

# The SCU-IBN Times<sup>©</sup>

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### IBN Poll #3

Would you like to participate in IBN Debates?

☐ Yes

☐ No

### IBN Quiz #3

Which of the following is usually adopted by an organization, if its international transactions have increased to a point where it cannot handle them efficiently?

- International Division Structure
- Regional Management Centers
- Geographical Structures
- Product Division Structures

**Answer IBN Quiz #2**  
**16.4 Billion**

## Global Currency

### Current currency mechanism across the globe

Article by Mamatha Sen

After the fall of the Bretton-Woods agreement, the world moved towards credit-based money with each country having their central bank controlling its own credit policy and money supply mechanisms. I must add that apart from conventional monetary policy of providing stable prices, maximum employment and moderate interest rates, some central banks indulge in bailing out failed financial institutions and this can lead to inflationary tendencies. We need to realize that "The market" determines the exchange rate – that is proven wrong - an ongoing argument against government's intervention in bailing out AIG and not let nature take its course in a democratic setting.

This is just one example among many cascade of bailouts of financial institutions have historical records of fraud blaming failures on accounting practices wherein the government has intervened and capitalism is failing.

This calls for more regulation and transparency and more reasons why we need a single global currency.

#### Exchange Rate Mechanism:

Exchange rate is supposed to be determined by the market. However, currency manipulators dominate this market. Further more central banks, to maintain their exchange rate advantage, also indulge in currency trading. At the end of the day exchange rate is anything but natural. In the present world besides people from different ethnicity and borders that have come together in business as a result of the internet revolution. I like to say it is the currency besides other elements that is keeping businesses competitive and healthy. Competition is one element that brings people together across borders that is superior to the currency. It divides any single country from the rest and is largely a hurdle due to currency problems.

#### Central Bank Currency Manipulation:

This is an extension of an earlier point. One of the long-standing disputes is that China and Japan were manipulating their currencies to keep their exports at an advantage. They are able to do it by selling their dollar currency for US treasury paper.

"It is the rare firm now that does not operate multiple business units in different channels, markets and countries in addition to product categories and sub-categories."

- David A. Aaker

## In the News

"The credit crunch and the liquidity constraints we are seeing are going to affect everyone in the world,"

-Alfredo Coutiño, a senior economist at Moody's

"Lehman Brothers crisis to affect portfolio investment in India"

- Report from the Assam Tribune brought to you by HT Syndication

"The World As We Know It Is Going Down"

- Article by Mark Pitzke in New York

## Define: International Business

*International Business* - Business involving transactions crossing national borders at any stage of the transaction.

**SAVE THE DATE:**

Nov 14<sup>TH</sup> 2008  
1730 – 1930 Hrs  
Lucas Hall, #TBD

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*The Volatility Problem:*

For Customers, from any one country doing business, the value of goods and services changes as the currency rate changes. Currency exchange volatility also creates problem for long term planning. This comes more than a sticker shock I may add and a major hindrance. Does Volatility or fluctuation also leads to devaluation of assets of one country compared to assets of another country? A study yet to be made. Further, currency volatility leads to fluctuations in the value of stocks and bonds that erode profits. Comparative advantage of one country over another will be maximized on the implementation of a single currency.

*Open Borders but Closed Currencies:*

As we look at the world today we see goods and services pass freely between countries but currencies do not. A problem that is not immediately felt but is a persistent barrier that is unavoidable. European common market worked towards a unified currency and this concept can be expanded to the world. Recent growth charts show a good growth of the EURO with the other leading currencies. Counter trading will continue until the implementation to avoid currency fluctuations.

*Proposal For a Single Global Currency:*

Why a proposal for a single global currency or why should we not have a single currency? Why not? As a proposal this attracts attention but will remain controversial and debatable. For example trade protectionism that may need the tightest regulation. But let's visit the effects of Internet globally to make a simple forecast. My observation has been nothing short of pleasant shock in the way businesses and people across the globe are coming together and reaping the advantages. In comparison to the internet in terms of accessibility if there was one global currency what will be the first issue that pops up? **Lack of Stability and shared risks - fear for partnerships.**

The number one issue that stands out at a global level is that countries may not have a benchmark. This one reason, alone, calls for single global currency to be done in increments or regionally and to be implemented like the euro across the world to cope with the change. Positives that we can expect are zero transactional costs and hence savings by the millions that can be utilized to help economies around the world. Further we can expect:

- Utilizing the saved money to provide financial assistance for the needy countries
- Creating more jobs, energy and food not to forget medicine.

*(Cont. from previous column)*

- For the consumer a single currency translates to safety and eliminates most of the problems that come with dealing with conversions
- Benefits globalization – with one big barrier eliminated from markets
- Renewed Economic policies in the area of labor, income and so on
- Tighter regulations at the government level
- Increased transparency in businesses – felt around the globe
- Banking systems will have financial discipline burden on insurers and the treasury department.

But as an implementation, "single global currency" will continue to be monitored against other currencies in growth charts just as the euro and the way it holds up to the fall out of the much talked about credit crunch – a result of bad monetary policy as I have mentioned as examples.

The list goes on from Fannie, Freddie, Bear Sterns, and the recent bailouts of AIG – This \$85 billion bailout is estimated by some sources as equal to total GDP of 3/4<sup>th</sup> of all countries in the continent of Africa – in other words the US can buy these countries with this money.

However, the rescue of investment bankers Lehman brothers by Barclay's has come as a great relief. We may see a time where the countries with low GDP's can be helped/bailed as a result of the implementation of a single currency – increased opportunity in the areas of education, health, lower unemployment rates and higher standards of living.

The euro model can be copied for the world today as a solution to the problems. But one step at a time in unifying countries regionally in consensus such as the euro that has taken a considerable time for implementation. An observation of changes in such small incremental steps is a must to study the repercussions from the global level.