International Finance

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Lecture - 40
Test-4

In the session number 40 that is the last session for you, and we will be, together we will be doing a test, what is test number 4. And as per the earlier test number 1, 2, 3 we will be discussing here 20 multiple choice questions along with 5 short questions. And this test will carry, will be nearly one hour duration after that 20 questions multiple choice question, we will discuss about the, that true answer for each questions, after that we will go to subjective question. Subjective question you have to write, the each question within 100 and 100 to 200 words. I will give you key key to the each answer. And in this process we will try to complete the sessions, and this session is self evaluation for you.

This last session will be devoted to the multiple choice question and self evaluation questions and this will enable you have to understand the entire of what is the international financial management and I hope test number 1, 2, 3, 4 we will be in a position to judge your knowledge and the capability, which you have developed over the last 39 session. Let us go to the session number 40 that is the self evaluation session.

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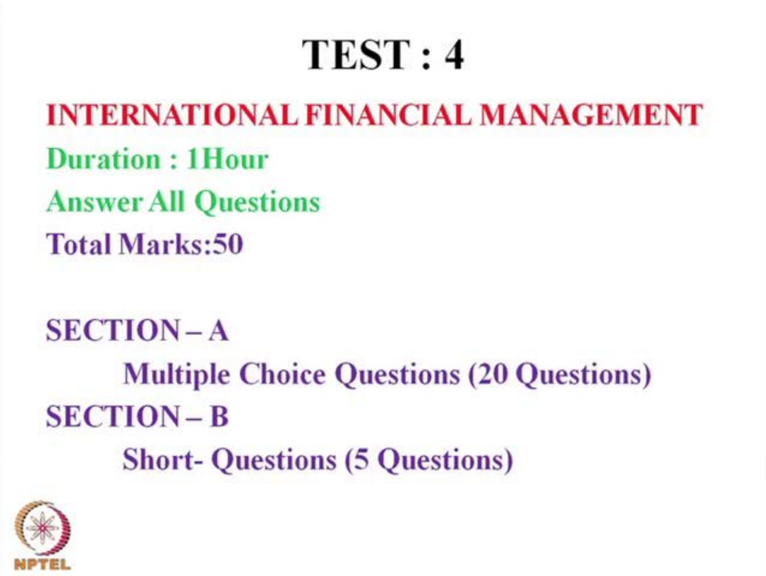

Here the session is one hour duration, as I told you section A will be multiple choice questions, section B will be short short question each question, each short question will be you should write in a 100 to 200 words, 5 questions will be there. Let us move to the multiple choice question. Each question carry 1 mark and there will be 20 marks for the multiple choice question and short question each carry 6 marks and 6 into 5 is 30 marks for you. Let us go to the section a multiple choice question.

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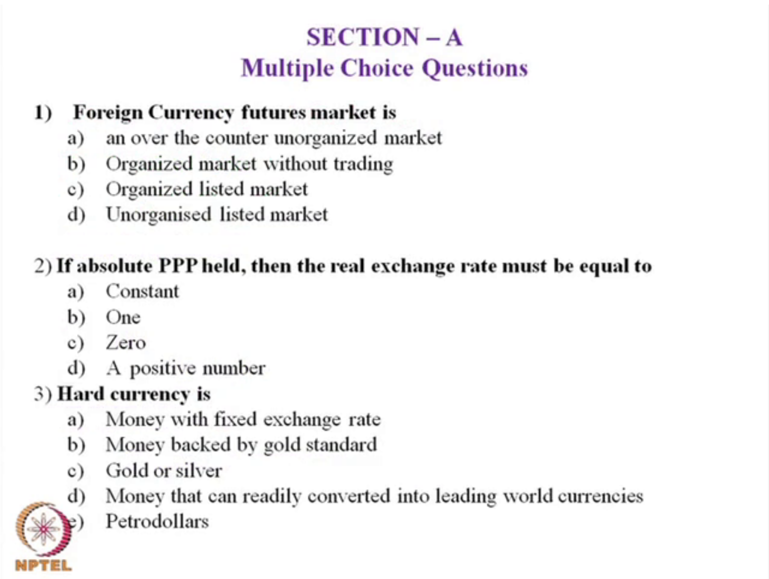

Here, there is a question. I will read the questions and along with that I will also let you know the multiple choices for you and what you have to do in a piece of paper you write the right answer for each question, you write the right answer after the 20 questions over I will let you know the actual answer. Let us start, question number 1 question number 1. Foreign currency future market is the choices for you are a) an over the counter unorganized market. b) organized market without trading. c) organized listed market. d) unorganized listed market. Write the answer keep it with you. Question number 2, if absolute PPP that is purchasing power parity held then the real exchange rate must be equal to, the choices for you are a) constant. b) one. c) zero. d) a positive number. Write the answer keep it with you.

Question number 3, hard currency is, question number 3. Hard currency is, the choices for you are a) money with fixed exchange rate. b) money backed by gold standard. c) gold and or silver. d) money that can readily converted into leading world currency. e) petrodollar. Write the answer keep it with you. Let us move to question number 4. Question number 4 is for you

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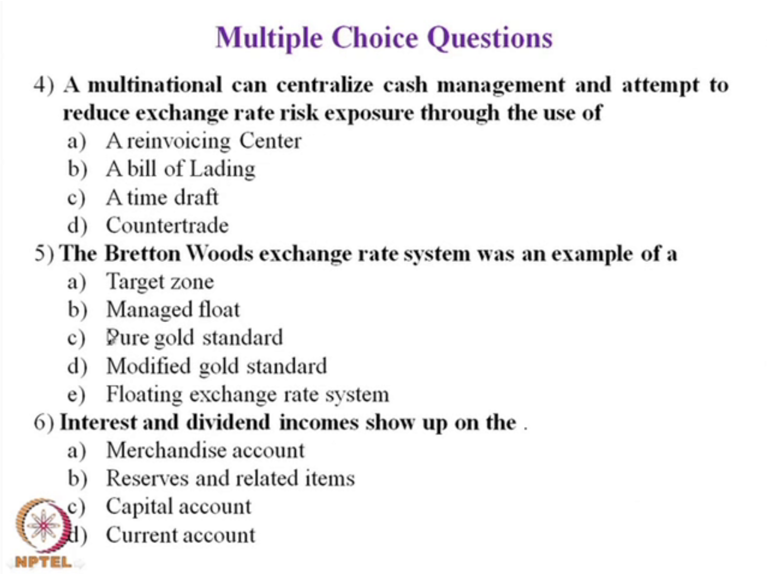

A multinational company can centralize cash management and attempt to reduce exchange rate risk exposure through the use of, the choices for you are a) a reinvoicing center. b) a bill of lading. c) a time draft. d) countertrade. Write the answer keep it with you. The question number 5 for you is, the Bretton Wood exchange rate system was an example of, the choices for you are a) target zone. b) managed float. c) pure gold standard. d) modified gold standard. e) floating exchange rate system. Write the answer keep it with you. Question number 6, question number 6 is for you interest and dividend income show up on the question number 6 interest and dividend income show up on the, answer for you the choices for you are a) merchandise account. b) reserve and related items. c) capital account. d) current account. Write the answer keep it with you.

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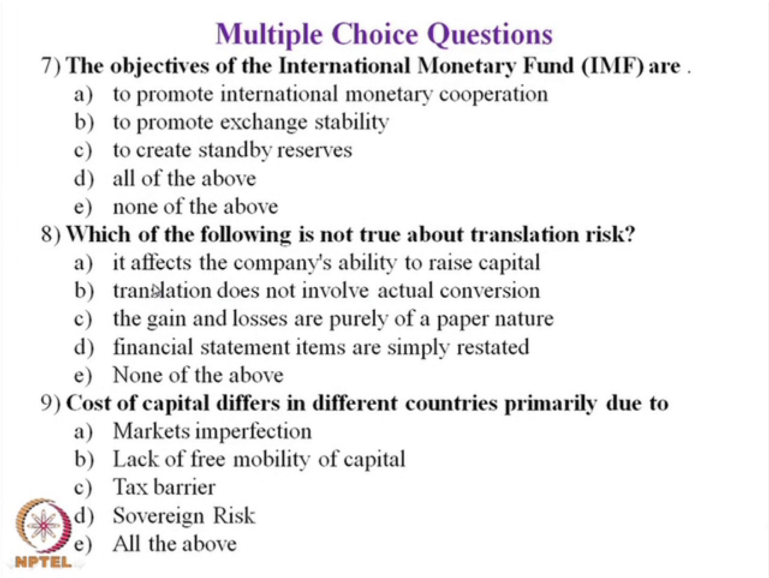

Question number 7, question number 7 for you is the objective of the international monetary fund IMF are the choices for you are a) to promote international monetary cooperation b) to promote exchange stability. c) to create standby reserves. d) all the above. e) none of the above. Question number 7, the objective of international monetary fund are a) to promote international monetary cooperation. b) to promote exchange rate stability. c) to create standby reserve. d) all the above. e) none of the above. Write the answer keep it with you.

Question number 8, the question number 8 for you is which of the following is not true is, not true about transaction translation risk. Question number 8 is which of the following is not true about translation risk a) choices for you are a it affects the company’s ability to raise capital. question number answer b) is translation does not involve actual conversion. c) the gain and losses are purely of a paper nature. d) financial statement items are simply restated. e) none of the above. Question number 9 cost of capital differs in different country primarily due to, the choices for you are a) market imperfection. b) lack of free mobility of capital. c) tax barrier. d) sovereign risk. e) all the above. Write the answer keep it with you. Let us move to question number 10.

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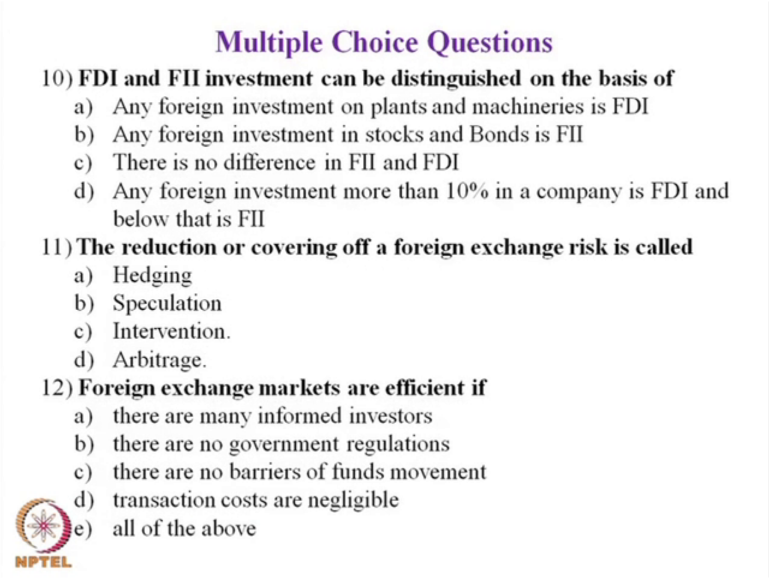

Question number 10 for you is FDI and FII investment can be distinguished on the basis of, the choices for you are a) any foreign investment on plants and machinery is FDI. b) any foreign investment in stock and bonds is FII. c) there is no difference between FII and FDI. d) any foreign investment more than ten percent in a company is FDI and below that it is FII. Write the answer keep it with you. Question number 11, question number 11 for you is the reduction or covering off a foreign exchange risk is called, the choices for you are a) hedging. b) speculation. c) intervention. d) arbitrage. Write the answer keep it with you.

Question number 12, question number 12 for you is foreign exchange markets are efficient if the choices for you are a) there are many informed investor. b) there are no government regulation. c) there are no barrier in movement of funds. d) transaction cost are negligible. e) all the above. Write the answer keep it with you. Let us move to question number 13.

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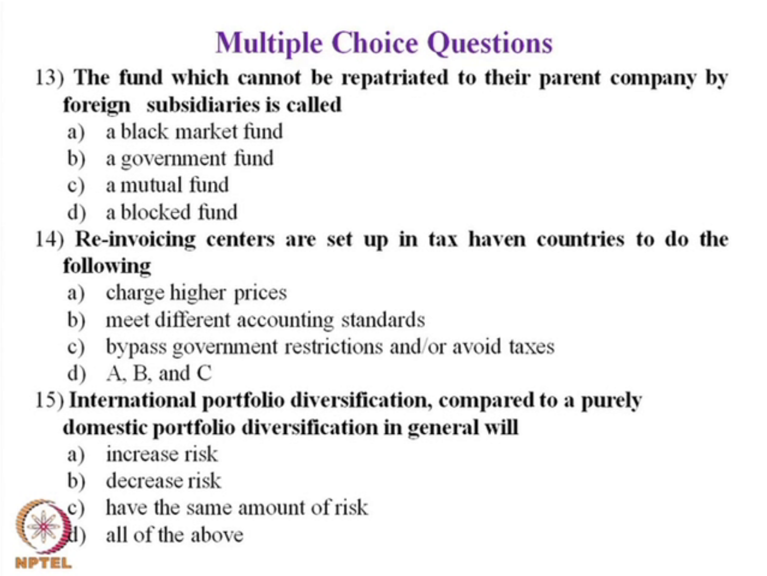

Question number 13 for you is, the fund which cannot be repatriated to their parents company by foreign subsidiary is called, the choices for you are a) a block, black market fund a) a black market fund b) a government fund. c) a mutual fund. d) a blocked fund. Write the answer keep it with you. Question number 14, question number 14 for you is reinvoicing center are set up in tax haven country to do the following, the choices for you are a) charge higher prices. b) meet different accounting standards. c) bypass government restriction or avoid taxes. d) a b c together. Write the answer keep it with you.

Question number 15, question number 15 for you is international portfolio diversification compared to a purely domestic portfolio diversification in general will, the choices for you are a) increase risk. b) decrease risk. c) have the same amount of risk. d) all the above. Write the answer keep it with you.

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Multiple Choice Questions

16) **The main reasons why the international cost of capital may be different from the purely domestic cost of capital are due to the following:**
   a) the company's accessibility to international capital markets
   b) tax advantages in different countries
   c) exchange rate risk
   d) A and B

17) **In accounting exposure, if exposed assets are greater than exposed liabilities, foreign currency depreciations will produce exchange**
   a) appreciation
   b) losses
   c) depreciation
   d) Gains

18) **A depreciation of the dollar will have its most pronounced impact on imports if the demand for imports is:**
   a) Constant
   b) Inelastic
   c) Elastic
   d) Unitary elastic

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Let us move to question number 16, question number 16 for you is, The main reason why the international cost of capital may be different for from the purely domestic cost of capital are due to the following, the main reason why international capital cost of capital may be purely different from the purely domestic cost of capital are due to the following, a) the company's accessibility to international capital market. b) tax advantage in different countries. c) exchange rate risk. d) a and b. Write the answer keep it with you. The question number 17 for you is, in accounting exposure is if exposed assets are greater than exposed liability, foreign currency depreciations will produce exchange, choices for you are a) appreciation. b) exchange losses. c) exchange depreciation. d) exchange gains. Write the answer keep it with you.

The question number 18 for you is a depreciation of the dollar will have its most pronounced impact on imports if the demand for import is, choices for you are a) constant. b) inelastic. c) elastic. d) unitary elastic. Write the answer keep it with you.

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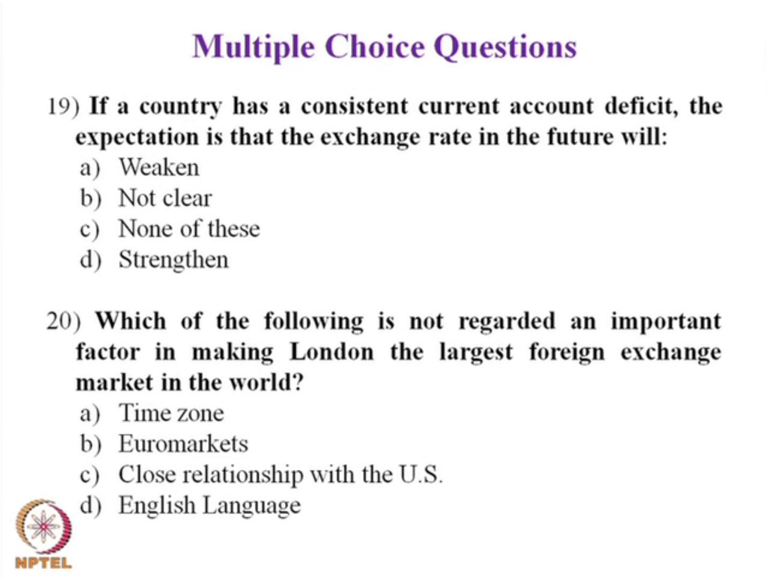

Question number 19, question number 19 for you is, if a country has a consistent current account deficit if a country has a consistent current account deficit the expectation is that the exchange rate in future will a) weaken. b) not clear. c) none of these. d) strengthen. Write the answer keep it with you. Question number 20, question number 20 for you is, which of the following is not regarded an important factor in making London the largest foreign exchange market in the world, the choices for you are a) time zone. b) Euromarkets. c) close relationship with US. d) English language. Write the answer keep it with you.

All 20 questions are over now. Let us move to discuss each of the each of the questions with their answer, what you have to do, we will discuss each question starting from 1 to 20 I will let u know the answer, you compare your answer with my answer. Let us move to the question number 1. Question number 1 was foreign currency future market is, it is a over the counter organized market because we are discussing about future currency market future currency market organized listed market. So, here the question number 1 the answer is c. The foreign currency future market is organized and listed market. Question number one the answer is c, a organized and listed market.

Question number 2, if absolute purchasing power parity held then the real exchange rate must be equal to 1 because absolute purchasing power parity theory held the there will be no difference between real and nominal exchange rate. So, the real exchange rate will be one only. So, here the question number two answer is b, the question number 2 answer is b. In case question number 3 - hard currency; hard currency is a currency which can be readily converted into any other world currency. So, high liquid most demandable currency is a hard currency. It is a hard currency is the money market; hard currency is money that can readily be converted into leading world currency.

So, question number 3 the answer is d the question number 3 the answer is a d Hard currency is money that can readily be converted into any world currency. Let us move to question number 4, question number 4 is a multinational company can centralize cash management and attempt to reduce exchange rate risk exposure through the use of rein voicing center. The multinational company can have a rein voicing center and all the cash management services they can transfer to the rein voicing center so in this way they reduce the exchange rate exposure and also exchange rate risk. So, question number 4 the answer is a, that is rein voicing center. So, question number 4 answer is a, that is a rein voicing center.

Question number 5, question number 5 is the Bretton Woods exchange rate system was an example of the Bretton Wood exchange rate system was a example of modified gold standard. The Bretton wood exchange rate system is an example of modified gold standard so question number 5 the answer is d, In case of Bretton Wood system dollar was linked to gold and all other currency was linked to US dollar. So, US dollar was linked to gold, all other currency was linked to US dollar. So, the fluctuation of gold the US dollar fluctuate other currency also fluctuate. Since, indirectly all other currency are linked to gold so, Bretton Wood system, the exchange rate was an example of modified gold system, pure gold standard the question number 5 the answer is d.

Let us move to question number 6, question number 6. Interest and dividend income show up on the it is a current account because interest rate current here question number 6 the answer is d, current account. The question number 6 the answer is d, current account In interest and dividend income are part of current account interest and dividend income are the part of current account Hence question number 6 the answer is d.

Question number 7 question number 7 the objective of international monetary fund is to promote international to monetary cooperation promote exchange rate stability create standby reserve. So, it is all the above, all the above; that is question number 7, the answer is d all the above. So, the monetary fund was international fund monetary fund was established to promote in monetary cooperation promote exchange rate stability and create standby foreign exchange reserve to help those country who actually needs foreign currency. So, 7 number question, question number 7, the answer is d. all the above

Question number 8 question number 8 question number 8 is 8 is which one of which of the following is not true about translation exposure. As I have mentioned earlier translation exposure is is not actually a exposure it a, it is a accounting adjustment only in question number 8, the answer is translation exposure does not involve actual conversion. So, it may be the question number 8 the answer is c, the gain and losses are purely of a paper nature. Question number 8, the answer is c; the gain and losses are purely paper in nature. There is no real gain, the gain and gains and losses are purely paper in nature.

Question number 9 question number 9 is cost of capital differ in different countries primarily due to cost of capital differ in different countries primarily due to here the answer is cost of capital. Cost of capital is influenced by market imperfection which influence the lack of free mobility of capital is influenced by tax. A barrier is influenced by sovereign risk also in 9 number question, question number 9 the answer is e, all the above, the question number 9 the answer is e, all the above.

Question number 10; question number 10 is FDI and FII investment can be distinguished on the basis of FDI and FII investment can be distinguished on the basis of any foreign investment more than 10 percent which is called FDI less than 10 percent, it is called FII. So, any form of investment is, investment in plant and machinery for plant or in portfolio investment. If it is more than 10 percent of the capital, more than ten percent of the company holding it is known as FDI less than 10 percent it is known as FII so, FDI and FII investment can be distinguished on the basis of any foreign investment more than 10 percent in a company is FDI less than 10 percent it is FII. In question number 10 the answer is d, the question number 10 the answer is d.

Question number 11, question number 11 the reduction or covering off a foreign exchange risk is called hedging the reduction or covering off foreign exchange risk is called hedging. In question number 11, the answer is a. the question number 11, the answer is a Question number 12 question number 12 is foreign exchange market are efficient, if there are many informed investors there are no government regulation there are no barriers of funds flow funds movement transaction cost are negligible and the answer is all the above in the 12 number question. The foreign exchange market are efficient, the answer is e, all the above all the above Question number 12 the answer is all the above, e.

Question number 13, question number 13 the fund which cannot be repatriated to other to their parents company by a foreign subsidiary is called blocked fund the question number 13 the answer is d. Question number 13 the foreign fund which cannot be repatriated to parent company, it is called blocked fund though 13 question, number 13 the answer is d. Question number 14, question number 14 rein voicing center are set up in tax haven country to do the following, charge higher prices, meet different accounting standard, bypass government restriction and or avoid taxes d, a, b, c. The question number 14, the answer is c the question number 14, the answer is c. Bypass government restriction or restriction and or avoid taxes. Question number 14, the answer is c.

Question number 15, question number 15 international portfolio diversification compared to a purely domestic diversification in general will increase risk, decrease risk, have the same level of risk, all the above. International diversification of portfolio decrease exchange decrease risk there is more choices, systematic risk will be further diversified, further reduced in international portfolio, diversification further reduced the further reduced the risk. The question number 15 answer is b, decrease the risk, decrease the risk So, question number 15, the answer is d.

Now, question number 16; question number 16 is the main reason why the international cost of capital may be different from purely domestic cost of capital are due to the company accessibility of capital market, tax benefit in different country, exchange rate risk. So, here answer is the tax advantage in different countries. tax advantage in different countries The main reason why international cost of capital may different from purely domestic cost of capital, it is because of tax advantage in different country, tax differences advantage in different country. The 16 number question, the answer is b, the 16 number question, the answer is b.

Question number 17; question number 17 is in accounting exposure, if exposed assets greater than exposed liability the foreign currency depreciation will reduce exchange rate exchange rate the answer is losses, it reduce the exchange rate losses in in accounting exposure. If the exposed assets are greater than exposed liability, any foreign currency depreciation will produce exchange rate losses exchange losses so, question number 17 the answer is b.

In question number 18, a depreciation of the dollar a depreciation of the dollar will have its most pronounced impact on import, if the import demand is elastic. import demand is elastic a depreciation of the dollar will have most pronounced impact on import if the import demand is elastic in nature import demand is Elastic import demand, so any depreciation of dollar lead to lead to improve reduce reduction of import hence impact on the impact on the demand for import will be elastic. Question number 18 the answer is c, question number 18 the answer is c.

Question number 19; question number 19 if a country has a consistent current account deficit, the expectation is the exchange rate in future will there will be current account deficit is consistent nature, consistent current account deficit lead to depreciation or weakens weaken of dollar, weaken of the domestic currency. The exchange rate in the future will be weaken the exchange rate future will be weaken consistent current account deficit lead to devaluation of currency, depreciation of currency weaken the currency. The question number 19 the answer is a. the question number 19 the answer is a.

Question number 20; question number 20 is question number 20 is, which of the following is not regarded as such important factor in making London, the largest foreign exchange market in the world? Which of the following is not regarded as the important factor in making London the largest foreign exchange market in the world? The question number 20, the answer is the answer is close relationship with the US; close relationship with the US US The twenty question now, question number 20 the answer is c. The question number 20 the answer is c. So, question number 20 the answer is c.

So all the answer I have told you. So, try to try to judge your answer and find how many questions you have rightly answered. You try to compare my answer with your answer and try to find how many how many questions you have rightly answered. For each right answer, you will you will be getting one mark. Let us move to the subjective questions. The subjective question I will be asking you 5 subjective questions. Each question you will be answering in 100 to 200 words. You have to write the cream of the question, a cream of the answer. However, I am providing you some kind of key to the each, key to the answer for each question.

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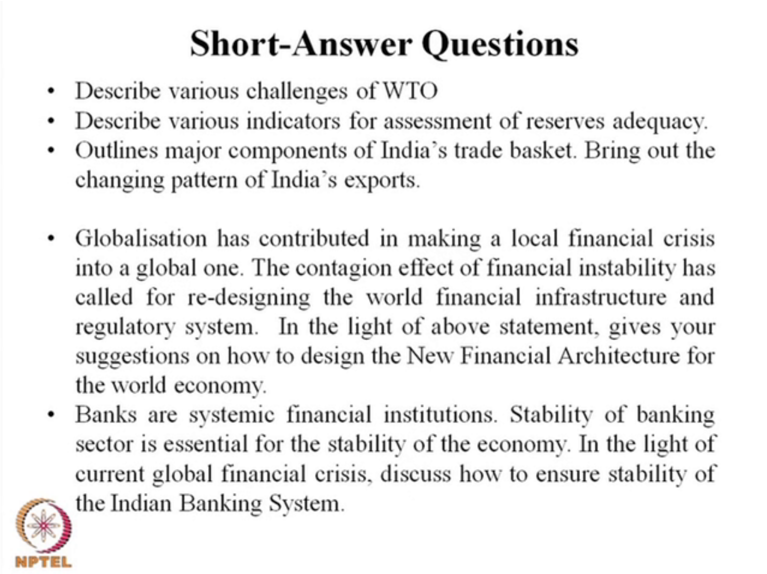

So, here question, the question here are describe various challenges of WTO. Question 1, is describe various challenges of world trade organization. So, you have to find, we have to have to find the different challenges of world trade organization. If you remember that in one session, we have discussed the world trade organization, the formation of world trade organization and the negotiation in case of world trade organization, and also we discussed various challenges, which are there at present with the world trade organization. So, if you see the world trade organization the block as a part of the GATT agreement; the agreement on general agreement tariff and trade tariff, and trade that is GATT. So, we the GATT agreement replaced in 1996 in the form of WTO.

WTO, world trade organization was established, there we there many other thing brought under WTO, particularly agriculture, trading services, trading investment then also intellectual property, all these thing now the part of the WTO. The WTO leads to a new world order, a new world set up particularly on international trade side there are many countries particular developed country. They got the freedom in the in or right in on the WTO as per the WTO agreement on the intellectual property. So, the pharmaceutical sector developed a new technology, new way of doing business, the perform the also got ratified in the way of intellectual property. We have migrated from the, what is called the product, the process patent to product patent under the WTO agreement.

However, there are many challenges are there on WTO side. The first challenges is the how to bring how to bring the two different world? The developing country world and the developed country world in the negotiation process in WTO. The WTO the one of the stumbling block of WTO is the agreement on the, what is called what is called you are in the area of agriculture a subsidy, labor problem, environmental problem, the problems on the non tariff barrier. Earlier the world prior to WTO world was not expanding particularly international trade was not expanding in the because of tariff barrier. Many country put very high tariff barrier for export import side.

This was a, this was one of the biggest barrier in in the expansion of world trade after the WTO agreement; the tariff barrier has been reduced from more, from nearly 350 percent to 30 percent at present in a phase manner. Both developed and developing country reduced their tariff barrier. So, many developed country have now practice almost zero tariff on many product and services. However, they have in increase the non tariff barrier in the form of intellectual, in the form of environmental protection, in the form of in the name of child labor, in the form of excessive use of chemical, in the form of climate change, in the form of providing, providing what is called using some kind of chemicals which are not permitted, all these thing non tariff barrier have increased recent year and after the WTO agreement.

This has also acting as a stumbling block in the expansion of world trade, world trade and because of this reason many developed and developing country have approached develop world WTO for the further negotiation. How to reduce the non tariff barrier which has been imposed by the developed country to restrict or create artificial barrier in world trade? The non tariff barrier as I mentioned here the in the form of child labor, in the form of chemical use, in the form of climate change, in the form of environmental issues all this are there in the non tariff barrier. Another stumbling block or challenges in the WTO is the reduction of subsidy in agriculture. Developing country, developing country has been, has been complaining about the high subsidy of agriculture provided by a developed country. Developing country the they are providing subsidy for the substantiation agriculture developing country.

If you see their agriculture is not so much export oriented, the developing country export agriculture export primarily very, very less compared to developed country and developing country are providing subsidy for subsistent agriculture. However, developed country are providing accessive subsidy on agriculture, primarily on the ground of, they are practicing export oriented agriculture activity. This subsidy need to be reduced and subsistence subsidy will need to be permitted as per the WTO agreement. Another angle of WTO negotiation or challenges are going on, in the form of investment in the form of patent right on pharmaceutical. Pharmaceutical product particularly the life saving drugs are there, there developed country have got for nearly fourteen years of right on patent.

The right on patent should be on essential, essential drug should be removed and this has been a, this has been a challenge for the WTO to bring the life saving drug from the from the purview of patent right. So, there are many other are challenges are there on WTO front. You can go through the WTO website and try to find what kind of challenges WTO, WTO organization is facing and also we can go through our discussion session on WTO so, that it can allow you it can enable you to write the answer. Next question is describe various indicators of assessment of assessment of reserve adequacy. Describe various indicators of assessments of reserve adequacy reserve. Adequacy means foreign exchange reserve. So, after the liberalization particularly after 90s, 80, 85 onwards many develop and developing country they liberalized their foreign exchange market.

The many foreign exchange market, now they have gathered huge amount of foreign exchange reserve; the reserve is beyond their beyond their requirement. If you see the reserve is beyond their requirement, but reserve has a cost the cost of because F when FII come to India they are coming and investing in stock market because they are investing they are getting a return of nearly 5 to 7 to 10 to 12 percent. That is a repatriation of their profit in the form of dividend in the form of interest. So, the cost of cost of foreign foreign exchange reserve is quite high. So, which suppose to have a minimum foreign exchange reserve which can satisfy our requirement. So, what is the reserve adequacy? You have to indicator you have to you have to develop some indicator, which can enable us how much is foreign exchange reserve a country should have?

Generally the requirement of reserve linked to the requirement of foreign exchange. How much you should have, how much you required to have. So, other requirement requirements are there for imports requirements are there from day to day payments, requirements are there for the payment, of what is called a principle amount update requirements are there for payment of dividend, requirements are there for the payment day to day requirement also there for payment of interest on foreign loans all these requirements are there every day to day activity of a country. So, how much you should have our export earning you should compare our import requirement.

If exports in not in a position to pay for our import, you should have a reserve foreign exchange reserve. So, foreign exchange reserve the requirement our import should be cover up, then our other requirement should also be met. So, one year requirements, one year one year import requirement, one year other payment requirement should have that much of minimum reserve we should have. The indicator is the 12 month import requirement and 12 month other requirement should be the one of the indicators of reserve adequacy. When foreign exchange come to India or come to any other country, the domestic money supply increases. It creates inflation in the country. So, how much inflation the country can bear?

This is also another way, another indicator of foreign exchange adequacy. When foreign exchanges come to come to a particular country, it increase the volatility in the stock market volatility, in the volatility in the exchange rate market also. How much volatility one can bear, that also part of that also one of the indicators of foreign exchange adequacy. Similarly, when foreign exchanges are coming to particular country or reserve increases domestic currency appreciate, when domestic currency appreciate our export competitiveness reduces.

So, we have to find how much export competitiveness reduction you can bear, that should be the another indicators of reserve adequacy. Like that, you can also find short term volatility of capital. The reserve adequacy should composed of such kind of reserve such kind of foreign currency reserve, which are less volatile in nature. You should not have FII investment in the form of reserve adequacy. Our reserve adequacy should constitute our export earning our invisible earning a stable exchange rate a foreign exchange reserve, our own national who bear the who bring the foreign currency to India so that kind of reserve that kind of reserve we should have which is stable. In nature and stability of the reserve we should calculate, what is the reserve requirement not the volatility of reserve?

So, these are the things you should discuss in the as a part of the indicators of reserve requirement in the question number 2. Question number 3, outline majors component of India trade basket. Bring out the changing pattern of the Indian export. Our trade is export import, our export import over the year has been changing, the basket composition, of our export basket composition of import have been changing over the year, particularly after the reform measure. If you see their import basket hardly any change. The imports basket primarily have capital good import and imports of crude oil, that 70 to 80, 90 percent are of our imports are 60 percent of our imports are primarily crude oil import and some extent another 20, 25 percents are there what is called what is called the capital good import.

Other imports are some essential drugs, essential agriculture imports as a part of there is our import basket. The import basket after the reform measure has not changed significantly. However, our export basket has changed significantly after the reform measure prior to reform our export basket primarily composed of agriculture, commodity, mining product, non capital goods, non capital goods, handicraft these are the eight major items. However, after the reform measure we have we have a new avenue of export. The export is services export in the form of what is called soft export. Soft export is nothing but that it is export of software, IT services that has earned a significant export revenue for the over the year.

Our invisible account or our nontraditional account also value added value added product have been there. So, after the reform measure, value added product services, export, IT services export are the major part of our export basket nontraditional goods the importance of nontraditional good has been reducing over the year, after the financial sector reform measure or economic sector reform measure. However, after the however our import basket hardly change over the year because our major part of the import basket is the, what is called the crude oil import has not reduced significantly.

So, these are you can discuss the trade basket we can also see the RBI annual report. How the changing pattern of Indian foreign India’s foreign exchange particularly the export and import side. Third, the fourth question is here globalization has contributed in making the local financial crisis into global one. The contingent effect of financial instability has called for redesigning of the world financial infrastructure and regulatory system. In the light of above statement give your suggestion on how to design, is the new financial architecture for the world economy? This is this question primarily address the global instability. World has become a global village, there has been significant integration of developing country and developed country.

The integration international integration has made a local financial crisis into a global financial crisis. At present the financial crisis started from the US or the some parts of the European country has spread it to all over the world. Though so, this has because of the integration of world economy. So, we have to redesign, new redesign the new the world economy world financial system; so world governance aspect so as to address the financial instability. The question is how to redesign the financial sector? So, global financial sector how to redesign? What are the parameters should you should take into account to make the make the world more safer, more stable as per as the financial activities are concerned? So, you have to discuss what are the reasons of instability?

The reason of instability primarily accounting norms, reasons of instability primarily excessive use of derivative, reason of instability primarily the integration of what is called non banking services to banking services. There should be integration of insurance sector with the banking activity. The integration of what is called I mean payment system and a volatile flow of financial volatile flow of FII so, all these things you have to identify where is the financial instability? Now, you have to design the new financial architecture that should take care of the financial instability. So, there should be arms length between commercial banking activity and nonfinancial noncommercial banking activity. There should be arm length of between investment activity in stock market and banking activity in real real sector. There should be, there should be control of volatile capital flow in different sector of the economy and different in across the globe also.

So, we have to identify the volatile flow. The derivative transaction should be properly managed the accounting norm should be developed, to manage the volatility of financial sector and also there should be proper reserve system to take care any kind of financial instability, where the different countries are suffering. So, you have to provide them financial help the country which suffer from financial instability. There should proper measures of what is called systemic crisis to absorb the systemic crisis need to be identified need to be identified very easily. The systemic crisis started from debt market might be might be go to the equity market or the equity market crisis may be transferred to the debt market.

It may happen the money market crisis may transferred to the foreign exchange market and vice versa. Also there should be integration is essential no doubt integration of different segments of financial market may be there or requirements are there at that same time. You should also keep whistle in spillovers of volatility from one market to another market. Now, on the basis of this argument you have to redesign the international financial system to safeguard from any kind of financial instability. The question number, last question is number fifth. Question is banks are systemic financial institution stability of banking sector is essential for the stability of the economy in the light of current global financial crisis.

Discuss how to ensure stability of Indian banking system? This question is addressed particularly the banking sectors as I mentioned banks are systemic financial institution, the development of bank say banking sector is essential for the development of real sector. Real sector take loan, a real sector activity are financed by the banking sector.