CENTRE FOR FINANCIAL MANAGEMENT®

CFM QUARTERLY IN FINANCE

OCTOBER 2011

EDITOR: DR. PRASANNA CHANDRA

CONTENTS

CFM Quarterly in Finance, a publication of the Centre for Financial Management, Bangalore is primarily a practitioner-oriented journal. It seeks to discuss contemporary developments, analytical concepts and techniques, research insights, perspectives, and state-of-the art practices. By and large, the CFM Quarterly in Finance seeks to convey important developments in the theory and practice of finance in a rigorous, but relatively non-technical, manner.

SECTION A: ARTICLES/CASES

1. INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS): CONCERNS BEYOND THE STANDARDS

Dr. Prasanna Chandra

The International Accounting Standards Board (IASB) and its IFRS have made significant progress toward achieving global accounting convergence. As of January 2005, all EU companies listed on EU exchanges are mandated to prepare consolidated accounts based on IFRS. Further, many non-EU countries, such as Australia, China, Hong Kong, Israel, and New Zealand are converging their national standards either partially or totally with IFRS. Endorsing IFRS, the U.S. Securities Exchange Commission has allowed foreign private filers in the U.S. to file IFRS - complaint financial statements. In the Indian context, the Institute of Chartered Accountants of India (ICAI) has also mandated convergence with IFRS from April 1, 2011. The Ministry of Company Affairs, Government of India, too has confirmed its intent to harmonise Indian Accounting Standards with IFRS and achieve convergence with IFRS by 2011 for large public interest entities.

In the U.S., support for convergence has increased steadily since 2002 when the "Norwalk Agreement" was signed between the Financial Accounting Standards Board (FASB) of the U.S., and the IASB. Through this agreement, FASB and IASB have committed to: "(a) make their existing financial reporting standards fully compatible as soon as practicable and (b) to coordinate their future work programs to ensure that once achieved, compatibility is maintained."

Currently more than 100 countries have adopted IFRS. The US, Japan, India, and many other countries have programmes to converge their national standards with IFRS by 2011.

Even among countries that have adopted the same version of IFRS, two factors – national culture and language translation – can undermine the consistent interpretation and application of the converged standards and impair comparability across countries.

National Culture Geert Hofstede, an eminent social psychologist, identified four cultural dimensions that explains general similarities and differences in cultures.

- *Uncertainty Avoidance:* How comfortable do individuals in a society feel with uncertainty and ambiguity?

- *Individualism:* Does the society prefer a loosely knit social fabric or a more independent, tightly knit social fabric?

- *Achievement Orientation:* How much does the society value and emphasize performance and visible achievement.

- *Power Distance:* How much hierarchy and unequal power distribution does the society accept?

Hofstede's cultural framework, used extensively in management and other disciplines, can be used in an accounting context. Research suggests that a country's cultural values have a bearing on accounting values (the levels of conservatism and secrecy displayed by accountants) which in turn influence how financial reporting standards are applied.

In countries that are characterised by higher *uncertainty avoidance* and lower *individualism* and *achievement orientation,* accountants display a higher level of conservatism. In countries characterised by higher *uncertainty avoidance* and *power distance* and lower *individualism* and *achievement orientation,* accountants display a higher level of secrecy.

To sum up:

Cultural Values → Accounting Values → Application of Financial Reporting Standards

Most of IFRS is principles-based and not rules-based. This means that the interpretation and application of accounting standards requires substantial judgment on the part of accountants. Hence national culture is likely to influence the application of accounting standards. As George T. Tsakumis *et.al* put it: "Culture is a pervasive environmental factor that can lead to inconsistent interpretation and application of converged financial reporting standards. This is troublesome because different judgments could lead to significant differences in financial statements. These differences could severely impact the comparability of financial statements across countries."[1]

Translation IFRS is published in English, since the official working language of IASB is English. For non-English speaking accountants, IFRS has to be translated into their languages. The International Accounting Standards Committee Foundation (IASCF) coordinates the translation of IFRS. While the translation process is well-organised and quite rigorous, translation problems exist.

In some cases, translation of words and phrases of English language into other languages may result in some distortion of meaning.

The Way Out To mitigate the above problems the following may be done.

- Multinational corporations and global audit firms must strengthen their cultural awareness training. This will enable professionals to recognise their own country's cultural accounting tendencies and appreciate how these values bear on their interpretations and judgments.
- IASCF should enhance the translation process to avoid inconsistencies. Further, the IASB must exercise greater care in avoiding the use of ambiguous English words and phrases. For example, in IAS 31 AND IAS 37, *remote* may be replaced by *small probability.*

2. THE CENTRAL IDEAS OF FINANCE

Dr. Prasanna Chandra

While there are a number of interesting ideas of finance, the central ones appear to be the following eight:

- Net present value
- Portfolio theory
- Capital asset pricing model
- Efficient market hypothesis
- Value additivity principle
- Capital structure theory
- Option pricing model
- Agency theory

Net Present Value To know the value of future cash flows, you look at prices of securities in the capital market - a market where claims to future cash flows are traded. If a firm can buy cash flows for its shareholders at a price less than what they would have to pay in the capital market, it enhances the value of their investment.

This is the idea underlying net present value (NPV). When you calculate a project's NPV, you determine whether the benefits of the project exceed its costs. You are essentially asking what will be the worth of its cash flows now, if a claim on them is traded in the capital market. This is the reason why the cash flows of a project are discounted at the opportunity cost of capital which reflects the expected rate of return offered by securities that are just as risky as the project.

Although the idea of NPV looks simple, see how useful it is. The NPV rule enables shareholders with divergent levels of wealth and risk disposition to invest in the same firm and entrust its operations to a professional manager. They simply have to tell the professional manager to maximise present value.

Portfolio Theory Portfolio theory, originally proposed by Harry Markowitz in the 1950s, was the first formal attempt to quantify the risk of a portfolio and develop a methodology for determining the optimal portfolio. Prior to the development of portfolio theory, investors dealt with the concepts of return and risk somewhat loosely. Intuitively smart investors knew the benefit of diversification which is reflected in the traditional adage "Do not put all your eggs in one basket". Harry Markowitz showed quantitatively why and how diversification reduces risk. In recognition of his seminal contributions in this field he was awarded the Nobel Prize in Economics in 1990.

He also developed the technique of mean-variance portfolio optimisation, which allows an investor to determine the portfolio with the highest level of variance. Markowitz's approach forms the core of portfolio optimisation methods employed in Wall Street.

Capital Asset Pricing Model While the notion that risk and return go together is ageless, the capital asset pricing model (CAPM) is perhaps the first formal attempt to quantify the relationship between risk and return.

The CAPM makes an important distinction between unique (diversifiable) risk and market (non- diversifiable risk). Since unique risk can be diversified away, investors are rewarded only for bearing market risk, which reflects the sensitivity of an investment's return to changes in the aggregate value of all assets. It is called the beta of the investment. According to CAPM, the required rate of return is linearly related to its beta.

The validity of CAPM has been vigorously challenged. Perhaps in the years to come we will have better theories to explain the relationship between risk and return. However, it is unlikely that these theories will ignore the crucial distinction between diversifiable risk and nondiversifiable risk, the key idea underpinning the CAPM.

It is interesting to learn how William Sharpe arrived at CAPM, a contribution that fetched him Nobel Prize in Economics. In an interview with Jonathan Burton he commented: "Portfolio theory focused on the actions of a single investor with an optimal portfolio. I said, what if everyone was optimizing. They've got their copies of Markowitz and they are doing what he says. Then some people decide that they want to hold more IBM, but there aren't enough shares to satisfy demand. So they put price pressure on IBM and up it goes, at which point they have to change their estimates of risk and return, because now they are paying more for the stock. That process of upward and downward pressure on prices continues until prices reach an equilibrium and everyone collectively wants to hold what is available. At that point, what you can say about the relationship between risk and return? The answer is that expected return is proportionate to beta relative to the market portfolio."

Efficient Market Hypothesis According to the efficient market hypothesis, security prices accurately reflect available information and respond to new information, no sooner it becomes available. Eugene Fama suggested that it is useful to distinguish three levels of efficiency: weak-form, semi-strong form, and strong-form. The weak- form says that prices reflect all information found in the record of past prices and volumes; the semi-strong form holds that prices reflect all publicly available information; finally, the strong- form says that prices reflect all available information, public as well as private.

The idea that intense competition in capital market leads to fair pricing of securities is indeed very sweeping. No wonder it has been challenged by many and Benjamin Friedman refers to it as a "credo" – a statement of faith and not a scientific proposition. For most financial economists, however, the efficient market hypothesis is a central idea of modern finance that has profound implications.

Value Additivity Principle The value additivity principle says that the value of the whole is simply the sum of the value of the parts. It is also referred to as the law of the conservation of value.

For example, the present value of a project that produces a series of cash flows is simply the sum of the present values of each of the cash flows:

$$\text{PV (Project)} = \text{PV}(C_1) + \text{PV}(C_2) + \ldots\ldots \text{PV}(C_t) + \ldots.$$

Value additivity also implies that value cannot be increased by merging two companies, unless the merger produces synergistic benefits that increase the total cash flow. A merger aimed only at diversification cannot increase value.

Capital Structure Theory Just as the law of conservation works when cash flows are added, it works when cash flows are subtracted. This means that a capital structure decision, that merely splits the operating cash flows in a different manner, cannot alter the overall firm value. This is the essence of the leverage irrelevance hypothesis proposed by Franco Modigliani and Merton Miller (MM): The value of a firm is independent of its capital structure, as long as the capital structure does not change the total cash flow generated by the assets of the firm.

Merton Miller, who won the Nobel Prize in Economics, described the MM proposition very vividly as follows :"People often ask: Can you summarise your theory quickly? Well, I say, you understand the M&M theorem if you know why this is a joke. The pizza delivery man comes to Yogi Berra after the game and says, 'How do you want this pizza cut, into quarters or eighths.' And Yogi says, 'Cut it in eight pieces. I'm feeling hungry to night.' Everyone recognizes that's a joke because obviously the number and shape of the pieces don't affect the size of the pizza. And similarly, the stocks, bonds, warrants, issued don't affect the aggregate value of the firm. They just slice up the underlying earnings in different ways."

Due to various imperfections in the real world, the MM proposition may not be true. However, it tells us when the capital structure matters. It may matter (a) in the presence of taxes as debt provides interest tax shield, (b) at high

levels of debt that can cause costly financial distress, and (c) when lenders impose onerous restrictions that can impair operational efficiency.

Conservation of Investment Value

It may be noted that the MM work formalised the views about financial markets expressed long back by John Burr Williams in his 1938 classic, *The Theory of Investment Value*, Williams said: "If the investment value of an enterprise as a whole is by definition the present worth of all its future distributions to security holders, whether on interest or dividend account, then this value in no wise depends on what the company's capitalization is. Clearly, if a single individual or a single institutional investor owned all of the bonds, stocks and warrants issued by the corporation, it would not matter to this investor what the company's capitalization was (except for details concerning the income tax). Any earnings collected as interest could not be collected as dividends. To such an individual it would be perfectly obvious that total interest and dividend paying power was in no wise dependent on the kind of securities issued to the company's owner. Furthermore no change in the investment value of the enterprise as a whole would result from a change in its capitalization. Bonds could be retired with stock issues, or two classes of junior securities could be combined into one, without changing the investment value of the company as a whole. Such constancy of investment value is analogous to the indestructibility of matter or energy: it leads us to speak of the Law of the Conservation of Investment Value, just as physicists speak of the Law of the Conservation of Matter, or the Law of the Conservation of Energy."

Option Pricing Model In ordinary usage, option means choice. In *finance,* option refers to the right to buy or sell in the future on terms that are determined now.

Since options are important, you should know how to value them. Intuitively, finance professionals are aware that the value of an option depends on the exercise price, the period of expiration, the interest rate, and the risk of the underlying asset. In a seminal contribution, Fisher Black and Myron Scholes incorporated these variables in an easy-to- use formula. Robert Merton also made significant contributions to option pricing literature.

Developed for simple call options, the Black and Scholes formula cannot be directly applied to complicated real options encountered in corporate finance. Yet their basic ideas (like the risk-neutral valuation method) work even if the formula is not directly applicable. Valuing real options may require additional numerical computation, but no additional concepts.

Robert Merton and Myron Scholes were awarded the 1997 Nobel Prize in Economics for their seminal contribution to option pricing. The Nobel citation acknowledged their contribution in the following words:

"In a modern market economy, it is essential that firms and households are able to select an appropriate level of risk in their transactions. Markets for options and other so-called derivatives are important in the sense that agents who anticipate future revenues or payments can ensure a profit above a certain level or insure themselves against a loss above a certain level. A prerequisite for efficient management of risk, however, is that such instruments are correctly valued, or priced. A new method to determine the value of derivatives stands out among the foremost contributions to economic sciences over the last 25 years. This year's laureates, Robert Merton and Myron Scholes, developed this method in close collaboration with Fischer Black, who died in his mid-fifties in 1995. Black, Merton, and Scholes thus laid the foundation for the rapid growth of markets for derivatives in the last ten years. Their method has more general applicability, however, and has created new areas of research – inside as well as outside of financial economics. A similar method may be used to value insurance contracts and guarantees, or the flexibility of physical investment projects."

Agency Theory Traditionally, economists assumed that managers, shareholders, bondholders, and other players in a company worked to promote the common good. In recent decades, financial economists have explored in greater detail the possible conflicts of interest among various players and the means by which such conflicts may be resolved or mitigated. Collectively, these ideas are referred to as *agency theory*.

In the neoclassical theory of the firm, the firm is regarded as a monolithic entity to which a profit-maximising objective is ascribed. Agency theory, on the other hand, considers the firm as a nexus of contracts. As Jensen and Meckling put it, "Viewing the firm as a nexus of a set of contracting relationships.. serves to make it clear that the firm is not an individual.. [but] is a legal fiction which serves as a focus for a complex process in which the conflicting objectives of individuals (some of which may 'represent' other organisations) are brought into equilibrium within a framework of contractual relations."

3. DERIVATIVES TRADING ON NSE: AN UPDATE

Venugopal Unni

EQUITY DERIVATIVES

Futures and options contracts are available on domestic underlyings with maturity cycles of (except for option contracts on Nifty) one-month, two-

months and three –months, expiring on the last Thursday of the expiry month(if that be a holiday, the previous day). The prices change in steps of 5 paise. The contract value at the time of introduction is not less than Rs.2 lakhs, except for mini contracts. Open positions are marked to market on daily basis and finally cash settled on T+1 basis on expiry. The contracts are denoted by their respective security descriptor, which consists of symbols to denote the instrument, the underlying and the expiry date. All option contracts are European type and available either as a call option (CE) or a put option (PE), with at least one at the near the money strike price and a minimum specified numbers each at the in the money and out of the money strike prices in specified price steps.

On domestic indices:

The details of contracts available for trading is as under:

	Futures	Options	Lot size	Remarks
Underlying	Instrument	Instrument		
S&P CNX Nifty	FUTIDX NIFTY	OPTIDX	50	See the note below for the maturity cycles of options
	FUTIDX MNIFTY	OPTIDX MNIFTY	20	Minimum contract value Rs.80,000 and Rs.1 lakh for options
CNXIT	FUTIDX CNXIT	OPTIDX CNXIT	100	
CNXBANK	FUTIDX BANKNIFTY	OPTIDX BANKNIFTY	100	
NFTYMCAP50	FUTIDX NFTYMCAP50	OPTIDX NFTYMCAP50	75	

Note:

For both the normal and mini option contracts on S&P CNX Nifty (i.e. Nifty), a range of strike prices are available depending on the index level. Also, the trading cycle consists of a minimum of 3 consecutive monthly contracts, additionally 3 quarterly months of the cycle March / June / September / December and 5 following semi-annual months of the cycle June / December For example, as on 17th August 2011 contracts expiring on the last Thursdays of the months of August 2011, September 2011, October 2011 : December 2011, March 2012, June 2012 ; December 2012, June 2013, December 2013, June 2014 and December 2014 have to be available for trading

The contract value at any given time is the index value multiplied by the number of contracts. For example, the contract value for a lot size of 50, when the index is at 5200 is 5200 x 50= Rs. 260,000.

On Individual Securities:

Futures and option contracts are available for trading on 230 securities approved by SEBI. The lot sizes are standardized once in every six months. The instrument descriptor for futures and options are respectively FUTSTK and OPTSTK. They are quoted with the ticker symbol of the security used in the cash market followed by the expiry date of the contract. For instance, a futures contract on Tata steel expiring in August 2011 will be quoted under FUTSTK as TATASTEEL 25AUG2011.

On global indices:

S&P 500 Index futures and options

Ticker symbol is S&P500. Contract size is 250 units and tick size 0.25. If the index is at 1200, the notional value of the contract is 1200 x 250 = Rs.3,00,000. In the case of futures there are four quarterly expiry contracts ending in March, June, September and December. In the case of options there are three serial monthly contracts and three quarterly contracts in cycles ending in March, June, September and December. .Contracts expire on the third Friday of the expiry month and if that be a holiday either in India or the US, the previous business day. The daily settlement price is the weighted average price of the last half hour's trade and the final settlement is in INR cash on day T+1. The final settlement price is based on the Special Opening Quotation of the S&P 500 index on the date of expiry. Option contracts are all European type and available in various strike prices (12 each in in and out of the money and 1 in the near the money) at specified strike price intervals.

DJIA Index futures

Ticker symbol is DJIA. Contract size is 25 units and tick size 2.50. If the index is at 11000, the notional value of the contract is 11000 x 25 = Rs.2,75,000. The other features are as in S&P 500 Index futures except that the final settlement is based on the Special Opening Quotation of the DJIA index on the date of expiry.

CURRENCY DERIVATIVES

Futures:

Currently futures contracts on the spot rates of four foreign currencies against INR are available: the symbols are USD-INR, EUR-INR, GBP-INR and JPY-INR. For each of these the lot size is 1000 units of the foreign currency and the underlying is the exchange rate of these against INR. The tick size is 0.25

paisa. The trading cycle consists of 12 calender months and the final settlement is as on the last interbank settlement day of the expiry month. The positions attract initial and extreme loss margins and are marked to market daily and settled on T+1 basis. The last trading day is 12 noon on two days before the final settlement day The final settlement is on cash basis (INR) based on price from RBI source.

Options

Currently option contracts are available for trading only on the underlying: US Dollar- Indian Rupee spot rate. The instrument type is OPTCUR, symbol USDOPT , lot size 1000 USD and tick size 0.25 paisa. On any trading day, 3 consecutive monthly contracts followed by one quarterly contract of the cycle March/June/September/December are available. The contracts get finally cash settled in Indian Rupees at the RBI reference rate at 12 noon on the last business day of the expiry month. The last trading day is two working days prior to the final settlement date. A number of European type call (CE) and put option (PE) contracts at different strike prices (25 paise steps for the monthly and 50 paise steps for the quarterly contracts) are available for each maturity for in the money and out of the money options and one for the near the money option. Short positions attract initial and extreme loss margin and are marked to market daily on T+1 basis.

INTEREST RATE FUTURES

Futures on two underlyings are available:

a) Underlying :10 year notional coupon-bearing Government of India security: Symbol: 10YGS7.

The notional coupon is 7% with semi-annual compounding. The notional face value of the underlying is Rs. 100, lot size is 2000 and tick size is 0.25 paisa. Thus the minimum contract value on introduction is 2000 x 100 = Rs. 2 lacs. Currently two fixed quarterly contracts ending March/June/September/December are available for trading. The contracts expire on the last working day of the expiry month and have to be physically settled by delivery at the settlement price stipulated by NSCCL. Every position attracts margin at the rate stipulated, consisting of both initial margin and extreme loss margin. Besides, contracts are marked to market on each trading day. The last trading date for a contract is two business days before the expiry date.

The physical delivery is done by the seller by selecting and delivering a security (the cheapest) from out of a basket of central government securities specified by the exchange, through NSDL, CDSL or PDO of the RBI. The need for such an arrangement is because the underlying is only a national security

which may or may not actually exist. For determining the price of the security actually delivered, the settlement price of the futures contract is multiplied by a conversion factor (determined by comparing its price to the notional security price.)

b) Undelying: 91-day Government of India Treasury Bill: Symbol: 91DTB

The lot size is 2000, tick size 0.25 paisa and the minimum contract value on introduction is 2000 x 100 (FV) = Rs. 2 lacs. The prices are quoted as 100 – futures discount yield. A price of 94 indicates a futures discount yield of 6 percent. If the futures is quoting at 94, the contract value is 2000 x (100 – 0.25 x 6) = Rs. 197, 000. The contracts are for a one year maturity period with three months continuous contracts for the first three months followed by three quarterly contracts of the cycle March/June/ September/December. The contracts expire at 1.00 pm on the last Wednesday of the expiry month (the previous working day if that is a holiday).

SECTION B: SNIPPETS[1]

1. INDIAN EQUITY CULT: THE BEGINNINGS

The Indian equity cult began in the late 1970s. Two persons with diametrically opposite ideologies – Dhirubhai Ambani and George Fernandes – played an important role in promoting it.

Reliance Industries, with its state of the art facilities, entered the capital market with much fanfare in the late 1970s. Dhirubhai Ambani, the chairman of Reliance Industries and a hard core capitalist, became the darling of investors with his shareholder friendly policies.

Ironically, the other proponent of the equity cult in India was George Fernandes, a hard core socialist. In 1977, as Industries Minister in the Janata Dal, he was responsible for a decision that required all foreign companies to either list their shares on the Indian stock market or leave India. Some companies like Colgate, Hindustan Lever, and Nestle obliged; others like IBM and Coca Cola quit India. The pricing of the shares of companies which obliged was determined by the Controller of Capital Issues which applied a very conservative pricing formula. For example, HLL (Hindustan Lever (now Hindustan Unilever) was allowed a price of Rs.16 per share (face value of Rs.10 + premium of Rs.6) for its offer to the Indian public. Obviously such issues generated a lot of interest in equity investing. An activity that was previously confined to few became popular with many.

2. CHINA VS INDIA

In 1991, China and India had similar levels of per capital income. In 2010 China's per capita income was nearly three and half times that of India.

China's stellar performance can be attributed to three key macro factors viz., savings, foreign direct investment, and infrastructure.

India, although it has lagged behind China, has not done too badly. Its growth rate in 2001-2007 averaged nearly 7.5 percent, an impressive pick-up from the growth rate of 5.5 percent in the 1990s, which itself was distinctly better than what was achieved the previous decades.

India seems to have a much better micro story than China. It has world-class companies, outstanding entrepreneurs, well educated and IT-proficient workforce, relatively sound financial markets and banks, a well-entrenched rule of law, and a vibrant democracy.

In the past few years India has significantly improved its savings rate and accelerated the annual rate of FDI. The outlays on infrastructure too are being

[1] Contributed by Dr. Prasanna Chandra

stepped up. With these changes, India's prospects appear to be promising. As Stephen Roach puts it: "Therein lies India's great potential – an increasingly virtuous cycle brought about the self-reinforcing interplay of its micro and macro drivers that now stands a real chance of being augmented by proactive government policy and reforms. The new government needs to seize this moment – moving aggressively on four fronts: public sector deficit reduction, infrastructure support, privatisation, and deregulation of pension funds, retail, and banking."

3. SEVEN DEADLY SINS OF INVESTING

We are vulnerable to seven deadly sins in the world of investing: envy, vanity, lust, greed, anger, and fear.

Envy Irrespective of how good an investor you are, someone is always better than you. If you try to imitate him blindly out of envy it is likely that you will not do well. He may have done well by doing something at the 'right time,' you may do poorly by doing the same thing at the 'wrong time.'

Vanity Investors suffer from vanity or pride. They believe that they know everything and they refuse to learn from others. Vain investors also are unable to sell a loser.

Lust When you fall head over heels in love with a stock or a trading pattern, you are driven by lust. You become a slave to your emotions and ignore the voice of reason.

Greed Ambition is a positive trait that prods people to set the bar high, but greed goads people to move the bar higher and higher till it becomes unattainable. Instead of booking profits, when prices rise, many investors, influenced by greed, hope to sell at even higher prices. Their hopes are often dashed because of subsequent price fall.

Anger Just as lust can warp your investment thinking, anger can distort your investment decisions. If you are driven by anger and hate toward an investment that did not work out for you, you may prematurely dump it.

Sloth If you go by tips without bothering to look for relevant information, you are a victim of sloth. Another form of sloth is failure to periodically review your investments.

Fear Just as investors become irrationally greedy during a period of market buoyancy, they become unreasonably fearful during a period of market

decline. Driven by fear investors tend to eschew good long term investment propositions.

4. COMPASSIONATE CAPITALISM

The wealth created by business firms benefits the society at large as the beneficiaries of wealth creation contribute to societal causes. Here are some conspicuous examples :

- J.N. Tata the founder of the Tata group, and the most outstanding Indian entrepreneur of the 19th century, donated 50 percent of his wealth for establishing an institute of science, which was initially called Tata Institute of Science and later rechristened as the Indian Institute of Science when it was taken over by the Government of India.
- John D. Rockfeller (1839-1937), the founder of Standard Oil, used economies of scale and vertical integration to modernise the oil industry. In 1896, he stepped back from business to devote himself to philanthrophy, endowing the University of Chicago and the Rockfeller Foundation.
- Andrew Carnegie (1835-1919) built a steel empire adopting Bessemer process and other techniques to increase efficiency. He sold his steel business to J.P. Morgan for $480 million at the start of the 20th century and devoted his life and wealth to endowing institutions that would let other poor sons of weavers better themselves. His "Gospel of Wealth" served as a model for future entrepreneurs – turned philantrophists like Bill Gates.
- Bill Gates, the software Czar, has pledged a substantial portion of his wealth to Melinda Gates and Bill Gates Foundation which is engaged in improving health care, nutrition, and education of poor children around the world.
- Warren Buffett has pledged 99 percent of his wealth to charitable activities, the bulk of it to Melinda Gates and Bill Gates Foundation. Warren Buffett and Bill Gates have been persuading billionaires to contribute at least 50 percent of their wealth to philanthrophic and charitable philanthrophic and charitable activities. Nearly 60 billionaires in the U.S. have already done so.
- Azim Premji has contributed Rs. 9000 crores to a foundation which is focused on improving the quality of education in India.
- The 2010 Economic Times corporate excellence awards had, for the first time, a separate category for Business Philanthrophy and the winners were Azim Premji and Shiv Nadar. They have set a worthy example to be emulated by other Indian dollar billionaires (which numbered 68 at the end of 2010).

SECTION C: WIT AND WISDOM[2]

Humour

- Gary Cooper was a very taciturn person. A newspaper reported once interviewed him. He asked him a series of questions and for each question Gary Cooper's reply was "Yup." Annoyed at hearing "Yup," "Yup," and "Yup," the newspaper reporter asked, "Mr Cooper, is there any other word in your dictionary, other than a "Yup"?" Gary Cooper said "Nope"

- Bob Hope the renowed comedian once interviewed Beatrice Lillee a famous actress of his times and asked "What is your age?" Beatrice replied "I am approaching 30." Bob Hope said "From which direction?"

Wise Saws

- Words like glasses, blur everything that they do not make clearer
  J . Joubert
- The larger the island of knowledge, the longer the shoreline of wonder.
  R. Sockman
- Silence along with modesty, is a great aid to conversation.
  Montaigne

Perspective

Marx, Freud and Einstein, who continued the Copernican, Kantian and Darwinian revolutions, relativized our conceptions of the world. Marx, reversing Hegel's dictum, asserted that man's (economic) existence determines his consciousness and not his consciousness his existence and this made man's view of his world relative to his socio-economic status. More broadly Freud asserted that man's view of the relation to his world are dependent upon (relative to) his impulses and are not simply imprinted on him by his experience. Most broadly, Einstein asserted that observation is relative to the observer's position. If it should turn out that the commonality of the three theories is as real as it seems and is rooted in the **zeit geist**, then we would have before us a background factor which though subtle and nonspecific might prove the most pervasive and powerful of all.

[2] Contributed by Dr. Prasanna Chandra

SECTION D : QUIZ[3]

Block the answers and test yourself.

1 What is the popular name for UIDAI's project?
2 Which insurance sector recently became portable in India?
3 Which is the first cooperative bank to receive RBI approval for pan-India operation?
4 In India, what is the present cap (in dollar equivalent) for ECBs in Yuan?
5 What is the threshold income limit per day for an urban Indian to be considered below the poverty line?
6 Which popular export promotion scheme has now been replaced by a transitional scheme in India?
7 Name the city adjoining which Honda Motorcycles and Scooters India, intends to set up its next two wheeler plant in India?
8 Madame Christine Lagarde is the present chief of which organisation?
9 Which country proposes to ring-fence its banking businesses from their riskier investment banking arms?
10 Which bank recently lost more than $ 2billion due to rogue trading?

Answers: (1) Aadhaar (2) Health (3) Saraswat Bank (4) 1 billion (5) Rs.32
(6) DEPB (7) Bangalore (8) IMF (9) U.K. (10) UBS

[3] Contributed by Venugopal Unni