

25. SEBI has not been vested with the following powers:

- (g) to approve by-laws of stock exchanges.
- (h) to require the stock exchange to amend their by-laws.
- (i) inspect the books of accounts and call for periodical returns from recognized stock exchanges.
- (j) inspect the books of accounts of financial intermediaries.
- (k) force certain companies to list their shares in one or more stock exchanges.
- (l) registration brokers.

Ans. (1) (d), (2) (b), (3) (a), (4) (b), (5) (a), (6) (c), (7) (d), (8) (b), (9) (c), (10) (b), (11)(c), (12)(d), (13)(b), (14)(d), (15)(b), (16)(a), (17)(b), (18)(d), (19)(c), (20)(a), (21)(a), (22)(c), (23)(b), (24)(b), (25)(b).

II Short Answer Type Questions:

1. Enumerate the disadvantages of the mutual funds?
2. What is Net Asset Value (NAV)?
3. Explain the concept of entry and exit load in mutual funds?
4. What are the advantages of AMCs?
5. What do you mean by close ended and open ended scheme?
6. Explain the collateral securities?
7. Outline various types of life insurance.
8. What are the monetary functions of the Reserve Bank of India?
9. Explain in brief currency chest.
10. What is SEBI? What are the objectives and functions of SEBI?
11. List the main functions of the Reserve Bank of India as per the Reserve Bank of India Act 1934.
12. State the guidelines issued by SEBI relating to free pricing of shares?

13. Explain the development of UTI in India.
14. What are the advantages of a hybrid fund over a pure category fund?
15. Discuss the differences between index and equity funds.
16. What is the role of a fund manager in managing an index fund?
17. What is the role of SEBI in protecting the interests of mutual funds investors in India?
18. What is the role of RBI in protecting the interests of retail bank account holders?
19. Distinguish between NSE and OTCEI
20. Describe the common features of NSE and OTCEI
21. State the advantages of listing of securities on a stock exchange
22. Distinguish between speculation, investment and gambling
23. Comment on the working of SEBI
24. Distinguish between Capital market and Money market.
25. Differentiate between Primary market and Secondary Market.
26. A 10-year bond has a par value of \$1,000 and a coupon rate of 5%. During the first six months after the bond was issued, the inflation rate was 1.3%. By how much does the principal of the bond increase? What is the coupon payment after six months?
27. Tom purchased an NCD a year ago in the secondary market for \$985,000. The NCD matures today at a price of \$1,000,000, and Phil received \$55,000 in interest. What is Phil's return on the NCD?
28. An investor is considering the purchase of a newly-issued 13-week Treasury bill with face value of \$10,000. She has a required rate of return of 1 %. How much is this investor willing to pay for a 13-week Treasury bill?
29. Describe three money market securities and its approaches.
30. Define Regional Rural Banks.

III Long Answer Type Questions:

1. Discuss the impact of globalization on insurance sector?
2. How has UTI been able to recover after the setback received in the US-64 scandal?
3. What was US-64? Discuss the reasons for its downfall.
4. Discuss how UTI has regained investor confidence after the crash of US-64.
5. What is the risk management process for mutual funds in India?
6. Briefly explain different type of mutual fund scheme offered by the companies in India.
7. Discuss the dynamics of a mutual fund.
8. Critically examine role of SEBI as regulatory body in capital market reforms during the last decade.
9. Describe the power of the Reserve Bank of India over banking companies?
10. What is Securities contract (Regulation) Act? What are the principal objectives of passing this Act? What are the powers delegated to SEBI under the Act?
11. "Reserve Bank of India acts as a promoter of the financial system". Justify.

12. Explain the organization of SEBI. What are the guidelines issued by SEBI regarding Companies Act?
13. What are the important departments of the Reserve Bank of India? Explain their main functions.
14. Explain the importance of RBI as the regulator of Banks in current financial scenario in India.
15. Discuss the powers of SEBI and RBI with reference to Indian mutual funds industry.
16. Which type of risk can be eliminated by diversifying your portfolio? Which type of risk remains after a portfolio is diversified? Do investors receive compensation for all types of risk?
17. Write down an equation representing the expected return on an individual security, and explain how the market's price of risk affects the expected return on the security.
18. How is total risk of an individual stock measured? What two types of risk make up total risk?
19. What is the equity premium? What is the required rate of return? Explain carefully how and why a decline in the required rate of return affects stock values and returns.
20. Distinguish between New Issue Market and Stock Market. Is their role complementary or competitive?
21. What are the components of a financial system? Discuss the different financial markets in a country.
22. Give a list of the players and participants in financial markets.
23. What are the sources of financial information available in the new issue market and stock market?
24. Critical appraisal of US 64 scheme of UTI.
25. What is a stock market index? How do you distinguish between Sensex and Nifty?
26. Distinguish between: (a) Capital market and money market; New Issue Market and Stock Market; (c) Inland and Foreign Market and (d) Financial instruments and Financial engineering instruments.
27. A corporation is planning to sell its 90-day commercial paper to investors offering a 2.4% yield. i) If the three-month T-bill's annualized rate is 1.5%, the default risk premium is estimated to be 0.2% and there is a 0.3% tax adjustment, what is the appropriate liquidity premium? ii) If due to unexpected changes in the economy the default risk premium increases to 0.4%, what is the appropriate yield to be offered on the commercial paper (assuming no other changes occur)?
28. Describe three money market securities and approaches used to determine their yields' estimations where applicable.
29. Explain how systemic risk is related to the commercial paper market. In your answer discuss how problems in the mortgage-backed securities market affect the commercial paper market.

30. Explain how the valuation of a stock is affected by: i) Economic growth ii) Expected Inflation iii) Exchange rates

UNIT – IV

Test Your Skills:

I Multiple Choice Questions:

- 1 The largest industry group receiving venture capital funding is
 - (a) computer software.
 - (b) medical/health.
 - (c) computer hardware.
 - (d) none of the above.

- 2 The source of venture capital funding has
 - (a) shifted from wealthy individuals to pension funds and corporations.
 - (b) shifted from pension funds and corporations to wealthy individuals.
 - (c) decreased since 1990.
 - (d) none of the above.

- 3 A typical venture capital firm has a _____ number of investors who each contribute a _____ amount of money to the fund.
 - (a) large; small
 - (b) small; large
 - (c) large; large
 - (d) small; small

- 4 Most automobile financing is provided by
 - (a) commercial banks.
 - (b) thrifts.
 - (c) finance companies owned by automobile companies.
 - (d) finance companies owned by real estate brokers.

- 5 Finance companies
 - (a) are money market intermediaries.
 - (b) borrow in large amounts, but lend in small amounts.
 - (c) are virtually unregulated.
 - (d) are all of the above.

- 6 Business finance companies provide specialized forms of credit to businesses by making loans and purchasing accounts receivable at a discount; this provision of credit is called
- (a) discounting.
 - (b) factoring.
 - (c) refinancing
 - (d) sparking.
- 7 Which one of the following is regarded as classic venture capital?
- (a) MBO finance
 - (b) Early stage
 - (c) Institutional
 - (d) Corporate
8. Which agency regulates and supervises NBFCs?
- (a) Finance Ministry
 - (b) SEBI
 - (c) RBI
 - (d) Respective state government
9. Which of the following statements is/are correct?
- 1. NBFCs does not hold a banking license.
 - 2. NBFC can issue Demand Drafts like banks.
- (a) Only 1
 - (b) Only 2
 - (c) Both
 - (d) None
- 10 Consider the following statements
- 1. Chit Funds are type of NBFC
 - 2. All NBFCs are ruled by RBI
 - 3. RBI said any purchase of a stake of 26% or more in a company, or a change in more than 30% of its directors, would need the central bank's permission.
- Which of the above statements is/are correct?
- (a) 1,2
 - (b) 2,3
 - (c) 1,3
 - (d) All

- 11 Which one of the following is regarded as classic venture capital?
- (a) MBO finance
 - (b) Early stage
 - (c) Institutional
 - (d) Corporate
- 12 Which of the following NBFC converted itself into a commercial Bank?
- (a) Tata Finance
 - (b) Reliance Capital Trust
 - (c) Birla Mutual
 - (d) Kotak Mahindra
- 13 Indian Banks Association (IBA) has a common networking system for sharing the ATM facilities in Mumbai, which is known as
- (a) ATM Network
 - (b) Shared Payment Network System
 - (c) Cash Network
 - (d) None of these
14. Markets in which derivatives are traded are classified as
- (a) assets backed market
 - (b) cash flow backed markets
 - (c) mortgage backed markets
 - (d) derivative securities markets
15. Consider buying of put option, probability that a buyer would have negative payoff increases with the
- (a) increase in stock price
 - (b) decrease in stock price
 - (c) increase in maturity duration
 - (d) decrease in maturity duration
16. Price of an option is subtracted from time value of option to calculate
- (a) book value index
 - (b) market index
 - (c) intrinsic value
 - (d) extrinsic value

17. If intrinsic value of an option is \$450 and price of an option is \$560 then time value of an option is

- (a) \$110
- (b) \$1,010
- (c) \$450.00
- (d) \$560

18. Type of swaps in which fixed payments of interest are exchanged by two counterparties for floating payments of interest are called

- (a) float-fixed swaps
- (b) interest rate swaps
- (c) indexed swaps
- (d) counter party swaps

19. Type of bonds that pay coupon interest are classified as

- (a) forward bond
- (b) payment bonds
- (c) coupon bond
- (d) interest bonds

20. For given change in interest rates, percentage change in present value of bond is classified as

- (a) price sensitivity
- (b) yield sensitivity
- (c) maturity sensitivity
- (d) premium sensitivity

21. Type of bond whose present value is lesser than that of its face value is classified as

- (a) discount bond
- (b) premium bond
- (c) coupon bond
- (d) interest bonds

22. For an investment, weighted average time to maturity is considered as

- (a) premium time
- (b) standard time
- (c) mean time
- (d) duration

23. Bonds that does not pay any interest rate are considered as

- (a) interest free bond

- (b) zero coupon bond
- (c) price less coupon bond
- (d) useless price bonds

24 Which of the following is not a characteristic feature of venture capital firms?

- (a) Funding just one or a small number of firms.
- (b) Holding equity in the firms that are funded.
- (c) Having a long-term investment horizon.
- (d) Providing advice and assistance to the firms that are funded.

25 Which of the following is a characteristic feature of venture capital firms?

- (a) Developing a portfolio of companies.
- (b) Holding debt in the firms that are funded.
- (c) Allowing firms to use the funds as they see fit.
- (d) Having a short-term investment horizon.

Ans (1)(d), (2)(a), (3)(b), (4)(c), (5)(d), (6)(b), (7)(b), (8)(c), (9)(a), (10)(c), (11)(b), (12)(d), (13)(b), (14) (d), (15) (a), (16) (c), (17) (a), (18) (b), (19) (c), (20) (a), (21) (a), (22) (d), (23) (b), (24) (a), (25) (a).

II Short Answer Type Questions:

- 1 Distinguish between commercial banks and non-banking finance companies.
- 2 What are the functions of NBFC's?
- 3 Can NBFCs become commercial banks?
- 4 Write a short note on merchant banking.
- 5 Explain in brief venture capital.
- 6 What is factoring?
- 7 What is a syndicated credit?
- 8 Define hire purchase?
- 9 What is leasing?
- 10 How have the structure and growth of NBFCs taken place post liberalization.
- 11 Compare the functions of merchant banking with the commercial banking in India.
- 12 What do you mean by credit rating? Analyze the important features of credit rating business in India.
- 13 Discuss any three Credit rating firms in India
- 14 Differentiate between factoring and forfeiting.
- 15 Write a note on "Activities of NBFC"
- 16 NBFCs are performing functions similar to banks. What is the difference between them?
- 17 What are the different types of NBFCs registered with RBI?
- 18 For NBFCs, what are the requirements / is the procedure for registration with RBI?

- 19 Can all NBFCs accept deposits and what are the requirements for accepting public deposits?
- 20 Is there any ceiling on acceptance of public deposits? What is the rate of interest and period of deposit which NBFCs can accept?
- 21 Distinguish between Leasing and Hire purchase.
- 22 Who is a merchant banker?
- 23 Explain the fund based services of merchant banker.
- 24 Elaborate the process of credit syndication.
- 25 Elaborate the guidelines of the SEBI on merchant banking activities.
- 26 You need to choose between investing in a one-year municipal bond with a 7% yield and a one-year corporate bond with an 11% yield. If your marginal federal income tax rate is 30% and no other differences exist between these two securities, which one would you invest in?
- 27 Determine the Net Asset Value (NAV) of this fund.
- 28 A hedge fund charges 3 plus 30%. Investors require a return of 20%. How much the hedge fund must earn before fees to provide investors with these fees?
- 29 A bond you are interested in pays an annual coupon of 4%, has a yield to maturity of 6% and has 13 years to maturity.
 - (a) If interest rates remain unchanged, at what price would you expect this bond to be selling 8 years from now?
 - (b) What price would you expect this bond to be selling 10 years from now?
30. Which agency regulates and supervises NBFCs?

III Long Answer Type Questions:

1. How are NBFCs regulated in terms of acceptance of deposits?
2. Discuss the role of NBFCs in the Indian capital market.
3. What are the defects in the working of NBFC? What measures have been taken to rectify them?
4. What is the process of credit rating? What types of grading systems are used by various rating agencies in India?
5. What have been the reasons for loss of credibility of Indian rating agencies?
6. What is the need of merchant bankers for a company? What are the criteria for judging a merchant banker?
7. What is the difference between an investment banker and a merchant banker?
8. What is meant by NBFC? Discuss the regulatory framework of NBFC.
9. Define NBFC. Briefly discuss about the difference types of NBFCs and the nature of their main activities.
10. Highlight the various appropriate regulatory or statutory measures taken by the authorities to oversee the operations of NBFCs.

11. What are the objectives and scopes of venture capital funds? Categorize the important venture capital funds and their schemes in India.
12. What are NBFCs? Explain their role in the growth of Indian Economy.
13. What are the salient features of NBFCs which a depositor may note at the time of investment?
14. What is “deposit” and “public deposit”? Is it defined anywhere? Can NBFCs accept deposits from NRIs?
15. What is the role of Company Law Board in protecting the interest of depositors? How can it be approached? Is there an Ombudsman for hearing cases against NBFCs?
16. What are the responsibilities of NBFCs accepting/ holding public deposits?
17. What is Venture capital? Discuss its role in a developing economy.
18. Short-run underpricing is a phenomenon that often occurs during Initial Public Offerings. Briefly explain two major explanatory approaches for short-run underpricing.
19. What are the most important characteristics of venture capital financing? Briefly outline four reasons why debt financing is not suitable for young firms.
20. Explain how the existence of the pecking order theory can be justified. Why can equity be found both on the top and the bottom of the pecking order?
21. Explain the bad-model problem when measuring long-term abnormal returns of Initial Public Offerings (IPOs). Which misleading inferences can potentially be drawn from studies measuring long-term abnormal returns and how could this problem theoretically be circumvented?
22. Discuss three reasons for the cyclicity of the Initial Public Offerings (IPO) volume. Explain why firms usually go public after a general increase in share prices and link this observation to the efficient market hypothesis.
23. Emphasize the need for credit rating and explain the functions of credit rating agencies.
24. Examine the role of a merchant banker in project appraisal and designing the capital structure.
25. Elaborate the post-issue management activities of a merchant banker.
26. The money markets provide the opportunity for institutional investors and large corporations to manage their short-term flows of funds. Discuss the characteristics, structure and operation of the short-term money market.
27. From the perspective of a deficit entity (user of funds), identify and explain the differences between debt, equity and derivative instruments.
28. Corporations raise longer-term debt funding and equity in the capital markets. Explain the relationship between these capital markets and the foreign exchange and derivatives markets.
29. Define the sectorial flow of funds and identify its component parts. Why is an understanding of the sectorial flow of funds important for economic policy determination?
30. Describe a defined-contribution pension plan and explain why it differs from a defined-benefit plan.