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# AN INSIGHT INTO THE ASPECTS EFFECTING EXCHANGE RATES

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The exchange rate stands as one of the most essential indicators of a nation's measure of economic strength and they also influence the extent of trade and therefore exchange rates are the most observed and scrutinized economic measures. They not only impact the economy as a whole but also affect the expected return of an investor's portfolio.

All the prime elements or factors that impact the exchange rates are all associated to trade links between two economies. The major causes for exchange rate between two nations could be divergence in interest rates, divergence in inflation, shortfall in current account, government debt or even terms of trade.

High interest rates in an economy cause the rise in the value of currency of that nation comparative to countries presenting lower interest rates. Higher interest rates intended to captivate foreign investments cause a hike in the need for and worth of homeland's currency. Although, this simple understanding of the concept is intricate because of the inter-connectivity that persists between high interests rates and inflation, if a nation can plan to attain efficient balance of increased interest rates without a hike in the inflation, then the worth and exchange rate of the currency is inclined. The lenders in an economy are benefitted when there is a high interest rate prevailing in the economy as they get extensive returns compared to other nations.

Being a thumb rule, an economy with a constantly decreasing inflation rate presents a higher value of currency as there is a rise in its buying power compared to other currencies. From the past it is evident that the nations with low inflation are Switzerland, Germany and Japan while other big countries like US have attained lower inflation only later. The economies with high inflation endure depreciation in their currency and it is also supplemented with high interest rates.

Current account being a part of the balance of payments records the transactions of trade between the countries relating to goods and services, dividends, income and current transfers. A shortfall in this account presents that the nation is expending money on overseas business more than its own gains.

In this scenario, the country is in need of more foreign currency that it secures from its exports and to overcome this situation it provides more of its own currency than the importers call for its commodities. Extensive need for foreign currency results in the economy's exchange rate being lowered unless internal goods and services are inexpensive for foreigners and overseas assets are exorbitant to produce sales for local interests.

If a nation borrows capital from outside sources/overseas, then it creates an external liability. As the country has foreign capital, it can lead to hike in inflation and also foreign investors will not be interested to invest in nations having government debt because high inflation persists in such economies and because of that the debt is serviced (which refers to the amount required to cover the refund of interest and principal on debt for a specific time) and is paid with low-priced actual dollar in future. If the government prints money to pay a large debt, it still increases the supply of money in the economy whereby the inflation also increases.

A difference between the import prices and the export prices of a nation also brings in some impact. One of the well-known examples of financial crisis due to changes in currency is the ASIAN Financial crisis in 1997-1998. Some of the major reasons that derived the occurrence of such situation was that the nation's currency was at a very high level, countries like Thailand had huge number of short-term funds borrowed from external sources and the regulations of the government were weak to balance the economy.

From the point of view of an individual, unfavorable fluctuations in currency can affect the finances of individuals and hence they must adopt for various hedging instruments and currency future which would help them to minimize the risk of currency fluctuations. Hence, it is rightly said that exchange rate is the pulse of economic health of any nation.

# BREXIT

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ON FEBRUARY 20th Britain's Prime Minister, David Cameron, set June 23rd as the date for a referendum on the country's membership of the European Union. His announcement followed a renegotiation of the current conditions of Britain's membership at a summit in Brussels. Mr Cameron strongly believed in the benefits of continued EU membership, but a handful of high-profile MPs, had pledged support for the "out" campaigners. In early 2015 the chances of" Brexit"— Britain departing from the European Union—seemed remote. Today, largely because of Europe's migration crisis and the interminable euro mess, it has become a reality.

**The debate**

Arguments for and against Brexit, according to the main campaigns

| | IN | OUT |
|---|---|---|
| TRADE | Britain avoids exporter tariffs and red tape, important as 45% of British exports go to the EU. As a member, Britain can obtain better trade terms because of the EU's size. | Britain will negotiate a new EU relationship without being bound by EU law. It can secure trade deals with other important countries such as China, India and America. |
| EU BUDGET | Britain pays the EU £340 a year per household, compared with an estimated £3,000 yearly benefit of membership. In or out, payment is needed to access the single market. | Britain can stop sending £350m, equivalent to half England's schools budget, to Brussels every week. This money could be spent on scientific research and new industries. |
| REGULATION | Most EU regulation collapses 28 national standards into one European standard, reducing red tape and benefiting business. In, Britain can fight for better regulation. | Leaving will return control over areas like employment law and health and safety, measures that a recent Business for Britain poll found businesses favoured. |
| IMMIGRATION | Leaving doesn't mean reduced immigration. Countries that trade with the EU from outside have higher rates of immigration, including from EU countries, than Britain. | Britain can change the "expensive and out-of-control" system that offers an open door to the EU and blocks non-EU immigrants who could contribute to the UK. |
| INFLUENCE | At international summits, Britain is represented twice – by the foreign secretary and the EU high representative. Co-operation has helped fight Ebola and piracy in Africa. | Britain has little influence within the EU. From outside, it can retake seats on international institutions and be a stronger influence for free trade and co-operation. |

Sources: Britain Stronger in Europe; Vote Leave

Economist.com

Britain's uneasy relationship with the European Union is not a recent phenomenon. British trade with other EU countries has risen rapidly since 1973, though as the European economy has slowed, its share of the total is declining. Though Britain is out, the EU still remains to a key partner. For non-members such as Norway or Switzerland, trade with the EU makes up a bigger share of the total than it did for Britain.

The main concern that Britain will now face is more regulations. From the outset the OECD was of the contention that Britain was among the least regulated countries in the EU in product and labour markets when compared to other non-EU countries such as America, Australia and Canada. Now after its exit, if Britain wanted to retain full access to the single European market, it would almost certainly need to stick with most of the accompanying rules.

What are the options that Britain has post brexit? Most of the alternatives to full membership are unattainable, unappealing or both. The
EU will not disappear as an institution or a big market. A post-Brexit Britain will have to form a set of trading and institutional relationships with it. The uncertainty is over what these would be—and how long they might take to negotiate.

The impact of Brexit in the context of Indian services and consulting is tilted towards negative in the short term. The pound will lose some value in the shorter term and this would immediately impact any existing contracts, as the value of the contracts would decrease.

Some of the projects and trade negotiations will go on hold as firms would want to wait and watch for the implications of Brexit to be clearer. Indian IT companies with European headquarters in the UK would need to spend on infrastructure and staff for setting up a new office in the EU. (There are approximately 800 Indian companies in Britain).India has been negotiating a free-trade agreement with the EU for almost 10 years and now will need rework its strategy. A separate pact might need to be negotiated with the UK.

Overall, it is yet unclear, what the consequences of Brexit will be for India's trade relations with the European Union.

# REFORMS IN INDIAN E&P POLICIES

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Energy costs play a very important role in the development of a country and there is need for continuous exploration and production (E & P) of Mineral wealth in the country. Fossil fuels are Coal, Shale oil, Furnace oil, Crude oil, Brent oil, and Natural gas which are used for producing Energy which is lifeline of the Industry. As India has not tapped all the reserves inside, there is a scope for development. Policy makers like Directorate general of Hydrocarbons (DGH) who is an upstream regulator and Petroleum and natural Gas Regulatory Board (PNGRB) is a downstream regulator. Managing committees (MC) monitor the progress and production.

Few International players in the Oil exploration and production (E&P) arena are BP Plc, BG Group Plc and Royal Dutch Shell Plc. Then there are the Indian E&P heavyweights like state-run Oil and Natural Gas Corporation (ONGC), Reliance Industries Ltd (RIL) and Cairn India, a part of Anil Agarwal's Vedanta Group.

Iran and Russia are friendly nations which supply Crude oil to India. 75% of the Crude oil is imported and unstable economic situations are experienced with respect to the price and supply of Crude oil due to the geopolitical volatile situation in Iran & Russia. Besides this results in siphoning out the Forex reserves which could be otherwise used for other applications of development as well. India's hydrocarbon potential is limited yet can play important role in reducing the dependence on imported fuel. The un-explored reserves of Oil and gas if fully developed can bring prosperity to the country by saving precious Forex.

There are areas of exploration identified by the government and are called blocks. Based on the geological location of the block, risk of exploration is defined.

Complicated rules set by DGH, PNGRB and the MC (comprising of members from the Oil ministry and the companies operating the blocks) are in constant tussle over revenue sharing ending up in courts and closing down the blocks. For healthier growth and development there is need for reforms in the policies of E&P by the regulatory bodies of the country.

On March 10, oil minister Dharmendra Pradhan announced a slew of policy changes which attracted attention of CEOs of oil and gas firms that have an interest in India. The formerly known National Exploration Licensing Policy (NELP) was replaced by the Hydrocarbon Exploration Licensing Policy, interestingly abbreviated as (HELP).

One of the major changes in the new policy was to replace the existing profit-sharing/cost-recovery arrangement with a revenue-sharing mechanism. Earlier, when the government entered into contracts with companies that won hydrocarbon blocks through an auction, the operator was allowed to recover costs incurred to develop the block from revenues generated through it. The government's share of earnings would be calculated on the remaining sum. This led to arguments between regulators and companies over questions such as what overheads constitute valid cost items and the justified quantum of such costs. The new revenue-sharing formula is simpler, where the operator will have to part with a percentage of gross revenues generated from the block. As revenues increase or decrease, so will the government's share of earnings.

The oil minister's own projection is that development of hydrocarbon reserves valued at $40 billion could be unlocked over the next 10 to 15 years on the back of these reforms.

**Conclusion**

The price of Brent oil has nosedived tremendously and is now priced at $40 per barrel. With this pricing many E&P companies are sceptical to risk their capex for these low earnings. There is consensus that the oil price is likely to rise to $50 per barrel in the near future and if this happens India becomes an interesting venue for investments by the E&P companies.

# TWEAK FINANCIAL YEAR

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Once being ruled by the east India company, our country India tends to follow certain policies and principles of UK. In spite of long achieved independence, our thoughts are still confined to what they have implemented so far. But now, something seems to trigger around with the fiscal year or financial year.

Until now, the centre panel believed that the current financial period i.e. April 1 to march 31 would get a fair estimate of revenue and expenditure. Which is anyways true, to a large extent but ever wondered what might be the reason for the sudden call “for change “?
Basically, the April fiscal year is deep rooted in the histories, as the accounting period in UK, before 1752 began on January 1 of the Julian calendar (march 25 of the current Gregorian calendar) but after the adoption of the new calendar and some adjustments January 1 of the Julian calendar fell on April 5, and i.e. how, it all began.

And as far as sudden "call for change" is concerned, it’s because of the difference between calendar year that we follow and the financial year that concerns the money transactions. But now the question is what all has to be taken into consideration. As of now, the committee has listed to analyses the effect of change on the different agricultural crop periods, its impact on businesses, taxation systems, procedures, statistics and also the convenience of the legislatures for transacting budget work.

Moreover, this sudden tweak will change the way governments and companies have been doing their business and if it's further recommended, the committee may also have to work out modalities for effecting the change, which would include appropriate timing of change, determination of a transactional period, the change in tax laws.

And if it is implemented in future, the budget will have to be presented in November after monsoon, budget proposals will come into force from January 1. The deadline for tax saving investment will be in December and people will have to pay tax in February or March instead of July.

# MERGERS AND ACQUISITION OF BANKS

RAJASRI BEHAR - B.COM (COMP) 3A1

An acquisition is a takeover. Offers made by the bidder to the company for a takeover that would be more beneficial to the stake holders and the company as a whole. This could happen in three ways: A friendly acquisition, hostile one or reverse takeovers.

Mergers on the other hand are made for business combination to have faster growth in corporate business to create higher expectations for shareholders, customers and employees. Faster growth could be achieved through product development or Competitive position in the market. Other possible purposes are in the fields of strategic management, finance, human resource, IT, legal operations, sales &marketing, R&D etc.

Have you ever wondered how mergers and acquisitions help in boosting the banking sector in our country? Economies of higher scale can be obtained by the mutual efforts of operation which attains greater productivity in managerial operations and the power of monopolizing the industry to the organization. The main objective for merger of Banks is, business combination of the Banks can integrate assets to achieve cumulative gains.

It is also seen that merger of Banks helps in the curtailment of the working capital needs. In today's corporate sector there is a cut-throat competition and hence every organization strives to attain higher progress in technologies and operations and implementations of the business. If a large bank merges with a smaller bank which has a relatively new and innovative technology, then the large company is on an advantage.

In case of mergers, assets can be obtained at a lower rate when compared to their prevalent costs of erection. The principle which is latent in this case is that the inflation in the cost of erection is not completely excluded in the prices of stocks as there are excessive interest rates prevailing and restrained hope by investors of stock with reference to the prospective economic position.

There has been a recent merger of KOTAK MAHINDRA BANK and ING VYSYA BANK. Kotak bank has a greater presence in the North and the western part of India. With the merger, Kotak Mahindra Bank is assured of strong presence in Southern India, more importantly in the states of Karnataka and Andhra Pradesh. The combination entity will be a network of 1,260 branches and 1942 ATM's across the country.

Kotak Mahindra Bank's strength is in corporate and retail banking while in ING Vysya's case it is in Small and Medium Enterprise business operations. This will complement Kotak Mahindra Bank. Kotak Mahindra Bank has expanded at a time when the Indian banking sector is still undergoing tough times, where credit growth is yet to pick up and non-performing asset levels for several banks are high. The results of Q3 performance of Kotak Mahindra in 2016 have seen a gain of around 36%.

India has seen several mergers and acquisitions in the private banking sector, in 2010 ICICI bank, India's largest private lending bank acquired Bank of Rajasthan and HDFC Bank acquired Centurion Bank of Punjab in 2008. These acquisitions have been successful and benefitting the Shareholders and customers alike. It is to be seen how the Kotak Mahindra's mergers progresses while it is showing signs of success. In conclusion, the acquisitions and mergers do not perform as seen on paper but if properly managed the deal is beneficial for all.

# POKEMARKETING

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In this rapidly developing hi-tech world, new ideas, innovations and creations have a ripple effect in every field. Such is the power of technology and the need of the growing economy. One such ripple was caused by the launch of a simple video game.An idea which took 20 years to materialize doubled the stock prices of its parent company,Nintendo.

Pokemon GO is the brainchild of John Hanke,a GPS based augmented reality game .It was launched as a prank along with Google on April Fools' Day in 2014. The prank turned out to be a unbelievably viral hit. In the span of one week ,the number of users increased to 9.5 million users per day. Collecting Pokemons, training them and battling with other Pokemons in Pokemon Gyms and Pokestops is the crux of this engaging game. It's simple and attractive interface keeps the gamers glued to it. Even though it has a serious safety predicament, Pokemon GO has all of us on our toes.

Nintendo is minting money with their small yet viral idea of an virtual reality game.The game has topped the most downloaded games and also is being used more than any other social media applications.Pokemon GO rose from an initial GPS based game called Ingress,also Hanke's idea.It was apparently a huge success with the gamers. It served as a database for Pokemon GO. Ingress users were requested to suggest general public and tourist spots in and around their localities .From an array of 15 million suggestions 5 million were selected for the creation of Pokestops and gyms.

Every new innovation is a product of rectifying a loophole in the existing product or design. Gaming industry suffered from one such loophole. It discouraged movement in youngsters which led to substantial increase in obesity rates and gradual decrease in the general health rate . This was the main reason behind Pokemon GO which makes people visit new places , meet new people and also aware of the proceedings in their immediate environment(and of course,collect Pokemons).

Pokemon GO is an unsaturated channel of marketing waiting to be exploited by businesses. Huge companies have seen this as an opportunity and explored it to a great extent.For instance,the Amul girl and her friends caught the Pokemon fever, Redbull says it can give you the necessary energy for catching your pokemons day in and day out. Godrej,Quikr,Ola India and Vodafone have also utilized such marketing techniques.
Hence these companies have co-branded with the recent trend and maximized their sales.Relating their age old products with something in vogue is a direct ticket to the minds of the young population. This is viral marketing.

Viral marketing indicates that the companies are abreast with the happenings around the world,they are well informed and interested in the needs of the customers.Viral marketing takes effect in a short span of time but reaches a huge populace and its impact is long lived.It is the cheapest mode of marketing in the present scenario.What print and TV ads cannot do, is successfully accomplished by viral marketing or in this case pokemarketing. The advantage in testing new channels of marketing is that they are yet to be exhausted and the sooner a company uses it the better its presence in the market. Redbull's Instagram account is the least actively updated platforms , but it still is the highest likes and comments generator and has the highest number of followers as compared to its other social media accounts.Thus is the potential of unexploited channels of marketing.

Finally, ignoring Pokemon GO for your business' marketing is a huge blunder as it gives a message of the company being modern and tech savvy. It will strengthen the presence of the product in the customers minds and also allow companies to connect with the young demographic.There will be many more games which might keep us up all night wanting for more. They might incorporate many more changes and new ideas to keep us all glued to them. At the same time all these future wonders will work as business strategies with immense impact.So ,till then Catch 'Em All !

# The Great American Mind

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**"I don't have a racist bone in my body."**
**"Our politicians are stupid. And the Mexican government is much smarter, much sharper, much more cunning. And they send the bad ones over because they don't want to pay for them. They don't want to take care of them. Why should they when the stupid leaders of the United States will do it for them?"**
**"What I speak to Mitt Romney about is jobs. What I speak to Mitt Romney about is China, because he's got a great view on China and how they're trying to destroy our country by taking our jobs and making our product and manipulating their currency, so that it makes it almost impossible for our companies to compete."**

I'm sure it must be mighty clear by now of towards whom I'm trying to indicate. Well. Yes, you're right!( If you have got it). The world is now looking over a phenomenon which for some is a Boon and for the rest a Bomb. The world is pondering over the question **"What if Donald Trump is elected President of America?"**

Here, let's not discuss the rights and wrongs of elections.(That's not what I'm here for). But is India looking forward to better days? Kya Trump Ache din leke aayenge?( Will Trump bring the good days for India?) Let's see.

According to his policies, he would off-set the Chinese low cost advantage and turn the tide on the them and bring back the close to 5 million manufacturing jobs back to US through a wave of import tariffs on goods from China. Chinese. Chinese goods to the US amount to 21.8% of the imports by US. Chinese as well as American manufacturing companies in China, would have a tough time if that happens. If at all, America then tries to influence and get the same done by its allies too, then the Dragons would be facing have an extended recession and that too at a stage where it is still recovering from last years market collapse. In such a scenario, India the next biggest manufacturing economy in Asia looks towards brighter days as Indian goods would find more markets in America and it's allies as the costs of Chinese goods would rise due to the tariffs.

Now that, Mr. Trump had publicly proclaimed that he would cut the monetary aid to Pakistan, which he believes is being stashed away for development of terrorist activities. If that's true then, terrorist invasion would take a back-step for a while, giving us breathing space to concentrate on development.

Would Trump stand by his words. Will his actions bring the "Ache din"? The American has put the world on its tender hooks. The fact is **Only time will reveal "The Great American Mind"**