

Home
Currency
Appreciation

Decrease in demand

Increase in Supply

(रुपया मजबूत)

* Effects of Currency Depreciation + Currency Appreciation

Exchange Rate
depreciation lowers the relative price of country's exports (export rises), raises the relative price of its imports (import falls), leads to output expansion, encourages economic activity, increases international competitiveness and improves Balance of trade.

Currency appreciation raises the price of exports, (decreases export), increases imports, adverse effect on competitiveness, causes larger deficits + worsens the trade balance.

6 Depreciation (Appreciation) VS Devaluation (Revaluation)

Earlier 1 \$ = ₹ 80
Now 1 \$ = ₹ 85

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Now 1 \$ = ₹ 85

Depreciation 24 यथा कम होर एत जयत Devalu-
-ation

It occurs due to market forces of demand + supply deliberately done by government

x ————— x x ————— x

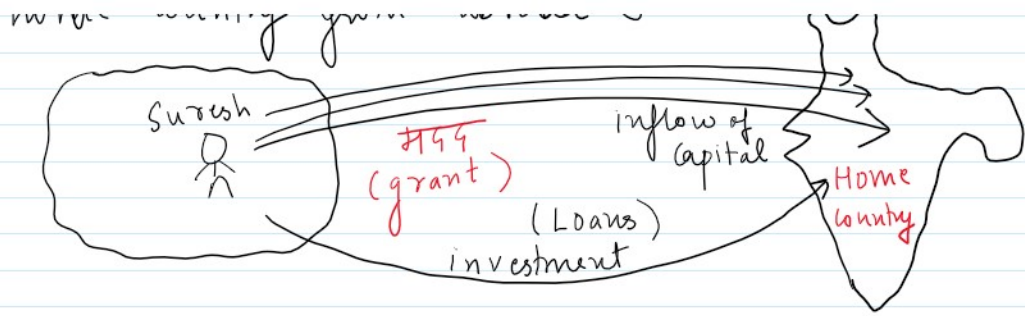
CH 9
Unit 5

International Capital Movements

1 Foreign Capital

→ Foreign Capital includes any inflow of Capital into the home country from abroad





No detail	<p>1. Foreign aid or assistance (मदद)</p>	<ul style="list-style-type: none"> → Bilateral or direct inter government grants → Multilateral aid from many government → Tied aid with stipulation ^{condition} → Untied aid with no stipulation → foreign grants (voluntary) from institutional or organisations.
No detail	<p>2. Borrowings (Loan)</p>	<ul style="list-style-type: none"> → Direct inter government loans → loans from international institutions → Soft loans* (No harsh conditions) → External "commercial" borrowings → Trade "credit" facilities
No detail	<p>3. Deposits from NRI (Non Resident)</p>	<p>-</p>
"Detail"	<p>4. Investments (निवेश)</p>	<ul style="list-style-type: none"> → Foreign Portfolio Investment (FPI) → Foreign Direct Investment (FDI)

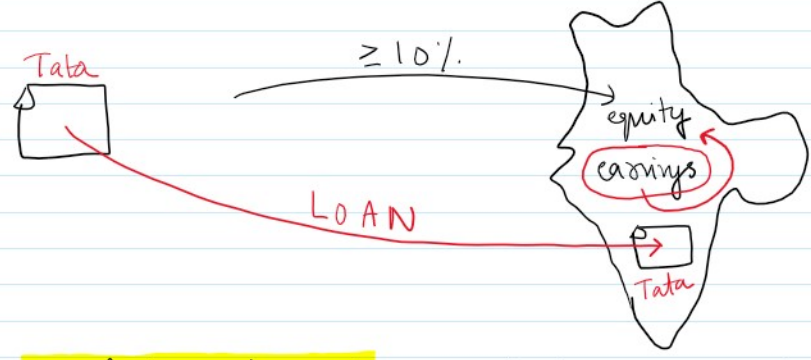
② Foreign Direct Investment (FDI)

→ According to IMF and OECD, the acquisition of at least 10% of ordinary shares or voting power in a public or private enterprise by Non-resident investors makes FDI

investors makes **FDI**

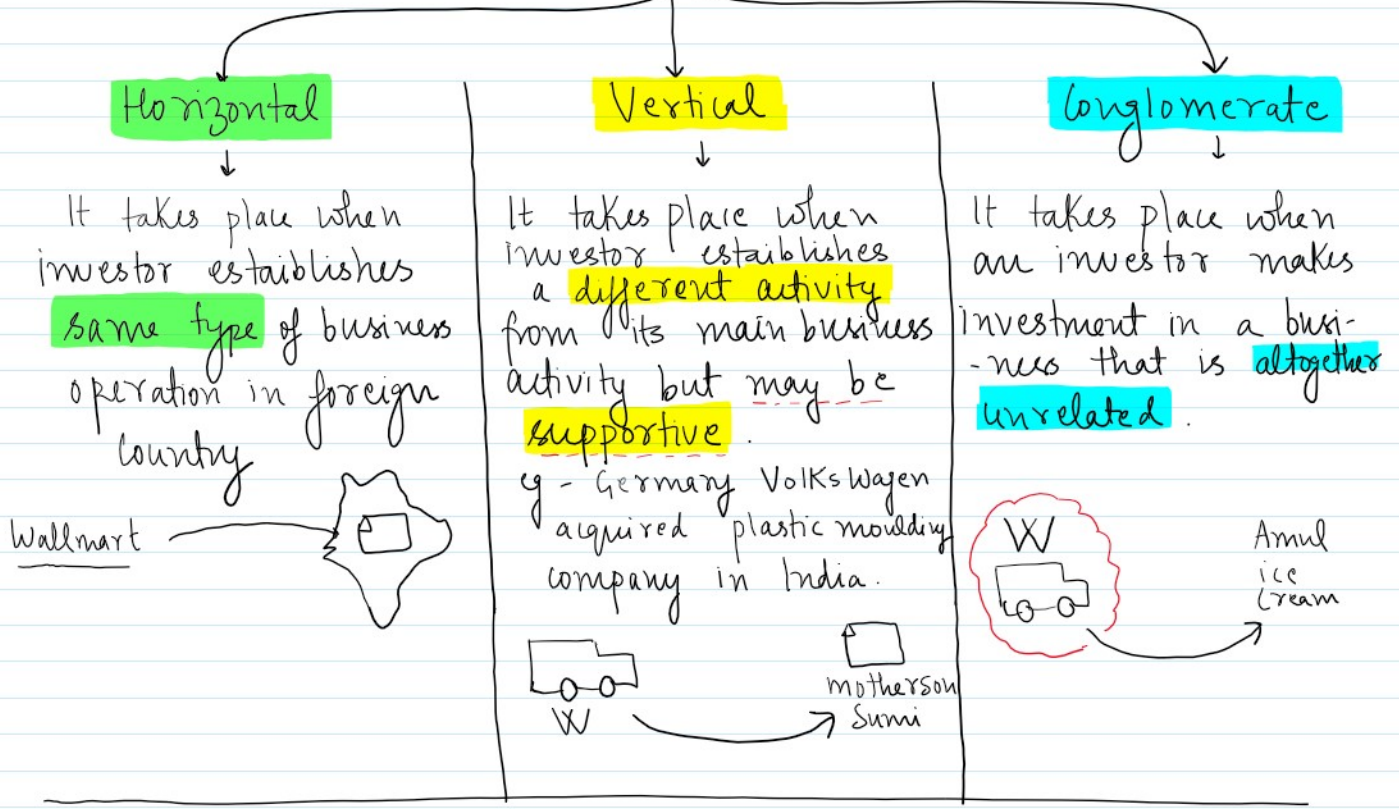
→ FDI has 3 components :-

- a) Equity Capital
- b) Reinvested earnings
- c) Other direct capital (eg Intra-company loans)

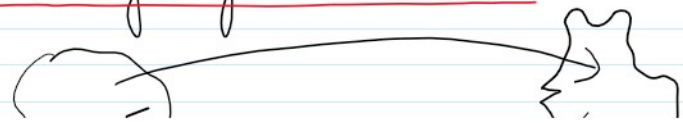


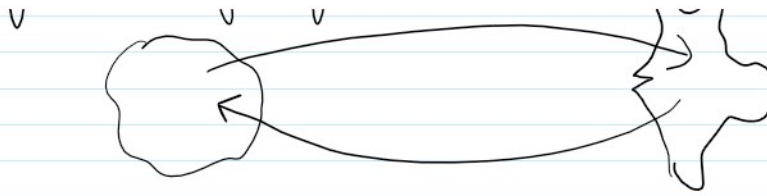
→ FDI are **real investments** in factories, assets, land, inventories etc and involve foreign ownership of production facilities.

→ FDI may be categorised as :-



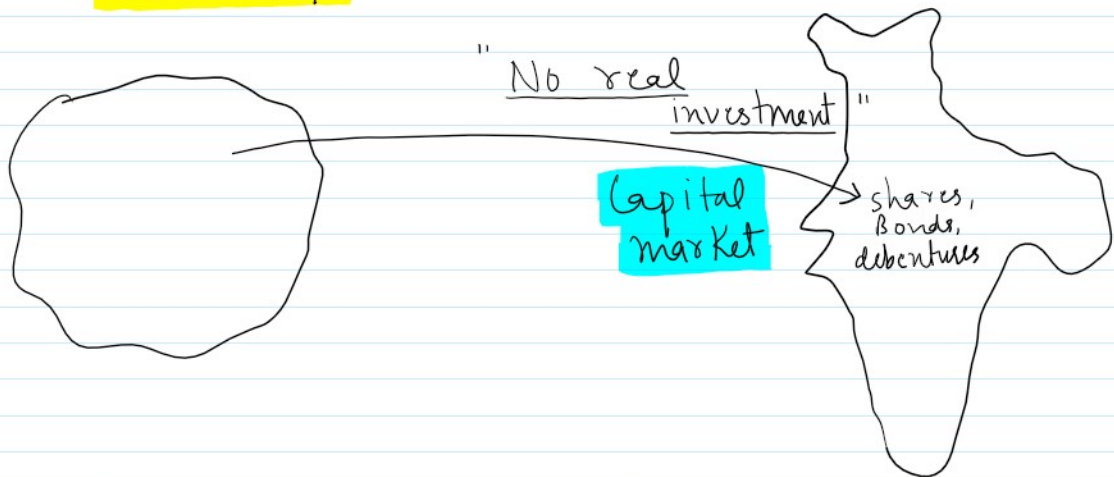
* Two way direct foreign investment





③ Foreign Portfolio Investment (FPI)

- Foreign portfolio investment is the flow of financial capital rather than real capital
(does not involve ownership or control on part of investor)
- These flows are generally short term and have their immediate effects on BOP and exchange rates (No major effects on production or income generation)
- Portfolio investments are characterised by lower stakes in companies with their total stake at below 10%



- * Speculation → FPI (✓)
- * Direct impact on Employment → FDI (✓)
- * Difficult to withdraw → FDI (✓)
- * Interest in Management → FDI (✓)

* Interest in Management \rightarrow FDI (\checkmark)

* Financial assets \rightarrow FPI (\checkmark)

* Physical assets \rightarrow FDI (\checkmark)

* Short term \rightarrow FPI (\checkmark)

④

REASONS FOR

FDI

The main reasons for FDI are :-

(i) Profits 😊

(ii) higher rate of return \uparrow

(iii) Possible "economies" of large scale operations

(iv) Risk diversification

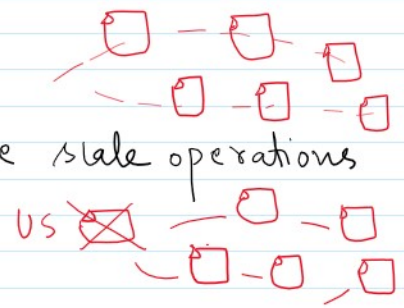
(v) Capture of "emerging" markets

(vi) lower host country environmental & labour standards

(vii) By passing "tariff" & "non tariff" barriers

(viii) Cost effective availability of inputs

(ix) Tax benefits



* FDI takes place through :-

a) Opening subsidiary company or associate

b) equity injection - lumpsum investment

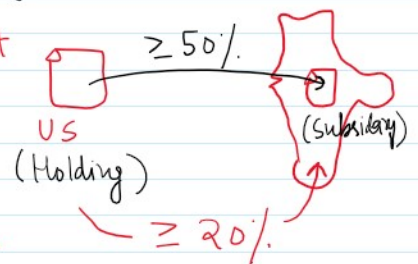
c) acquiring control

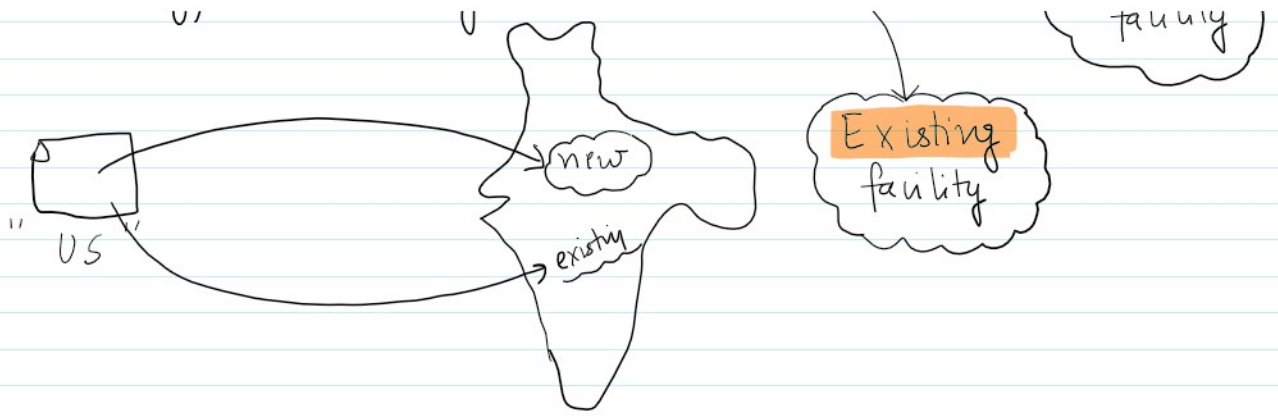
d) Mergers & Acquisitions

e) Joint Venture $\square + \square$

f) Green field Investment

g) Brown field Investment





5 Problems of FDI

- Use of inappropriate capital intensive methods in labour abundant country
- Increase in regional disparity Mumbai ↑↑
- (AT) Crowding out of domestic investment X city ☹️
- Diversion of capital resulting in distorted pattern of production
- Instability in BOP + exchange rates
- Repatriation of profits
- "Anti ethical" market distortions domestic company ☹️
- "off-shoring" or shifting of jobs
- Over exploitation of natural resources
- Decrease in competitiveness of domestic companies
- "Harmful" Jeopardizing national security
- Worsening commodity terms of trade etc etc

$$\frac{\text{Prices of Exports}}{\text{Prices of Imports}}$$

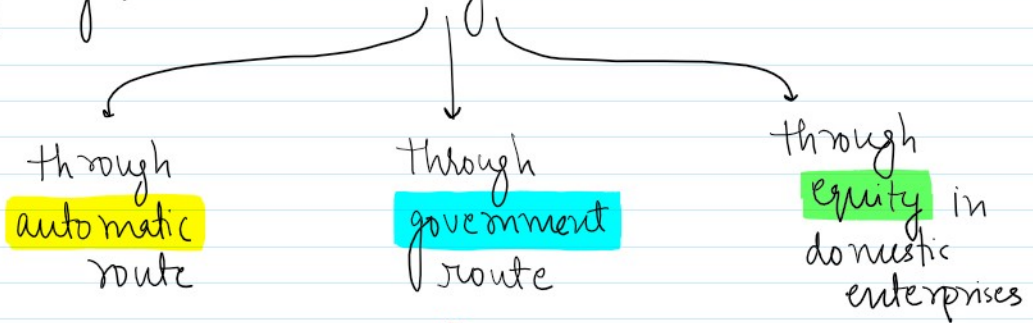
6 Benefits of FDI

- New Innovations

- New Innovations
- Higher efficiency
- Higher employment
- Better Products
- Lower prices
- Welfare for consumers
- Better access to foreign markets
- Improvement in BOP etc etc etc

* **MAURITIUS** is the leading country in respect of Inflow of FDI to India

* A foreign investor may enter India :-



* FDI is prohibited in **Chit fund + Nidhi Company**

* According to RBI, Overseas direct investment stood at **US \$ 1,922.51 million** in Sep 2022

Investment made by Indian companies in foreign companies

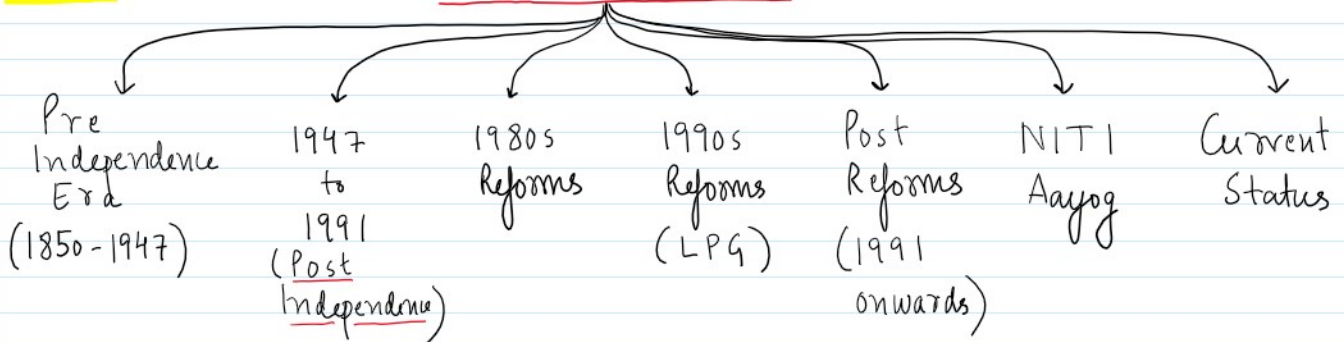
* According to World Investment Report 2022, India was ranked **8th** among the world's

India^U was ranked **8th** among the world's major FDI recipients. (US \$ 81,973 million during 2020-21)

CH10

INDIAN ECONOMY

(7-10 Marks)



I. Pre Independence Era (1850-1947)

- Indian economy was prosperous and self-reliant
- It controlled between $\frac{1}{3}$ rd + $\frac{1}{4}$ th of world's wealth
- Agriculture was dominant occupation
- Highly skilled artisans + craftsmen
- Well known handicraft industry

* Ancient Philosophy of India



Chanakya



"**Arthashastra**"

- Arthashastra is the science of "Artha" or "material well being", which is primarily "**wealth**" + secondarily "**the land**"