FAQ's

1)What does International capital flows refer to?

A.International capital flows (or movements) refer to the outflow and inflow of capital from one country to the other. Capital flows refer to the movement of money for the purpose of investment, trade or business production, including the flow of capital within corporations in the form of investment capital, capital spending on operations and research and development (R&D).

2)What are Direct investments?

A.Direct investments, on the other hand, are real investments in factories, capital goods, land and inventories where both capital and management are involved and the investor retains control over use of the invested capital.

3)What are Portfolio investment?

A.Portfolio investments are purely financial assets, such as bonds, denominated in a national currency.

4)What is Private capital?

A.Private capital flows refer to lending and borrowing from abroad by private individuals and institutions. Private capital is generally guaranteed by the govt or the central bank of the borrowing country. Profit motive is the driving force of private capital movements.

5)What is Government capital?

A.Government capital movements imply lending and borrowing between governments. Such capital movements are under the direct control of governments. In fact, governments are important international lenders. They make stability loans, loans to finance exports and imports, and particular projects.

6)What is the difference between Short-Term and Long-Term Capital?

A.Short-Term capital flows are for a period of less than one-year maturity while long-term capital movements are of more than oneyear maturity.

7)What are factors affecting INTERNATIONAL CAPITAL FLOWS?

A.The following factors affect international capital movements/flows:

1.Rate of Interest.
2.Speculation.
3.Expectations of Project.
4.Bank Rate.
5.Production Costs.
6.Economic Conditions.
7.Political Stability.
8.Taxation Policy.
9.Foreign Capital Policy.
10.Marginal Efficiency of Capital (expected rate of profit)

8)Write a brief on Foreign Aid.

A.It refers to public foreign capital on hard and soft terms, in cash or kind, and inter-governmental grants. Foreign aid is tied and untied aid. Aid may be tied by source, projects and commodities. Untied aid is a 'general purpose aid' and is also known as programme aid or non-project aid.

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10)Three parts under which short-term capital movements can be classified based on changes in money supply?

A.Changes in money supply on account of short-term capital movements can be classified in three parts:

1) Primary
2) Secondary
3) Tertiary