Chapter 17

2 marks

1. What do you mean by Social Responsibility?
   "Social Responsibility refers to the obligation to pursue those policies to make those decisions or to follow those lines of action which are desirable in terms of objectives and values of our society." ***– Howard R.***
2. Give the meaning of Social Power
   Kingsley Davis defines power as "the determination of behavior of others in accordance with one's own ends."
   According to Sheriff :power denotes the relative weights of behavior by member in a group structure."
   In general it means the ability to influence the behavior of the other person.
3. What is a free enterprise?
   - A free enterprise system is an economic system where a government places very few restrictions on the types of business activities or ownership in which citizens participate.
   - This type of system is often referred to by others as a free market, or capitalism.
4. Who are called Stakeholders?
   A stakeholder is anybody who can affect or is affected by an organisation, strategy or project. They can be internal or external and they can be at senior or junior levels.

5. What is ethical Responsibility?
   Ethical responsibility is the ability to recognize, interpret and act upon multiple principles and values according to the standards within a given field and/or context.

3 marks

1. Define the Concept of Social Responsibility?
   "Social Responsibility refers to the obligation to pursue those policies to make those decisions or to follow those lines of action which are desirable in terms of objectives and values of our society." ***– Howard R.***
2. Why you do think Social Responsibility of business is needed?

A businessman must perform social responsibilities because of the following reason
(i) Self interest
(ii) Better environment for business
(iii) Public image
(iv) Avoidance of government interference
(v) Social power
(vi) Resources used for moral justification
(vii) Contribution to social problems

3. What are the benefits derived by employees of a Socially Responsible business enterprise?
   Responsibilities towards Employee
   (a) Providing fair compensation and benefits
   (b) Providing good and safe working conditions

(c) To give them opportunities to participate in decision making

4. Enumerate the points relating to why business units are Socially Responsible?

1. Employees want demand their company to be socially responsible
2. Consumers expect better business practices (and will pay for it)
3. It creates competitive immunity (and makes your business more sustainable in the long-term)
4. Capitalism is evolving, and society is, too
5. It is a moral imperative

5. List the kinds of Social Responsibility

(i) Economic Responsibility
(ii) Legal Responsibility
(iii) Ethical Responsibilities
(iv) Discretionary Responsibilities

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## 5 marks

1. Explain in detail the concept and need for Social Responsibility?

**Social Responsibility**

- Social responsibility is the obligation of businessmen towards the society. Businessmen must review the impact of their decisions and actions on the other sections of the society.
- According to Peter F Druker, "Social responsibility requires managers to consider whether their action is likely to promote the public good, to advance the basic beliefs of our society, to contribute to its stability, strength and harmony."

Need for Social Responsibilities

A businessman must perform social responsibilities because of the following reason

(i) Self interest
(ii) Better environment for business
(iii) Public image
(iv) Avoidance of government interference
(v) Social power
(vi) Resources used for moral justification
(vii) Contribution to social problems

2. Illustrate with examples the arguments for Social Responsibility?

**1. Protection of Stakeholders Interest**

- A business organisation is a coalition of several interest groups or stakeholders. Example – shareholders, customers, employees, suppliers, etc. Business should, therefore, work for the interest of all of them rather than for the benefit of shareholders / owners alone.

**2. Promotion of Society**

- Business is a sub-system of society.
- It draws support and sustenance from society in the form of inputs.
- Socially responsible behaviour is essential to sustain this relationship between business and society.

**3. Assessment of Social Impact**

- During the course of its functioning, a business enterprise makes several decisions and actions.
- Its activities exercise a strong influence on the interests and values of society.

- Business must fulfil social obligations as a compensation for undermining the legitimate interests of society

**4. Organised Social Power**

- Large corporations have acquired tremendous social power through their multifarious operations.
- Social power may be misused in the absence of social responsibility.
- There should be a equilibrium between social power and social responsibility.

**5. Competence**

- Business organisations and their managers have proved their competence and leadership in solving economic problems.
- Society expects them to use their competence to solve social problems and thereby play a leadership role.

3. What are the arguments against Social Responsibility?

**1. Lack of Conceptual Clarity**

- The concept of Social responsibility is very vague and amenable to different interpretations.
- There is no consensus on its meaning and scope.
- In such a situation, it would be futile as well as risky to accept social responsibility.

2. **Dilution of Economic Goals**

- By accepting social responsibility, business will compromise with economic goals.
- Business is an economic institution and its only responsibility is to make maximum possible profits for its owners.
- It would endanger its economic viability by accepting any other responsibility

3. **Lack of Social Skill**

- Business organisations and their managers are not familiar with social affairs.
- There are special social service organisations such as Government and Non-Governmental Agencies which can better deal with social problems.

4. **Burden on Consumers**
    - If business deals with social problems, cost of doing business would increase.
    - These costs will be passed on to consumers in the form of higher prices or will have to be borne by owners.
    - This would lead to taxation without representation

5. **Responsibility without Power**

- Business organisations possess only economic power and not social power.
- It is unjust to impose social responsibilities with social power.
- If business is allowed to intervene in social affairs it may perpetuate its own value system to the detriment of society.

4. Discuss the different groups benefited out of Social Responsibility of business?

**Responsibilities towards Consumers**

(a) **Production of safe items by maintaining quality standards**

(b) Being truthful in advertising

(c) To follow fair trade practices.

(ii) **Responsibilities towards Employee**

(a) Providing fair compensation and benefits

(b) Providing good and safe working conditions

(c) To give them opportunities to participate in decision making

(iii) **Responsibilities towards the Owners / Shareholders / Investors**
(a) To ensure safety of investment
(b) To ensure fair and regular return on investment
(c) To ensure appreciation of investment by proper utilisation of resources
(iv) **Responsibilities towards the Government**
(a) To abide by rules, regulations and laws
(b) To pay taxes and duties on time
(c) To help in solving social problem
(v) **Responsibilities towards the Community**
(a) To protect the environment from all types of pollution
(b) To provide more employment opportunities
(c) To help the weaker section of the society
(vi) **Responsibilities towards Suppliers**
(a) To ensure regular payment to the supplier
(b) To adopt fair dealing with the suppliers
(c) To protect and assist small scale suppliers by placing order with them

5. How do you classify Social Responsibility?

(i) Economic Responsibility
In an economic responsibility, business is expected to produce goods and services that are beneficial for society and society which wants and sell them at a profit.
(ii) Legal Responsibility
Every business enterprise is expected to operate within the legal frame work of our society. A law abiding enterprise gets no interference of government and is considered as a socially responsible enterprise.
(iii) Ethical Responsibilities
Ethics is much more than law, while behaving ethically businessmen should not be involved in adulteration, black marketing, etc.
(iv) Discretionary Responsibilities
This responsibility is purely voluntary. This includes contribution in charity. Participation in social service projects, setting up educational and training institutions etc helping people affected by flood, earthquake etc.

UNIT 18 BUSINESS ETHICS

**2 MARKS**

1. What is ethics?
   Ethics, also called moral philosophy, the discipline concerned with what is morally good and bad, right and wrong. The term is also applied to any system or theory of moral values or principles.
2. What do you mean by code?
   . The organisation principles are defined in the written document called code
3. State two ways by which ethics influences behaviour

## Personal Code of Ethics

A man's personal code of ethics that is what one considers moral is the foremost responsible factor influencing his behavior.

## Government Rules and Regulations

Laws support Government regulations regarding the working conditions, product safety, statutory warning etc. These provide some guidelines to the business managers in determining what are acceptable or recognized standards and practices.

4. What is need for Corporate Governance?

- Balanced economic development is made possible through transparent management under corporate governance. All Stakeholders interests are protected and promoted through corporate governance.

5. What are MNCs?

- MNC is defined to be an enterprise operating in several countries but managed from one country.

3 marks

1. Define business ethics.
   According to Andrew Crane, "Business ethics is the study of business situations, activities, and decisions where issues of right and wrong are addressed."
   According to Raymond C. Baumhart, "The ethics of business is the ethics of responsibility. The business man must promise that he will not harm knowingly."

2. What do you mean by the concept of business ethics?

- It governs the behaviour, derived from the moral standards which help to determine right or wrong, good or evil.
- Ethical behaviour is the acts consistent with the moral standards or codes of conduct established by society.
- It may change over time and differ from culture to culture.

3. Why is ethics necessary in business?

**Credibility with the Employees:**

- When employees are convinced of the ethical values of the organisation they are working for, they hold the organisation in high esteem.
- It creates common goals, values and language.

**Better Decision Making:**

- Respect for ethics will force a management to take various economic, social and ethical aspects into consideration while taking the decisions.
- Decision making will be better if the decisions are in the interest of the public, employees and company's own long term good.

**Profitability:**

- Being ethical does not mean not making any profits. Every organisation has a responsibility towards itself also i.e., to earn profits.
- Ethical companies are bound to be successful and more profitable in the long run though in the short run they can lose money.

4. What are the benefit of Corporate Governance to Share holders

1. Good corporate governance enables corporate success and economic development.
2. Ensures stable growth of organizations.
3. Aligns the interests of various stakeholders.
4. Improves investors' confidence and enables raising of capital.
5. Reduces the cost of capital for companies.
6. Has a positive impact on the share price

5. Illustrate with example the working of a MNC

The two main characteristics of MNCs are their large size and the fact that their worldwide activities are centrally controlled by the parent companies.

- Importing and exporting goods and services
- Making significant investments in a foreign country
- Buying and selling licenses in foreign markets
- Engaging in contract manufacturing — permitting a local manufacturer in a foreign country to produce their products
- Opening manufacturing facilities or assembly operations in foreign countries

**5 marks**

1. Explain the different key elements of business ethics.

   **1. Top Management Commitment**

- Top management has a very important role to guide the entire organization towards ethical behaviour.
- The top level personnel in any organisation should work openly and strongly committed towards ethical conducts and guide people working at middle and low level to follow ethical behaviour

   **2. Publication of a "Code"**

- The organisation principles are defined in the written document called code.
- The code of conduct covers various areas such as health and safety in the work place, fair dealing in selling and marketing activities, ethical practices in the business etc.

   **3. Establishment of Compliance Mechanism**

- To make sure that actual decisions match with a firm's ethical standards, suitable mechanism should be established
- The organisation must provide for an environment where the employees are to free to report about the matters of unethical behaviour.

   **4. Involving Employees at All Levels**

- It is the employees at different levels who implement ethics policies to make ethical business a reality.
- Therefore, their involvement in ethics programmes becomes a must.

   **5. Measuring Results**

- The organisations from time to time keep a check on ethical practise followed.
- Although it is difficult to accurately measure the end results of ethics programmes, the firms can certainly audit to monitor compliance with ethical standards.
- The top management team and other employees should then discuss the results for further course of action.

2. Describe the code of business ethics.

- Code of ethics documents the generally accepted principles of ethical conduct.
- They are statements of values and principles which define the purpose of an organisation.
- It gives a clear picture of the standards that employees should follow .
- It guides them in decision making.

**The code of business ethics can include the following:**

1. To offer goods at fair prices.
2. To supply quality goods and not to deal in spurious and sub standard products.
3. To listen to consumer's complaints and to reduce them.
4. Not to raise the price of its products unjustifiably.
5. Not to resort to hoarding and black marketing.
6. Not to resort to price cutting with the sole aim of killing competition.

3. Explain the significance of Corporate Governance from the point of Stakeholders

1. Good corporate governance enablescorporate success and economic development.
2. Ensures stable growth of organizations.
3. Aligns the interests of various stakeholders.
4. Improves investors' confidence and enables raising of capital.
5. Reduces the cost of capital for companies.
6. Has a positive impact on the share price
7. Provides incentive to managers to achieve organizational objectives.
8. Eliminates wastages, corruption, risks and mismanagement.
9. Improves the image of the company.
10. The organization is managed to benefit the stakeholders.
11. Ensures efficient allocation of resources
12. Creates a strong brand as an ethical business.

4. Discuss the role of International Benchmarking on the working of Companies in India

**ASIA**

- Independent Directors are a requirement for listed companies in all Asian economies, where most require at least 1/3rd of the Board to be independent
- Committees of Boards such as audit, remuneration and Board nomination are required in all Asian economies except Vietnam.
- In China, the Audit Committee is to be composed of Independent Directors only.

**USA**

- The Council of Institutional Investors (CII), Corporate Governance Policies state that at least 2/3rd of the directors should be independent.
- The U.S. National Association of Corporate Directors (NACD), recommends that the Governance Committee should be responsible for ensuring that a process exists for the Board to routinely assess its own performance

**JAPAN**

- In early 2014, Japanese Prime Minister announced the goal of increasing the percentage of women in executive positions at Japanese companies to 30% by 2020.

UK

- UK businesses had voluntary targets first set in 2011 i.e. to have 25% women on FTSE100 (The Financial Times Stock Exchange) Boards by 2015.

FRANCE

- French parliament adopted a bill that requires public companies making at least 50 million Euros in turnover and employing more than 500 workers to have 40% female Board representation by 2017.

5. Describe the benefits of increasing the number of MNCs.

**I. Low Cost Labour**

- MNC set up their facilities in low cost countries and produce goods/service at lower cost.
- It gains cost advantage and sells its products and services of good quality at low cost.

**II. Quality Products**

- The resource, experience and expertise of MNCs in the sphere of research and development enables the host country to establish its research and development system which helps it in producing quality goods and services at least possible cost.

**III. Proper Use of Idle Resources**

- Because of their advanced technical knowledge, MNCs are in a position to properly utilise idle physical and human resources of the host country.
- This results in an increase in the National Income of the host country.

**IV. Improvement in Balance of Payment Position**

- MNCs help the host countries to increase their exports. As such, they help the host country to improve upon its Balance of Payment position

**V. Technical Development**

- MNCs carry the advantages of technical development 10 host countries.
- In fact, MNCs are a vehicle for transference of technical development from one country to another. Because of MNCs poor host countries also begin to develop technically.

## UNIT 19 SOURCE OF BUSINESS FINANCE

1) Write a short notes on debentures.
- A debenture is one of the capital market instruments which is used to raise medium or long term funds from public.
- A debenture is essentially a debt instrument that acknowledges a loan to the company and is executed under the common seal of the company.
- The debenture document, called Debenture deed contains provisions as to payment, of interest and the repayment of principal amount and giving a charge on the assets of a such a company, which may give security for the payment over the some or all the assets of the company.
- It is an important source of finance.

2) What do you mean by public deposits?
- Under this method, companies invite public deposits by giving advertisement in the media. It offers deposit schemes for a longer tenure.
- Person interested in making public deposit has to undergo a simple formality.
- The interest rates offered by companies on public deposits are relatively higher than the bank.

3) Name any two sources of funds classified under borrowed funds.
- The term 'borrowed funds' denotes the funds raised through loans or borrowings.

- For example debentures, loans from banks and financial institutions, public deposits, trade credit, lease financing, commercial papers, factoring, etc. represent borrowed funds.

4) Name any two internal sources of business finance.
- This includes all those sources generated from within the business enterprises.
- For instance retained earnings, collection from receivables (trade debtors and bills receivable), surplus from disposal of old assets and so on.
- These sources can meet only limited needs of business enterprise.

5) State any two factors that affect the choice of source of finance.

**1. Cost**
- Business enterprises have to analyse the cost of mobilising and utilizing the funds.
- For instance where the interest rate is relatively lower, public deposits, debentures, term loan etc. may be desirable options

**2. Time Period**
- The period for which business finance is required determines the suitable source

**3 marks**

1. Define Business finance.
"Finance is that business activity which is concerned with the acquisition and conservation of capital fund in meeting the financial needs and overall objectives of business enterprises." ***- B.O.Wheeler***
2. What is pledge?
   - A customer transfers the possession of an article with the creditor (banker) and receives loan.
   - Till the repayment of loan, the article is under the custody of the borrower.
   - If the debtor fails to refund the loan, creditor (banker) will auction the article pawned and adjust the outstanding loan from the sale proceeds.
3. List sources of raising long-term and short-term finance.
Short term finance
   1. **Loans and Advances**
   2. **Bank Overdraft**
   3. **Discounting Bills of Exchange**
   4. **Trade Credit**
   5. **Pledge**
   6. **Hypothecation**
   7. **Mortgage**
   8. **Loans Against the Securities**
   9. **Clean Loan**
   10. **Commercial Paper (CP)**
   11. **Hire Purchase Finance**
   12. **Factoring**

   Long term finance
   1. Shares
   2. Debentures
   3. Retained earning

4. Public Deposit
5. Long term loan from commercial bank

4. For which purpose fixed capital is needed in business?
   - Purchase of plant,
   - Purchase of machinery,
   - Purchase of furniture& fixtures,
   - Purchase of vehicles, and so on,
5. What do you mean by working capital requirement of business?

- working capital requirements include purchase of raw materials, payment of salary and wages, incurring operating expenses like telephone bills, carriage inward and outward, electricity charges, premium, stationery, etc.

**5 marks**

1. List out the various sources of financing.

   Short term finance
   1. **Loans and Advances**
   2. **Bank Overdraft**
   3. **Discounting Bills of Exchange**
   4. **Trade Credit**
   5. **Pledge**
   6. **Hypothecation**
   7. **Mortgage**
   8. **Loans Against the Securities**
   9. **Clean Loan**
   10. **Commercial Paper (CP)**
   11. **Hire Purchase Finance**
   12. **Factoring**

   Medium term finance
   1. **Loans from Banks**
   2. **Loan from Financial Institutions**
   3. **Lease Financing**

   Long term finance
   1. Shares
   2. Debentures
   3. Retained earnings
   4. d earning
   5. Public Deposit
   6. Long term loan from commercial bank

2. What are the different types of short term finances given by commercial banks?
   1. **Loans and Advances**

- Loan is a direct advance made in lump sum which is credited to a separate loan account in the name of borrower.
- The borrower can withdraw the entire amount in cash immediately.
- It can be repaid in one or more instalments
- It may be secured or unsecured

   2. **Bank Overdraft**

- Bank overdraft refers to an arrangement whereby the bank allows the customers to overdraw the required amount from its current deposit account within a specified limit.
- Interest is charged only on the amount actually overdrawn.

3. **Discounting Bills of Exchange**

- Discounting bills of exchange refers to an act of selling a bill to obtain payment for it before its maturity.

4. **Pledge**
    - A customer transfers the possession of an article with the creditor (banker) and receives loan.
    - Till the repayment of loan, the article is under the custody of the borrower.
    - If the debtor fails to refund the loan, creditor (banker) will auction the article pawned and adjust the outstanding loan from the sale proceeds.
5. **Hypothecation**

- This is loan taken by depositing document of title to the property with the banker.
- Of course the physical possession of asset property is with the borrower.
- It is a loan taken on the security of **movable asset**

6. **Mortgage**

- This is a type of loan taken from the bank by lodging with the banker title deeds of **immovable assets** like land and building.
- Business people raise loans by depositing the title deeds of the properties with the bank

7. **Loans Against the Securities**

- Banks accept various types of securities like fixed deposit receipt, book debts, insurance policies, book debt, and so on, and provides loan on the basis of the aforesaid securities

8. **Clean Loan**

- Banks provide clean loan to certain customer of outstanding credit worthiness on the basis of their character, capacity and capability.
- clean loan is loan given without any security or with personal security.

3. Write short notes on

1.**Retained Earnings**

- Retained earnings refer to the process of retaining a part of net profit year after year and reinvesting them in the business.
- It is also termed as ploughing back of profit. profit making company would retain a portion of the net profit in order to finance its growth and expansion in near future.
- It is described to be the most convenient and economical method of finance

2. **Lease financing**

- Lease financing denotes procurement of assets through lease. For many small and medium enterprises, acquisition of plant and equipment and other permanent assets will be difficult in the initial stages.
- In such a situation Leasing is helping them to a greater extent. Leasing here refers to the owning of an asset by any individual or a corporate body which will be given for use to another needy business enterprise on a rental basis.
- Lease finance is a popular method of medium term business finance.

4. Write short notes on

a) owner's funds

- Owner's funds mean funds which are provided by the owner of the enterprises who may be an individual, or partners or shareholders of a company.
- The profits reinvested in the business (ploughing back of profit or retained earnings) come under owner's funds.
- These funds are not required to be refunded during the life time of business enterprise.
- It provides the owner the right to control the management of the enterprise.

b) borrowed funds

- The term 'borrowed funds' denotes the funds raised through loans or borrowings.
- These borrowed sources of funds provide specific period before which the fund is to be returned.
- Borrower is under legal obligation to pay interest at given rate at regular intervals to the lender.
- Generally borrowed funds are obtained on the security of certain assets like bonds, land, building, etc

4. Explain any four personal investment avenues.

**1. Public Provident Fund (PPF)**

- It is the safest long-term investment option for the investors in India.
- It is totally tax-free. PPF account can be opened in bank or post office.
- The money deposited cannot be withdrawn before 15 years and an investor can earn compound interest from this account

**2. Mutual Funds**

- An individual investor who wants to invest in equities and bond with a balance of risk and return generally can invest in mutual funds.
- Nowadays people invest in stock markets through a mutual fund.
- Systematic investment plan is one of the best investment options in India.

**3. Direct Equity or Share Purchase**

- An individual can opt for investment in shares.
- But he has to analyse the market price of various shares traded in stock exchange, reputation of the company, consistency in the payment of dividend, the nature of the project undertaken by the company, growth prospects of industry in which a company is operating, before investing in shares.
- If the investment is made for a long time, it may yield good return.
- However there is equally risky to invest in shares as there is no guaranteed return therein.

**4. Real Estate Investment**

- Real estate is one of the fastest growing sectors in India.
- Buying a flat or plot is supposed to be the best decision amongst the investment options.
- The value of the real asset may increase substantially depending upon the area of location and other support facilities available therein.

**5. Investing in Metals**

- Investment in metals like gold, silver and platinum is one of the oldest and evergreen investment products.

- The values of the metals rise slowly and steadily in line with the dynamic market conditions.
- But investors can liquidate the metals immediately in the market without any loss.

## UNIT 20 INTERNATIONAL FINANCE

1) Who are Foreign Institutional Investors?
   A foreign institutional investor (FII) is an investor or investment fund registered in a country outside of the one in which it is investing. Institutional investors most notably include hedge funds, insurance companies, pension funds and mutual funds. The term is used most commonly in India and refers to outside companies investing in the financial markets of India.
2) What is a Depository Receipt?
   A depositary receipt is a negotiable certificate issued by a bank representing shares in a foreign company traded on a local stock exchange. The depositary receipt gives investors the opportunity to hold shares in the equity of foreign countries and gives them an alternative to trading on an international market.
3) What is a GDR (Global Depository Receipt)?
   A global depositary receipt or GDR is a bank certificate issued in more than one country for shares in a foreign company.
4) What is an American Depositary Receipt (ADR)?
   An American depositary receipt (ADR) is a negotiable certificate issued by a U.S. bank representing a specified number of shares (or one share) in a foreign stock traded on a U.S. exchange.
5) What is a Foreign Currency Convertible Bond?
   - A foreign currency convertible bond (FCCB) is a type of convertible bond issued in a currency different than the issuer's domestic currency.
   - In other words, the money being raised by the issuing company is in the form of a foreign currency.
   - A convertible bond is a mix between a debt and equity instrument.
   - It acts like a bond by making regular coupon and principal payments, but these bonds also give the bondholder the option to convert the bond into stock.

3 MARKS

1. Explain the importance of international finance.

1. International finance helps in calculating exchange rates of various currencies of nations and the relative worth of each and every nation in terms thereof.
2. It helps in comparing the inflation rates and getting an idea about investing in international debt securities.
3. It helps in ascertaining the economic status of the various countries and in judging the foreign market.

2. What are Foreign Currency Convertible Bonds?
   - A foreign currency convertible bond (FCCB) is a type of convertible bond issued in a currency different than the issuer's domestic currency.
   - In other words, the money being raised by the issuing company is in the form of a foreign currency.

- A convertible bond is a mix between a debt and equity instrument.
- It acts like a bond by making regular coupon and principal payments, but these bonds also give the bondholder the option to convert the bond into stock.

3. Explain any three disadvantages of FDI

**1. Exploiting Natural Resources:**
- The FDI Companies deplete natural resources like water, forest, mines etc.
- As a result such resources are not available for the usage of common man in the host country.

**2. Heavy Outflow of capital**
- Foreign companies are said to take away huge funds in the form of dividend, royalty fees etc.
- This causes a huge outflow of capital from the host country

**3. Creating Monopolistic Environment**
- Multi National Companies (MNCs) which enter the host country through FDI route create monopolistic conditions in the host countries through their market power.
- They may not create competitive environment in the host country.
- Contrarily they may affect the competition altogether and establish supremacy.

4. State any three features of ADR.
- ADRs are denominated only in US dollars
- They are issued only to investors who are American residents..
- The depository bank should be located in US.

5. State any three features of GDR.
- It is a negotiable instrument and can be traded freely like any other security.
- GDRs are issued to investors across the country. It is denominated in any acceptable freely convertible currency
- GDR is denominated in any foreign currency but the underlying shares would be denominated in local currency of the issuer.

5 MARKS

1. Describe the importance of international finance?

1. International finance helps in calculating exchange rates of various currencies of nations and the relative worth of each and every nation in terms thereof.
2. It helps in comparing the inflation rates and getting an idea about investing in international debt securities.
3. It helps in ascertaining the economic status of the various countries and in judging the foreign market.
4. International Financial Reporting System (IFRS) facilitates comparison of financial statements made by various countries.
5. It helps in understanding the basics of international organisations and maintaining the balance among them.
6. International finance organisations such as IMF, World Bank etc. mediate and resolve financial disputes among member nations.

2. Distinguish between GDR and ADR.

| BASIS | GDR | ADR |
|---|---|---|

| | | |
|---|---|---|
| Acronym | American Depository Receipt | Global Depository Receipt |
| Relevance | Foreign companies can trade in US stock market. | Foreign companies can trade in any country's stock market other than the US stock market. |
| Issued in | United States domestic capital market. | European capital market. |
| Listed in | American Stock Exchange such as NYSE or NASDAQ | Non-US Stock Exchange such as London Stock Exchange or Luxemberg Stock Exchange |
| Negotiation | In America only. | All over the world. |
| Disclosure Requirement | Onerous | Less onerous |
| Market | Retail investor market | Institutional market. |

2. State any five features of FCCB.( Foreign Currency Convertible Bond)
   1) FCCB is issued by an Indian company in foreign currency.
   2) These are listed and traded in foreign stock exchange and similar to the debenture.
   3) It is a convertible debt instrument. It carries interest coupon. It is unsecured.
   4) It gives its holders the right to convert for a fixed numbers of shares at a predetermined price.
   5) It can be converted into equity or depository receipt after a certain period.
   6) The amount received from the issue of FCCB should be utilised as per the guidelines of External Commercial Borrowing (ECB)

4. Explain any five advantages of FDI.

1. **Achieving Higher Growth in National Income**
   - Developing countries get much needed capital through FDI to achieve higher rate of growth in national income
2. **Faster Economic Development**
   - FDI brings technology, management and marketing skills along with it. These are crucial for achieving faster economic development of developing countries.
3. **Help in Addressing BOP Crisis**
   - FDI provides inflow of foreign exchange resources into a country. This helps the country to solve adverse balance of payment position.
4. **Encouraging Competition in Host Countries**
   - Entry of FDI into developing country promotes healthy competition therein.
   - This leads to enterprise in developing countries operating efficiently and effectively in the market.
   - Consumers get a variety of products of good quality at market determined price which usually benefits the customers.
5. **Generating Employment Opportunities**

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

## Unit 21 MSME'S AND SHGS

**2 MARKS**

1) What do you understand by the manufacturing enterprises?
They refer to the enterprises engaged in the manufacturing or production of goods pertaining to any industry specified in the first schedule to the Industries (Development and Regulation) Act, 1951. The manufacturing enterprises are defined in terms of investment in plant and machinery.
2) What is the aim of NEEDS?
   - To encouraging the educated youth to become the first generation entrepreneurs.
   - The Scheme envisages providing entrepreneurship development training to educated young entrepreneurs, preparing business plans and helping them to tie up with financial institutions to set up new business ventures, besides linking them with major industrial clients.
3) What is a Self Help Group?
   - A self-help group (SHG) is a village-based financial intermediary committee usually composed of 10–20 local women or men.
   - A mixed group is generally not preferred.
   - Most self-help groups are located in India, though SHGs can be found in other countries, especially in South Asia and Southeast Asia

4) State the investment limit for small enterprise in manufacturing and service sector.

| Manufacturing sector | Service sector |
|---|---|
| More than `25 lakhs but not exceeding `5 Crores | More than `10 lakhs but not exceeding `2 crores |

**3 MARKS**

1. State the investment limit for medium enterprise engaged in Manufacturing and service sector.

| Manufacturing sector | Service sector |
|---|---|
| More than `5 Crores but not exceeding `10 Crores | More than ` 2 Crores but not exceeding `5 crores |

2. List out the products produced by MSME in Tamil Nadu?
- In Tamil Nadu MSMEs sector produces a wide variety of products in almost all fields.
- The prominent among them are the textile, electronic products, engineering products, auto ancillaries, leather products, chemicals, plastics, garments, jewellery etc.
3. What is the role and significance of MSMEs in Indian Economy?
   1. **Employment Potential**
   2. **Low Production Cost**

3. **Low Investment**
4. **Quick Decision Making**
5. **Supplementary Role**
6. **Establishment of Socialistic Pattern of Society**
7. **Balanced Regional Development**
8. **Promotion of Self Employment and Self Reliance Spirit**
9. **Higher Contribution to Manufacturing and Export**

4. Explain any three features of Self Help Group.
   1. The motto of every group members should be “saving first – credit latter”
   2. Self Help Group is homogeneous in terms of economic status.
   3. The ideal size of a Self Help Group ranges between 10 and 20 members.
   4. The groups need not be registered.

5. What are the different ways in which banks fund Self Help Groups?

**5 MARKS**

1. What is the definition of MSME?

**Definition**

In accordance with the provisions of Micro, Small and Medium Enterprises Development Act 2006, the micro, small and medium enterprises are classified into two classes.

Manufacturing enterprises

They refer to the enterprises engaged in the manufacturing or production of goods pertaining to any industry specified in the first schedule to the Industries (Development and Regulation) Act, 1951. The manufacturing enterprises are defined in terms of investment in plant and machinery.

Service enterprises

They refer to the enterprises engaged in providing or rendering of services

The limit of investment in plant and machinery/equipment for manufacturing/ Service Enterprises is notified as under.

| Enterprise | Manufacturing sector | Service sector |
|---|---|---|
| Micro enterprises | Does not exceed `25 lakhs | Does not exceed `10 lakhs |
| Small enterprises | More than `25 lakhs but not exceeding ` 5 Crores | More than `10 lakhs but not exceeding `2 crores |
| Medium enterprises | More than` 5 Crores but not exceeding ` 10 crores | More than ` 2 crores but not exceeding ` 5 crores |

2. Explain the advantages of MSMEs?

1. **Employment Potential**
   - MSMEs generate more employment opportunities than large business concerns.
   - They are mostly labour intensive, thus they provide more employment opportunities to a larger number of people in India.
2. **Low Production Cost**
   - MSMEs do not require skilled labourers or professionals to run the organisation.
   - It employs cheap labour and thus minimizes the overhead.
   - These units are more cost efficient than large scale units, thus facilitates production of goods at low cost.
3. **Low Investment**
   - MSMEs do not require a huge capital to start the unit.
   - It can employ locally available resources within the reach of the owner.

4. **Quick Decision Making**
   - MSMEs need not hire professional managers to run the management on a day to day basis.
   - In most cases, owner himself manages the enterprises. Hence, timely decision making becomes easy and effective
5. **Supplementary Role**
   - MSMEs play a complementary role to serve as a feeder to large scale industries.
   - They supply accessories, spare parts and components to large scale industries
6. **Establishment of Socialistic Pattern of Society**
   - MSME sector contributes towards the establishment of socialistic pattern of society by reducing the concentration of income and wealth.
7. **Balanced Regional Development**
   - By encouraging MSMEs in industrially backward areas of India, balanced development can be achieved across all regions.
   - It will also help greatly in preventing the people from migrating to cities and towns in pursuit of employment
8. **Promotion of Self Employment and Self Reliance Spirit**
   - MSMEs help to a great deal in developing a class of entrepreneurs.
   - It promotes self employment and a spirit of self reliance in the society, thereby contributing an increase in per capita income or economic development
9. **Higher Contribution to Manufacturing and Export**

- MSMEs contribute 45% to the total manufacturing output and 40% to the exports from the country.
- It helps in earning precious foreign exchange in various countries across the world.

3. What are the objectives of SHGs?

1. Focusing on empowerment of women.
2. Saving people from the clutches of money lenders
3. Building capacity of women and to enable them to participate in generating activities.
4. Creating the habit of saving in the minds of the people who are economically backward.
5. Promoting entrepreneurship skills among women.
6. Creating awareness about the importance of credit circle or revolving credit and the payment of the circle.
7. Elevating the economic standard of the member's families.
8. Developing skills and facilitating credit linkages for eventual economic empowerment.
9. Promoting awareness among the members about finding solutions for their economic problems.
10. Identifying the common interest of the group members and carrying out their operations in the most efficient and economic way.
11. Enabling the members to overcome all social and economic barriers.
12. Promising and ensuring human rights to women at all stages of their life cycle.