DEPARTMENT OF BANKING AND INSURANCE

16UBI514 &INTERNATIONAL BANKING

K1 LEVEL

UNIT - I

1. Foreign Exchange markets are____________
a) Regional Markets b) Domestic markets **c) Global markets** d) Localized exchange traded markets.

2. Foreign exchange does not include:
a) Deposits payable in foreign currency
b) Instruments drawn in foreign currency and payable in a foreign currency
c) Instruments drawn in Indian rupees on a checking account of the drawer and payable abroad
d) Instruments drawn in Indian rupees on a current account of an Indian company and payable in India.

3. Out of several factors, the following factor does not have an effect in the movement of exchange rates:
a) Political Instability
b) Increase in domestic interest rates
c) Change in Taxation policy
d) Increase in domestic tourism

4. Spot dealing in FX market means:
a) Delivery of funds is on the 30^{th} working day from the date of deal.
b) Delivery of funds is on the second working day from the date of deal.
c) Delivery of funds is next date from the date of deal.
d) Delivery of funds is one week after the date of deal.

5. The rate at which the quoting bank is ready to sell the currency is called
a) Bid rate
b) Offer rate
c) TT buying rate
d) Swap rate

6. Operational risk does not include:
a) Movement in exchange rates
b) Human errors
c) Technical faults
d) Systemic failures

7. Buying and selling rate are also referred as _______
a) Bid and offered rates
b) Fixed rate.
c) Floating rate.
d) Spot rate.

8. The value settled on the same day – value today is known as ____________
a) Spot rate
b) Ready/Cash rate

c) Forward rate
d) Swap

9. An exchange of specific streams of payments over an agreed period of time is known as _________

a) Swap b) Spot rate c) Floating rate d) Fixed rate

10. Official exchange rate fixed buy the monetary authorities is known as _______

a) Fixed exchange rate b) Floating exchange rate c) Direct exchange rate

d) Indirect exchange rate

UNIT - II

11. IMF commenced financial operations on ----------.

a) 1 March, 1927

b) 1 March, 1937

c) 1 March, 1947

d) 1 March, 1957

12. During the ---------- world war IMF had played a vital role to promote monetary cooperation amongst the different countries of the world.

a) First

b) Second

c) Third

d) Fourth

13. -------------- is the headquarters of IBRD.

a) Washington D.C

b) London

c) Tokyo

d) Ottawa

14. IBRD was formally organised as tge original institution of the world bank in -----.

a) 1945

b) 1946

c) 1955

d) 1956

15. Asian Development Bank was established in the year ------------ to encourage economic cooperation among its member states.

a) 1946

b) 1947

c) 1948

d) 1950

16. The term World Bank refers to ______

a) IBRD b) IDA **c) Both a) and b)** d) IFC

17. The International Development Association was established in __________

a) 1960 b) 1981 c) 1947 d) 1952

18. MIGA stands for ______________

a) Multilateral Investment Guarantee Agency

b) Multinational Investment Guarantee Agency

c) Multiple Investment Guarantee Association

d) Monetary Investment Guarantee Agency

19. The Exim bank of India was established in __________

a) 1981 b) 1991 c) 1947 d) 1952

20. ECGC stands for________________.

a) **Export Credit Guarantee Corporation of India**

b) Export Credit Guarantee Council of India

c) Expenses Cost Guarantee Council of India

d) Export Currency Guarantee Corporation of India

UNIT - III

21. When UCPDC was brought out?

a) 1933

b) 1936

c) 1943

d) 1953

22. UCPDC means

a) Unanimous Customs and Practice for Documentary Credit

b) Uniform Customs and Practice for Documentary Credit

c) Uniform Customs and Practice for Deregulation Credit

d) Uniform Circular and Practice for Documentary Credit

23. ICC means

a) International Chamber of Commerce

b) Inter Chamber of Commerce

c) International Commerce of Chamber

d) International Chamber of Commerce

24. Letter of credit is otherwise called as -------.

a) Bill

b) Documentary Credit

c) Bill of Lading

d) Invoice

25. The applicant in letter of credit is otherwise called as ----------.

a) Importer

b) Exporter

c) Importer and Exporter

d) Issuing Bank

26. The seller in international exports is called as ---------.

a) Beneficiary

b) Importer

c) Agent

d) Principal

27. The bank which issues letter of credit is called --------- bank.

a) Confirming

b) Negotiating

c) Opening

d) Reimburse

28. ---------- is a transport document evidencing movement of goods from the port of acceptance to port of destination.

a) Bill of Lading

b) Bill of Exchange

c) Invoice

d) Certificate of Origin

29. The ------ bank has option to choose as to advice a letter of credit or not.

b) Importing

b) Negotiating

c) Reimburse

d) Advising

30. Under a ------------- LC, the beneficiary is able to get the payment at the time of presentation of documents conforming to the terms and conditions of the letter of credit.

a) Sight

b) Acceptance

c) Deferred Payment

d) Negotiation

UNIT - IV

31. DGFT refers to ----------.

a) Director General of Foreign Tax
b) Director General of Foreign Trade
c) Director General For Trade
d) Detailed General of Foreign Trade

32. IECN stands for --------.

a) Importer Exporter Code Name

b) Importer Exporter Code Number

c) Importer Exporter Council Name

d) Importer Exporter Council Number

33. The SOFTEX form is used when the software made in ------.

a) Physical Form
b) Non-physical Form
c) Both a) and b)
d) Virtual Form

34. Agency commission on exports is granted either by remittance or reduction from -------- value by the authorised dealers.

a) Invoice

b) Credit

c) Cash

d) Both Cash and Credit

35. The participants in international Trade Fairs/ Exhibitions have been allowed to open ------ foreign currency account.

a) Permanent

b) Temporary

c) Diamond

d) Special

36. Export Packing Credit is otherwise called as -------

a) Packing Credit Loan

b) Export Credit Loan

c) Export Diamond Loan

d) Packing Cash Loan

37. The ADs should ensure that the goods imported are as per the current export-import policy and the goods can be under the ------.

a) Open Source

b) Overseas Arrangement

c) Overseas List

d) **Open List**

38. The person wants to make remittance for exports, exceeding USD 500 or its equivalent, should make an application Form ------ to the ADs.

a) A1

b) B2

c) C1

d) D2

39. Import Letter of credit is used in -------.

a) Financing Imports

b) Financing Exporters

c) Financing Imports and Exports

d) Financing the Exporter's Country

40. ---------- is credit directly extended by the overseas supplier of goods to the importers in domestic markets.

a) Import Credit

b) Export Credit

c) Supplier's Credit

d) Buyer's Credit

UNIT - V

41. The identification, assessment and prioritization of risks are known as ___________.

a) Risk Management b) Risk identification c) Uncertainty d) Risk avoidance

42. ______is the most comprehensive measures the risk as it integrates sensitivity and volatility with the adverse effect of uncertainty

a) Downside potential b) Upside potential c) Normal effects d) Adverse effect

43. Investment in post office time deposit is____________

a) Zero – risk investment

b) Low – risk investment

c) Medium – risk investment

d) High – risk investment

44. ____________ is a binding contract for purchase or sale at a future date.

a) Forward contract b) Spot contract c) Hedging d) Swap

45. The risk that arises due to adverse movement of market variables when the players are unable to exit the positions quickly is known as ________

a) Credit Risk **b) Market Risk** c) Legal Risk d) Systematic Risk

46. Political risk associated with _______.

a) Insolvency b) Quality c) Exchange rate fluctuation **d) Political instability**

47. Risk arising on account of human errors, technical faults, infrastructure breakdown, faulty systems and procedures or lack of internal controls are known as __________

a) Operational risk b) Exchange risk c) Credit risk d) Liquidity risk

48. The risk arising on account of non – enforceability of contract against a counter party is known as _______

a) Legal risk b) Operational risk c) Liquidity risk d) Market risk

49. A ‘buy now, pay now’ deal for immediate delivery in a foreign exchange product is known as __________

a) Spot contract b) Forward contract c) Future contract d) Swap

50. Interest rate risk is otherwise known as ________

a) GAP risk b) Political risk c) Liquidity risk d) Country risk

K2 LEVEL

UNIT - I

1. What do you mean by foreign exchange markets?

Foreign exchange markets comprise a large spectrum of market participants, which include individuals, business entities, commercial and investment banks, central banks, cross border investors, arbitrageurs and speculators across the globe.

2. What is spot rate mechanism?

Settlement of funds takes place on the second working day after/following the date of contract/deal, e.g., if the date of Spot deal is 5 October, 2009 (Monday) settlement date will be 7 October, 2009. (Presuming all markets are working on 5,6 and 7 October 2009). If not, it will th next working day in both the countries. Spot rates are the base rates for other FX rates.

3. What is tom rate mechanism?

Settlement of funds takes place on the next working day of the date of deal, e.g., if the date of TOM deal 5 October 2009(Monday), settlement date would be 6 October 2009 (Tuesday, provided it is a working day for the markets dealing as well as where currency is to be settled). If Tuesday is a holiday, in any of the 2 countries, the settlement date will be next working day in both the countries.

4. What is forward rate mechanism?

Delivery of funds takes place on any day after Spot date, e.g., if the date of forward deal is 5 October 2009(Monday), for value settlement date 30 October 2009 or 30 November 2009, it is a forward deal.

5. What do you mean by Direct and Indirect Quotes?

Under direct quotes, the local currency is variable, say as in India , 1 USD = Rs. 70.00. The rates are called direct, as the rupee cost of foreign currency is known directly. These quotes are also called Home currency or Price quotations. On the other hand, under indirect method, the local currency remains fixed, while the number of units of foreign currency varies. For example Rs. 100 = 2.05 USD.

6. Write the difference between fixed and floating rates?

The fixed exchange rate is the official rate set by the monetary authorities for one or more currencies. It is usually pegged to one or more currencies. Under floating exchange rate, the value of the currency is decided by supply and demand factors for a particular currency.

7. Write the categorization of authorized dealers of foreign exchange?

In 2005 RBI has changed the categorization of dealers now they are called authorized persons with category denoting their level of authority to undertake variety of transactions, as under

Authorised Person – Category I – Banks, Financial Institutions and other entities.

Authorised Person – Category II – Money changers (Earlier known as Full fledged Money changers – FFMCs)

Authorised Person – Category III – Entities allowed to undertake only purchase of foreign currency notes and traveller's cheques. (Earlier these entities known as Restricted Money Changers – RMCs).

8. EXPAND – FEDAI

Foreign Exchange Dealers Association of India (FEDAI) is a non – profit making body, formed in 1958 with the approval of Reserve Bank of India, consisting of Authorised dealers as members. FEDAI prescribes guidelines and rules of the game for market operations, merchant rates, quotations, delivery dates, holidays, interest on defaults, etc.

9. Write the difference between FEMA and FERA?

The objective of FEMA is to facilitate external trade and payments and to promote the orderly development and maintenance of foreign exchange market in India, while the objective of FERA was to conserve the foreign exchange resources of the country and to ensure proper utilization thereof in the interests of the economic development of the country. Under FEMA any violation of the provision s of the Act is to be dealt under the Civil law only, while under FERA, it was to be dealt under Criminal law.

10. Name the electronic modes of transmission/payment gateways in foreign exchange markets.

Swift
Chips
Fedwire
Chaps
Target
RTGS/NEFT

UNIT - II

11. What is the purpose of forming IMF?

The International Monetary Fund (IMF) is an organisation of 189 countries, working to foster global monetary cooperation, secure financial stability, facilitate international trade, promote high employment and sustainable economic growth and reduce poverty around the world.

12. Expand IBRD.

IBRD stands for International Bank for Reconstruction and Development.

13. What is IFC?

The International Financial Corporation (IFC) is the private sector lending arm of the World Bank Group, providing financial services to businesses investing in the developing world.

14. What is Asian Development Bank?

Asian Development Bank (ADB)**,** organization that provides loans and equity investments for development projects in its member countries. The bank also provides technical assistance for projects and programs, and it promotes the investment of capital for development.

15. State the number of countries in IMF now.

189 member countries are joined in IMF. They are United States, China, Japan, Germany, United Kingdom, France, India, Brazil etc.,

16. The term World Bank refers to ______

a) IBRD b) IDA **c) Both a) and b)** d) IFC

17. The International Development Association was established in __________

a) 1960 b) 1981 c) 1947 d) 1952

18. MIGA stands for ______________

a) Multilateral Investment Guarantee Agency

b) Multinational Investment Guarantee Agency

c) Multiple Investment Guarantee Association

d) Monetary Investment Guarantee Agency

19. The Exim bank of India was established in __________

a) 1981 b) 1991 c) 1947 d) 1952

20. ECGC stands for________________.

a) Export Credit Guarantee Corporation of India

b) Export Credit Guarantee Council of India

c) Expenses Cost Guarantee Council of India

d) Export Currency Guarantee Corporation of India

UNIT - III

21. What is letter of credit?

A Documentary Credit or Letter of Credit is a very common and familiar instrument used for trade settlements across the globe.

22. Who is advising bank?

The advising bank or bank in seller’s country that act as an agent of the issuing bank and authenticates the LC.

23. Who is negotiating bank?

In a letter of credit transaction, the bank that receives and examines the seller´s documents for adherence to the terms and conditions of the letter of credit, gives value to the seller, so long as the terms of the credit have been met, and forwards them to the issuing bank (the buyer´s or importer bank).

24. Who is reimbursing bank?

The bank named in a letter of credit from which the paying, accepting or negotiating bank may request cover after receipt of the documents in compliance with the letter of credit.

25. What is red clause LC?

A Red Clause Letter of Credit is a specific type of letter of credit in which a buyer extends an unsecured loan to a seller. Red Clause Letters of Credit permit documentary credit beneficiaries to receive funds for any merchandise outlined in the letter of credit.

26. What is bill of exchange?

Bill of exchange is one of the most important financial and written document is drawn by the beneficiary on the LC issuing bank.

27. What is invoice?

Invoice is prepared by the beneficiary giving the details of goods, quantity and value in unit terms, weight and total value of goods.

28. What is bill of lading?

Bill of lading is a transport document evidencing movement of goods from the port of acceptance to the port of destination.

29. What is certificate of origin?

Certificate of origin determines the origin of goods. It must be issued and signed by an independent authority such as chamber of commerce, informing origin of goods, value, invoice number, bill of lading number etc.,

30. What is standby letter of credit?

A standby letter of credit is a bank's commitment of payment to a third party in the event that the bank's client defaults on an agreement. It is a "standby" agreement because the bank will have to pay only in a worst-case scenario.

UNIT - IV

31. What is GR form?

This form of declaration is used when exports made otherwise than by post.

32. What is PP form?

PP form is used when the export is made by post parcel.

33. Expand SDF.

SDF stands for Statutory Declaration Form.

34. Expand ACU.

ACU stands for Asian Clearing Union.

35. What is the usual time allowed to the exporter for realising export bill?

Normally six months from the date of shipment is allowed to realise the export bills are allowed.

36. What is meant by DDA?

DDA refers to Diamond Dollar Account.

37. What are the two types of export finance?

i) Pre-shipment Finance

ii) i) Post-shipment Finance

38. Who will issue IEC?

The DirectorGeneral of Foreign Trade (DGFT)will issue Import Export Code Number.

39. What is import loan?

Import loan is granted at the times against imported raw material or goods meant for trading. The loans can be given against pledge of goods or hypothecation to the financing bank.

40. What is buyer’s credit?

The buyer's credit is credit arranged by the importer from a bank or financial institution of his country, to settle the payment of imports.

UNIT - IV

41. What is mean by risk?

Risk may define as uncertainties resulting in adverse outcome, adverse in relation to planned objective or expectations. 'Financial risks' are uncertainties resulting in adverse variation of profitability or outright losses.

42. Write the difference between lower risk and zero risk?

Lower risk implies lower variability in net cash flow with lower upside and downside potential where as zero risk would imply no variation in net cash flow. Return on zero risk investment would be low as compared to other opportunities available in the market.

43. List out major areas covered under risk management framework.

- Organization of risk management
- Risk identification
- Risk measurement
- Risk pricing
- Risk monitoring and control
- Risk mitigation

44. What do you mean by risk identification and measurement?

Risk identification consists of identifying various risks associated with the risk taking at the transaction level and examining its impact on the portfolio and capital requirement. The risk measurement seeks to capture variations in earnings, market value, losses due to default, etc. arising out of uncertainties associated with various risk elements.

45. What is mean by risk mitigation?

Since risks arise from uncertainties associated with the risk elements, risk reduction is achieved by adopting strategies that eliminate or reduce the uncertainties associated with the risk elements. This is called risk mitigation. Risks can be mitigated through diversification.

46. What is risk pricing?

Risk pricing implies factoring risks into pricing through capital charge and loss probabilities. This would be in addition to the actual costs incurred in the transaction. The actual costs incurred are cost of funds that has gone into the transaction and costs incurred in giving the services, which are incurred by way of maintaining the infrastructure, employees and other relevant expenses.

47. What is mean by country risk?

It is the risk of counter party situated in a different country unable to perform its part of the contractual obligations despite its willingness to do so due to local government regulations or political or economic instability in that country.

48. What is mean by credit risk?

It is a risk of loss which arises due to inability or unwillingness of the counter party to meet the obligations at maturity of the underlying transaction.

49. What is mean by settlement risk?

It is the risk of failure of the counter party during the course of settlement, due to the time zone differences, between the two currencies to be exchanged.

50. What is mean by liquidity risk?

Liquidity risk is the potential for liabilities to drain from the bank at a faster rate than assets. The mismatches in the maturity patterns of assets and liabilities give rise to liquidity risk. It may arise due to a party to foreign exchange transaction unable to meet its funding requirements or execute a transaction at a reasonable price.

K3 LEVEL

UNIT – I

1. What do you know about foreign exchange?
2. What do you mean by Foreign Exchange Markets? Write the characteristics of this market?
3. Explain the major participants of foreign exchange markets.
4. Write short notes on FEMA 1999.
5. Write about the main functions of FEDAI.
6. Write about the various types of foreign currency account maintained by bank.
7. Write the short note on Exchange Earners Foreign Currency (EEFC) accounts.
8. What do you know about Resident Foreign Currency (RFC) accounts.
9. Write a short note on Diamond Dollar Account (DDA).
10. Write about the administration setup of FEMA.

UNIT - II

11. List the objectives of IMF.

12. Describe the functions of IMF.

13. Discuss the organisational structure of IBRD.

14. List the objectives of IFC.

15. Discuss the management of ADB.

16. Write about the structure of World Bank group?
17. Write the objective and functions of MIGA.
18. Write a short note on Export Credit Guarantee Corporation of India (ECGC).
19. What are the characteristics of Export Credit Insurance?
20. Write about the various policies offered by ECGC to the banks?
21. Write a note on other services and programmes provided by EXIM bank.

UNIT - III

21. Write a note on operations of letter of credit.

22. List the banks issued in Letter of Credit.

23. Explain the role of issuing bank in opening LC.

24. Explain about advising bank.

25. Explain about removable Letter of Credit.

26. Explain the nature of transferable Letter of credit.

27. List the advantages of Letter of Credit.

28. Discuss the disadvantages of LC.

29. Explain the risk involved in Letter of Credit transactions.

30. Explain Standby Letter of Credit.

UNIT - IV

31. Write a short note on declaration form.

32. Explain the prescribed time limits for exporters according to exchange and trade control guidelines.

33. Explain the method of payment in the payment of export proceeds.

34. Write a short note on foreign currency accounts.

35. Write the provisions given to the exporters in the reduction of value in invoice.

36. Write a note on export bill purchased and discounted.

37. Write a short note on advances against undrawn balances.

38. Discuss about import finance.

39. Describe supplier's credit.

40. Discuss about buyer's credit.

UNIT - V

41. Define risk. Why risks need to be managed?
42. Explain the process of identification of risk in international trade.
43. Write the meaning and objectives of risk management.

44. Explain mitigation of risk in foreign trade.

45. Write the short notes on i) Country Risk ii) Liquidity Risk

46. When does the Legal risk arise? Explain.

47. How to control Credit risk?

48. Write the short notes on i) Political Risk ii) Settlement Risk

49. Write the short notes on i) Spot contract ii) Forward contract

50. What is mean by risk measurement? Explain about the classification of quantitative measures of risks.

K4 AND K5 LEVEL

UNIT – I

1. Explain the major factors determining Exchange rates.
2. Discuss about the exchange rate mechanism followed in foreign exchange markets.
3. Explain about RBI/FEDAI guidelines issued for authorized foreign exchange dealers.
4. Explain about the provisions of FEMA relating to foreign exchange.
5. Explain about the various electronic modes of transmission/payment gateways in Foreign Exchange markets.

UNIT - II

6. Explain the functions of IMF in detail.

7. Explain the functions of IBRD.

8. Explain the role of ADP in promoting economic growth of Asian region.

9. Discuss about the main objectives and functions of IDA.

10. Briefly explain the roles and products of ECGC.

    Explain the various financial guarantees issues by ECGC.

    Discuss about the financing programmes offered by EXIM banks.

Explain about the role and functions of EXIM Bank

UNIT - III

11. Explain the types of Letter of Credit.

12. Describe the rights and liabilities of the parties in LC.

13. Discuss the documents involved in LC transactions.

14. Explain the following in detail.

    a) Invoice   b) Bill of Lading   c) Insurance Policy

15. Explain the advantages and disadvantages of LC transactions.

UNIT - IV

16. Discuss in detail about exchange and trade control guidelines for exporters.

17. Explain the facilities available to exporters.

18. Explain about pre-shipment finance.

19. Discuss in detail about post-shipment finance.

20. Explain about the exchange and trade control guidelines for importers.

UNIT - IV

21. Explain the process involved in risk management framework.
22. Explain about the various risk associated in International Trade.
23. Discuss the various aspects of pre – settlement and settlement risks.
24. What do you mean by country risk? Explain the factors which need to be assessed, while reviewing the country risk.
25. Discuss the various methods of risk management. Explain the various guidelines provided by RBI for risk management

Prepared by

1. Ms. M. Jeeva – Unit II (First Half), Unit – III and Unit – IV

2. Ms. A. Gomathi - Unit – I, Unit II (Second Half), and Unit – V

****