Biyani's Think Tank

Concept based notes

International Business

(BBA Part-III)

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Preface

I am glad to present this book, especially designed to serve the needs of the students. The book has been written keeping in mind the general weakness in understanding the fundamental concepts of the topics. The book is self-explanatory and adopts the "Teach Yourself" style. It is based on question-answer pattern. The language of book is quite easy and understandable based on scientific approach.

Any further improvement in the contents of the book by making corrections, omission and inclusion is keen to be achieved based on suggestions from the readers for which the author shall be obliged.

I acknowledge special thanks to Mr. Rajeev Biyani, *Chairman* & Dr. Sanjay Biyani, *Director* (*Acad.*) Biyani Group of Colleges, who are the backbones and main concept provider and also have been constant source of motivation throughout this Endeavour. They played an active role in coordinating the various stages of this Endeavour and spearheaded the publishing work.

I look forward to receiving valuable suggestions from professors of various educational institutions, other faculty members and students for improvement of the quality of the book. The reader may feel free to send in their comments and suggestions to the under mentioned address.

Author

Syllabus

1. International Business :

Introduction – Meaning of I.B., Domestic V/S L.B., Scope of I.B., Role of I.B. Driving forces of I.B. Forces restricting I.B. why to study I.B.?

2. Cultural Environment :

Definition of culture components of culture, (language, religion, values attitudes, customs & maunss, Education. Family, Material culture Aesthetics.)

Imperatives of culture for I.B.- Work place and Market place, Misconceptions about culture.

3. The Global Economic Environment :

The Global Economy. Bases of Eco. Wealth-Population, Natural Environment Technological Resources. Eco. System-Market Allocation, Command Allocation, Mixed Allocation. Indicators of Eco. Wealth-National Product, Balance of payment, Exchange rate, Foreign Investment.

4. Political Environment

Importance of political Environment for I.B. The Political Systems: Democracy-Basic Principles, Authoritaristism-Theocracy, Monarchy, Dictatorship, Major Political objective-Political Sovereignty, National Prestige and Property. National Security, Protection of Cultural Identity.

5. Legal Environment : Legal Systems – Code v/s Common law. Islamic Law. Socialist Law. Agreements and Conventions. Bilateral Multilateral, Global. Laws relating to I.B. Market Entry Laws, Product (Intellectual Property Laws. Warranties & Product Liabilities, Pricing & distribution, Channels of distribution, Promotion, Sales of Good and Services, Others-Tax laws, Legal issues in I.B- Conflict of laws, Jurisdiction, corruption.

6. International Trade Environment : World Trading Patterns, Reasons Countries trade-Trade Theories, Mercantilism, Absolute Advantage, Comparative Advantage, Barriers to World Trade-Fiscal and Financial, Quantitative, Qualitative, Administrative, WTO, Regional Integration.

7. International Financial Environment Foreign Direct Investment – Reasons, Volume and directions, Foreign Exchange Transactions and Terminology.

8. International Trade Practices and Documentation A case study of India.

9. International Business Organisation Types of I.B. organization, Conflict between Headquarters and subsidiaries, new trends of global organisation.

INDEX

CHAPTER- 1

International Business

Q.1. What is International Business?

Ans. IB means carrying of business activities beyond national boundaries. It is an extension of domestic business, which includes the transactions of economic resources such as goods, capital and services comprising of technology, skilled labour, transportation etc. It includes not only international trade of goods and services, but also foreign investment.

Q.2. Why to study IB?

Ans. IB has gained wide popularity, because of the growing rate of multinational enterprises. During the last-three decades, the field of modern International business began to develop. Today, it has become a separate field of study in the management courses. The Reasons to study IB are –

(i) Almost all of the large enterprises in developed countries are international in character.

(ii) Due to economic liberalisation and globalisation, immense international Business opportunities have been created.

(iii) The manager needs to have knowledge about IB for managing complexities and understanding the various facets of carrying IB.

(iv) Public policy issues are very often related to international trade, investment and finance.

(v) No country, today, can neglect the foreign trade sector, when drawing up its economic policies.

(vi) Perfect and prior knowledge of IB, keeps the young minds prepared to accept jobs in MNCs.

(vii) Competitive environment are typically industry specific and industries today are very often competitive internationally.

Q.3. Compare and Contrast Domestic Business & IB.

Ans. Similarities between Domestic Business and IB –

IB is an extension of Domestic business. Today, all types of business enterprises are inspired to carry on business across the globe. Both IB & DB are similar in some ways. Such as –

(1) Business whether domestic or international, involves buying and selling of goods and services.

(2) Profit is the main objective of every business, whether domestic or international.

(3) Both in domestic as well as IB success depends upon satisfying the customers.

(4) Building goodwill is another common objective of both the business.

(5) Research and development for product improvement and adaption is necessary in both businesses.

(6) Business concepts, processes and principles are universally applicable, and the marketer's task is same in both.

Difference between DB and IB –

S. no	**DB**	**IB**
1	Business rules are standardized and matured	Business rules are highly diverse and unclear
2	One language and culture	Many languages and differences in culture
3	Uniform financial climate	Varied financial climate
4	Patriotism helps	Patriotism hinders.

5	Single currency and taxation system	Multiple currencies and taxation system
6	Descriptive approach to study.	Integrative approach to study
7	Product planning and development according to domestic markets	Product planning and development according to foreign markets
8	Relatively stable marketing environment.	Multiple & unstable marketing
9	Control of business activities is easy	Control of business activities is difficult.
10	. It is carried within the nation's boundaries	It is carried across the nation's boundaries

Q.4. Enumerate the driving forces of International Business

Ans. IB is not a new phenomenon, trade across the globe is as old as business itself. Today, every nation and an increasing number of companies buy and sell goods in the international market place. A number of developments around the world have helped to fuel this activity. Some of the major forces driving IB are –

(1) LPG Movement – The World wide movement towards lateralization, privatization and globalization is one important force that drives global integration.

(2) MNCs – With the advent of MNCs culture, new opportunities have been accelerated for going global and taking the whole world as one big platform.

(3) Technology – Technology is a universal factor that crosses national and cultural boundaries. It is truly stateless and has been a powerful driving force for IB.

(4) World Economic trends – WET have been a major driving force for IB. Fast growth of developing economics has created new marketing opportunities and has helped major companies to expand globally.

(5) Regional Economic Integration – Economic integration schemes acts as an important driving force of IB, as it encourages free trade between the participating countries.

(6) Transportation and Communication Improvements – Revolution in the field of transportation and communication has been the major driving force of IB. The revolution has reduced both the time and cost barriers, making global business easier.

(7) Product development Costs – Certain industries like IT & pharmaceuticals, requires high investments, such investments can be recovered by placing the product in varied markets.

(8) Competition – This becomes a driving force for IB, as the pressure of foreign competition persuades a company to expand its business into international markets.

These are therefore, the important driving forces of IB.

Q.5. Highlight the forces restricting International Business

Ans. There are several forces that restricts international business crossing the borders of the nation is not an easy task, as one has to face many barriers on various fronts. Some of the restricting forces of IB are –

(1) Management Myopia – Successful global business depends on the farsightedness of the people at the top management level, if they ignore the global market opportunities, the firms cannot expand geographically.

(2) National Controls – Every country protects local enterprises by controlling market access and entry in both low and high tech, industries. They levy trade barriers, which affects global integration.

(3) High Investment required – A very High amount of capital is required to for a firm be a player in the global market, which is not possible for every business enterprise, thus, it obstructs them.

(5) Trade Blocs – Many trade blocs such as NAFTA, ASEAN are formed

under the economic integration schemes, that allows free trade among certain countries and restricts others.

(6) Exchange Instability – Instability in the exchange rate of domestic currencies in terms of foreign currencies, restricts the growth of IB.

(7) Technological Piracy – Copying the original technology and producing similar products, is a practice which alarms the foreign firms to enter into some countries.

Q.6. Enumerate the scope of International business.

Ans. International business is a wide concept and it encompasses varied activities that makes its scope even wider. With the advent of the LPG Movement, the global Market place has shrinked and became one platform for conducting market activities. Thus, capsulating a wide range of operations and activities under its scope:-

(1) Exports and Imports – These are the main activities which are carried by firms in IB.

Exports are goods and services produced in one country but marketed in another country. It can be as :

(a) Export Trade – In it, domestic marketing companies or firm sell or export their products to other countries.

(b) Re-export trade – In it, raw materials or semi-finished goods are imported by marketing company from other countries and are converted in finished goods. Then, the finished goods are exported to other countries.

Imports are goods and services produced in one country but bought by another country. It can be also as :

(a) Import trade – In this goods are imported from various countries by international marketing and are sold in the home country. Such activity is done due to non-availability of goods in sufficient quality or because of lower comparative cost.

Exports & Imports do not take place only in tangible goods, but also includes services as those provided by international airlines, emise lines,

hotels etc.

(2) Foreign Direct Investment – FDI is equity fund invested in other nations. The FDI is undertaken by multinational enterprises who exercises control of their foreign affliates like exports and imports. It is used by the firms to establish foothold in the world market place. It may be in the form of :

(a) Joint Venture – A joint venture is defined as a commercial collaboration between two or more unrelated parties whereby they pool, exchange or integrate certain of their respective resources. They are usually formed to undertake a specific project that has to be completed within a set period.

Acc. To '**Terpstra**' – "A joint venture is a foreign operation in which the international company has enough equity to have a voice in management but not enough to completely dominate or control the venture."

(b) Wholly-owned subsidiary – This is done when a firm sees its long-term substantial interest in the foreign market. A wholly owned subsidiary can be set up in a foreign market in two ways : The company can set up a totally new operations or can acquire an established firm and use the firm to promote its product.

Acc. to '**Peter Drucker'** – "It is simply not possible to maintain substantial market standing in an important area unless one has a physical presence as a producer."

(3) Licensing/Franchising – Acc. to '**Root'**- "Licensing can be defined as a contractual arrangement whereby one company (Licensor) makes an asset available to another company. (Licensee) in exchange for royalties, License fees or some other form of compensation."

Franchising is a form of licensing. It is the practice whereby a company permits its name, logo, cultural design and operations to be used in a new firm or store.

These are the means of establishing a foothold in foreign markets.

(4) Management Contracting – A management contract is an arrangement under which operational control of an enterprise, which would otherwise be exercised by the directors or managers appointed, is vested by contract

in a separate enterprise which performs the necessary managerial functions for a fee. In other words, it is a contract between two companies, whereby one company provides managerial and technical expertise to the second company of the agreement for a certain agreed period in return for monetary compensation. It allows the firm to benefit directly from the sale of their knowledge and expertise and also provides opportunities for earning revenues in related activities.

(5) Turnkey Contracts – Turnkey contracts are those contracts under which a firm agrees to fully design, construct and equip a manufacturing service facility and turn the profit over to the purchase. When it is ready for operation for a remuneration. These are common in IB in the supply of erection and commissioning of plants, construction projects and franchising agreements.

(6) Counter trade – Counter trade is a form of international trade in which certain export and import transactions are directly linked with each other and in which imports of goods are paid for by export of goods.

This is used as a strategy to increase exports. A counter trade may take a variety of forms such as barter arrangement, compensation arrangement, buy-back arrangement and counter-purchase arrangement.

Acc. to '**Patrick**' – "Counter trade involves agreement between two parties to pay in goods and services."

CHAPTER – 2

CULTURAL ENVIRONMENT

Q.1. Define Culture?

Ans. Acc. to '**Hoebal**' – "Culture is the integrated sum total of learned behavioural traits that are shared by members of a society."

Q.2. Why to study cultural Environment?

Ans. Due to globalisation and growing role of multinational enterprises, it has become essential for managers to acquire a knowledge of diverse cultural environments in order to achieve successful international business.

'Keegan' has summarised the importance of studying cultural environment for a International Marketer.

Acc. to him – "The task of the global marketers is two fold. Marketers must be prepared to recognize and understand the differences between cultures and then incorporate this understanding into the marketing planning process so that appropriate strategies and marketing programmes are adopted."

Thus (1) to formulate the marketing Strategies, (2) to understand the behaviour of the prospective customers in the foreign land.

(3) To cope up with cultural heterogeneity across different international market.

Encompassing many elements. The elements interact in a complex manner to determine the totality of a given culture. The elements of a culture provides the basis of comparison between cultures and are used to assess the likely impact of culture, cultural changes on IB.

(4) To identify and explore the opportunity in the foreign market based on cultural perspective.

(5) To harmonize the production and services with the target market.

- Cultural environment study becomes necessary.

Q.3. Explain the various components of Culture.

Ans. Culture is a complex and multifaceted concept, becomes easier to hire and train literate people.

The social institution of education affects literacy, which in turn affects marketing promotion. It is much easier to communicate with a literate market than to the one in which more of symbols and pictures are used countries rich in educational facilities attract high-wage industries and also it. It encompasses the following elements:

(1) Material Culture – It includes the tools of the artifacts in a society excluding those physical things found in nature unless they undergo some technological procedure.

It can be divided into 2 parts –

(a) Technology (b) Economics

(a) Technology includes the techniques used in the creation of material goods. It is the technical know-how possessed by the people of a society.

(b) Economics is the manner in which people employ their capabilities and the resulting benefits. It includes production of goods and services, their distribution, consumption, income derived from the creation of utilities and means of exchange.

International marketers needs to know the material culture of a foreign land for making production and operational decisions. 'Cateora' opines that material culture affects the level of demand, the quality and types of product demanded and their functional features, as well as the means of production of these goods and their distribution. Thus, the knowledge of material culture helps the international marketer to understand the opportunities available in the foreign country.

(2) Social Institutions – Social Institutions refers to the way people relate to other people. It includes family, education, political structures, social organisations, where people organize their activities in order to live in harmony with one another. These institutions teaches acceptable behaviour to live in a societal set-up. Each institution has an effect upon marketing because each influences behaviour values and the pattern of life.

In cultures where the social organizations result in close – knit family units, it is more effective to aim a promotional campaign at a family unit then at an individual farm by member.

(3) Man and the Universe – This includes religion, superstitions and their related power structures. Religion is the most sensitive element of a culture. It affects lifestyles, beliefs, attitudes, social customs etc. Acceptance of certain types of food, clothing and behaviour are frequently affected by religion and such acceptance can extent to the acceptance or rejection of promotional messages. An International Marketer cannot afford to ignore the importance of myths, beliefs, superstition etc because they are an integral part of the cultural fabric of a society and influences all manners of behaviour.

(4) Asthetics – Closely interwoven with the effect of people and the Universe are the cultural asthetics i.e. artistic tastes of a culture, as expressed in arts, music, drama, dance etc. The asthetics are of interest to the International marketer because of their role in interpreting the symbolic meanings of the various methods of artistic expressions, colour and standards of beauty in a particular culture. Without the culturally correct interpretation of the society's asthetic value, product styling is seldom successful. Insensitivity to the asthetic value, not only leads to ineffective advertising, but it can also leads to offending the proposed customer or creating a negative impression. Thus, we need to understand the asthetic value in the international arena.

(5) Language – Language is the foundation of any culture. It includes speech, written characters, numerals, symbols and gestures of non-verbal communication. It is an obvious cultural difference that is essential to be learned for the success of any international business practice. It helps to determine success in the following ways –

(a) It provides a clearer understanding of a given situation.

(b) It establishes the most effective and flaltering bridges to local people.

Speaking the local language helps the international manager to have a direct access to the hosts willingness to communicate openly in their own language.

(c) Language, properly and effectively learned, provides one of the most practical means of understanding another culture.

(d) An understanding of the local language allows the person to pick up nuances, clinches, implied meanings and other information that is not stated ontight.

(e) It builds confidence and earn the respect and admiration of the local people, thereby making managers more effective.

Thus, there is a strong interrelationship between culture and language.

(6) Customs and Manners – Customs are common or established practices. It dictates how things are to be done and what society collectively expects its members to do.

Manners are behaviours that are regarded as appropriate in a particular society. These are the pointers of an individual's character and are used in carrying the things as dictated by customs.

Customs and manners differ from country to country. Table manners, business etignettes, bodily expressions all large from region to region. Observing manners and respecting customs are essential ingredients of successful negotiations in far and near Eastern cultures.

The international manager should understand the manners and customs of host country citizens. Failure to understand and respect local customs and manners may land the manager in trouble, besides losing business.

Q.4. Explain the imperatives of culture on International Business.

Ans. There are number of compulsory or forceful factors of culture that effects international business. Altitudes and values affect business behaviour, from what products to sale to how to organise, manage and control operations. Thus, it becomes necessary to know and analyse these factors.

(1) Social Stratification System – In every culture values of some people are higher than others and this indicates a person class or status within that culture. In business terms, this might mean valuing members of managerial groups more highly then members of production groups. However, what determines the ranking or social stratification system varies substantially from country to country. A person's ranking is partly determined by individual factor and partly by the person's affliations or memberships in the given groups.

(2) Motivation – It has been observed that employees who are motivated to work hard and for long, prones to be more productive as compared to non-motivated employees. On an aggregate basis this influences the economic development of a country. International Organisations are more interested in the economic development of a country as market for their product increases as economy grow.

They are also interested for this motivational factor as higher productivity yields to minimisation of production cost & optimisation of the available resources. This increases the profits, which is the ultimate objective of every business activity.

(3) Relationship Preference – There are a number of factors that affects business practices within the social stratification. No single group can be a weak or a strong pressure group within a social set up. There are national differences in norms that influence management styles and marketing behaviour. It becomes necessary for the international manager to understand the complexities of different cultural values and offer useful tips to manage multicultures. One important point of study is the employees preferences as far as their conduct with their bosses, subordinates and superiors is concerned.

Power distance focuses on how a society deals with inequalities in the intellectual and physical capabilities of people.

High distance power cultures are found in societies that has inequalities of power and wealth. In such countries, an autocratic style of management is preferred.

Low power distance cultures are found in societies where such inequalities are lowered as far as possible. A Consultive style of leadership style is preferred in such societies.

Attributes of individualism and collectivism are required in each organisation depending on the need and the societal norms.

Individualism exists where people are valued in terms of their own achievements, status etc. Collectivist Societies view people as a group.

Uncertainty avoidance relates to norms, values and beliefs with regard to the tolerance for ambiguity. Higher & lower uncertainty avoidance shows the readiness to take risks and accept change.

On the other hand, countries with high Masculinity Scores place a great deal of importance on earnings, recognition, advancement and challenge; While low masculity scores place great emphasis on a friendly work environment, corporation and employment.

(4) Risk Taking Behaviour – Nationalities differs in how people are happy to accept things, the way they are & low they feel about controlling their destinies. A culture exhibiting uncertainty avoidance on the higher note, forbids the international marketer to launch in that particular society. On the other hand, a belief in falatism, that every event is inevitable, may prevent people from accepting the basic cause and effect relationship. The effect on business in countries with a high degree of fatalism is that people plan less for uncertainties.

Trust is one force that acts as a prime factor for considering the International business activities. In societies where trust is high, there tends to be better opportunities for growing business.

(5) Information and task processing – The most important factor that becomes imperative for IB is the processing of the information collected and using it aptly on the conduct of various activities. All the countries on the globe, reflects varied cultures, thus it becomes crucial to understand and interpret the cultures rightly, as any kind of misinterpretation will land the international marketer on the wrong perceptions, thus affecting the overall strategy.

Thus, all the above factors becomes imperative for international business conduct.

Q.5. Describe the different levels of culture in Multinational Management.

Ans. The international manager needs to be aware of the three levels of culture that influences overseas operations:

(1) National Culture – It is the dominant culture within the political boundaries of a country. Political bound do not necessarily reflect cultural boundaries. Formal education is given and business is generally conducted in the language of the dominant culture. Most International businesses take place within the constraints of political boundaries of the nation-state. The dominant culture of the nation-state has the greatest impact on international business.

(2) Business Culture – For an international manager, the way the others (Germans, Indians, Koreans, Japan etc.) do business is more important. Business culture guides for everyday business interactions. It tells people the correct, acceptable ways to conduct business in a society. Business etiquettes are taught in business culture, as what to wear to a meeting, when and how to use business cards, whether to shake hands or embrace etc. Thus, the conduct of business eliquettes in other country is focussed.

(3) Occupational and Organisational Culture – It has been observed that organisation- specific and occupation-specific cultures develops within the rational and business culture.

Organisational culture refers to the philosophies, ideologies, values, assumptions, beliefs, norms etc that knit an organisation together and are shared by its employees.

Organisational cultures leads to institutionalisation, glorification or deification. The employees feel a strong bond with the company and they began to identify with it. This in turn makes the organisation clannish and the members becomes ethnocentric, clannish organisations often pose problems to international managers, as a clan culture leads to the collapse of several joint ventures between Indian companies and overseas firm such as Tatas and IBM, DCM with Toyota etc.

The occupational culture cannot be ignored by the international manager. Different occupational groups such as physicians, professors, lawyers etc. have different culture, called occupational cultures. The norms, beliefs and expected ways of behaving of people in the same occupational groups, regardless of which organisation they work for comprises the occupational culture.

This becomes quintessence for the international manager to know thelevels of culture, before studying the cultural environment of a country.

Q.6. Analyse the implications of culture for International business.

Ans. Multiculture has important implications for IB. Following are the implications –

(1) Spreading cross-cultural literacy - The biggest danger that a firms confronts when entering a foreign market for the first time is the problem of being ill-informed. Any failure to understand the host country culture leads to the collapse of International business. Doing business in different cultures requires adaptation to conforms with the nuances of that culture. An international manager is required to fit in the local customs and mannerisms, instead of expecting changes in the local culture to suit its needs and expectations.

One way is to appoint local citizens to do business in a particular culture, with enough understanding as how differences in culture affects international business.

Second way, can be guarding against the ethnocentric behaviour. The ethnocentric person sees his group as the defining point of culture and views all others as deviations from what is normal. Hand-in-hand with ethnocentrism goes a disregard for the culture of other countries. Hence, continual guard is must.

Thirdly, the international manages must learn the characteristics of the other cultures, so that they can adapt them and can realise that there are cultures different from their own.

(2) Culture and Competitive advantage – Culture may sound abstract but the norms and values prevalent in a society do influence the costs of doing business in that country. These costs influences the ability of enterprises to establish a competitive advantage in the global market place.

For international business, the connection between culture and competitive advantage is important because: (1) the conjunction suggests which countries are likely to produce the most viable competitors. (2) The Relationship between culture and competitive advantage has important implications for the choice of countries in which to locate production facilities and do business. A country having strong cultural support attracts vast inflow of FDI.

(3) Compatibility between culture and strategy – An international business is successful, when there is a fit between culture and strategy. The balance between culture and strategy is quite difficult because an MNC operates in different parts of the globe, and each country on the globe shows different culture. But fortunately certain similarities do exist, thereby reducing the needs to customise business practices to meet the demand of local cultures.

Many international business utilise the country-chestering approach in formulating their international strategies. Firms also use either world wide integration strategy or national responsive strategy. In the world wide integration strategy, standarised products are developed and are sold throughout the world with few alterations whereas, a national responsive strategy allow subsidiaries to enjoy substantial latitude in adopting products and services to suit the particular needs and cultural realities of the countries in which they operate.

(4) Managing Diversity – Managing diversity is a challenge for an international manager, as it means establishing a heterogeneous work force to perform to its potential in an equitable work environment. It is a challengers, as no member has an advantage or disadvantage and each person can perform to his full potential, competing for promotions and other rewards. Success in the international arena is determined by an MNCs ability to manage diversity. This can be done through:

- Focus on bringing in the best talent.

- Hold managers accountable for meeting goals of diversity.

- Establish monitoring programmes among employees of same and different races.

- Develop career plans for employees as part of performance reviews.

- Diversify the company's board of directors.

Thus, all these factors are incapsulated in international business.

Q.7. What do you understand by 'protection of cultural identity'?

Ans. Cultural identify envelopes all the traits, qualities, beliefs, values, learnings etc. which makes one culture, different from the other culture. This identity needs protection i.e. the foreign countries that enter another country needs to respect the home country culture and should mould itself as per the culture of that country. Instead of expecting the local citizens to change as per their needs of aspirations. This is called the 'protection of cultural identity.'

CHAPTER – 3

THE GLOBAL ECONOMIC ENVIRONMENT

Q.1. What do you understand by global economy?

Ans. Global economy refers to an integrated world economy with unrestricted and free movement of goods, services and labour transnationally. It is characterized as a world economy with an unified market for all goods produced across the world. It thus gives domestic producers an opportunity to expand and raise capacity according to global demand.

Q.2. Explain the different economic systems.

Ans. An international manager has to be aware of the economic systems that prevail in a country, before venturing into a nation. The economics systems are a means of understanding of the economic environment of any country. The economic systems are of three types, which serves to explain, whether the business are privately owned, government owned or there is a combination of private a government ownership.

The three economic system are –

(1) Market Economy or Allocation – In market economy, also called capitalism, all production functions are privately owned. Consumers are sovereign and they decide what the producers should produce and supply. Prices of the products are determined by the forces of demand and supply.

The system of capitalism stresses the philosophy of individualism believing in private ownership of all agents of production, in private sharing of distribution processes that determine the functional rewards of each participant, and in the individual expression of consumer choice through a free market place. Ex-United States, Japan.

(2) Command Economy or Allocation – In a command economy also called socialism, planning is a must. Decisions relating to all the economic activities – What to produce, how to price- are determined by the Central government. In a pure command economy the tools of production are organised, managed owned by the governments, with the benefits acuring to the public. The objective of command economy, consistent with collective ideology, is for government to own and run business for the good of society.

Consumer soverignity does not exist in command economy as the consumption pattern is dictated by the state, as the government considers itself a letter judge of resource allocation then the citizens.

Ex – Hungry, Poland.

(3) Mixed Economy or allocation – Mixed economy falls between a market economy and a command economy.

As 'Keegan' opines – 'There are no pure market or command allocation systems among the world economies. All are mixed in nature.'

Largely followed in India, Sweden, Italy, France, mixed economies have both the private sector along with the government ownership. The economic set-up under this philosophy is split into three parts –

- Sectors in which both production and distribution are entirely managed and controlled by the State to the complete exclusion of private enterprise.

- Sectors in which state and private enterprise jointly participate in production as well as distribution.

- Sectors in which the private enterprise has complete access, subject only to the general control and regulation of the state.

Q.3. **Enumerate the various indicators of economic wealth –**

(A) National Product

(B) Balance of Payment

(C) Exchange Rate

(D) Foreign Investment

NOTE : Plz include A), B), C) & D) in **Ans. 3**

Ans. The study of economic environment, demands a deep analyses of the different economic forces, economic variables, economic indicators. The indicators of economic wealth depicts the sound health of a nation in terms of the economy. The major indicators of economic wealth are –

(A) National Product – Acc to '**Prof. Kugnel**'- "The total of the goods and services produced by the regular residents of a country in 1 year is known as the national product or the national income."

Per capita income is the average national income of the residents of a country. A widely used method of classification of the economics is on the basis of per capita income or Gross National Income (GNI) per capita, recommended by the World Bank. These economies are classified as low-income (LIC), lower middle income (LMC), upper middle income (UMC), high income OECD (Organisation for Economic Cooperation & Development) and other high-income countries.

LIC, LMC and UMC countries are called developing countries and rest are developed nations.

(B) Balance of Payment – Balance of Payment is a statistical statement that systematically summarizes for a specific time period, the economic transactions of an economy with the rest of the world.

Acc. to **'Caliora and Graham'** – "A Nation's BOP represents an overall view of its international economic position is an important economic measure used by treasuries, central banks and other governmental agencies whose responsibility is to maintain external and internal economic stability."

The IMF describes the concept of BOP as –

(a) Transactions in goods and services and income between an economy and the rest of the world.

(b) Changes of ownership and other changes in that country's monetary gold, special drawing lights (SDR's) and claims on and liabilities to the rest of the world.

(c) Unrequired transfer and counter enteries that are needed to balance, in the accounting sense, any entries for the foregoing transactions and changes which are not mutually offsetting.

Q.4. Explain the components of Balance of Payments.

Ans. Components of BOP : The international transactions that fall under BOP are recorded under current account and capital account. The current account is a record of all of the recurring trade in merchandise and service, private gifts inflows are recorded as credits and outflows are recorded as debts. Credits indicate a sign of surplus and debits have a minus sign. Thus, B.O.P. dates are kept according to accounting principles i.e. efforts are made to name a credit for every debit and public aid transactions between countries. The capital account is a record of all long term direct investments, portfolio investments and other short and long term capital flows.

A country accumulates reserves when the net of its current and capital account transactions shows a surplus and giving of reserves shows deficit. Balance of payments figures indicates the economic health of a nation, its position as an international lender or borrower and its economic relationship with the rest of the world. It is an accounting statement prepared on double entry book-keeping system. All currency.

Q.5. What do you understand by Equilibrium and Disequilibrium in B.O.P.

Ans. Equilibrium in Balance of Payments : The balance of payment of a country is said to be in equilibrium. When the demand for foreign exchange is equivalent to supply.

Disequilibrium in Balance of Payment

Balance of payment is regarded as in disequilibrium when it shows either a surplus or a deficit. There is deficit in the B.O.P. when the demand for foreign exchange exceeds its Supply and there is surplus when supply of foreign exchange exceeds the demand.

Q.6. What are the reasons for disequilibrium in B.O.P.

Ans. Reasons for disequilibrium in B.O.P.

(1) Trade cycles

(2) Huge development and Investment programmes.

(3) Changing export demand.

(4) Population growth

(5) Huge external borrowings

(6) Inflation

(7) Demonstration effect

(8) Rectroprocal demands

(c) Exchange Rate: The rate at which currencies of two nations are exchanged is called the rate of exchange. In other words, the rate of exchange is the value or price of a country's currency expressed in terms of a foreign currency.

An exchange rate represents the number of units of one currency needed to acquire 1 unit of another country. Ex-1 Euro = Rs. 63.

The exchange rate may fluctuate according to the prevailing market conditions. The extent of demand and supply of a country's currency in the foreign exchange market depends on its balance of payment position.

When there is a surplus in the B.O.P. demand exceeds supply and causes a rise in the external value of the currency, whereas a deficit in the B.O.P., causes a fall in the external value, as supply of the currency exceeds its demand.

'Onkvisit and Shaw' opines – "The exchange rate is more than just price of a currency. It affects the costs of imported goods and exported goods, the country's rate of inflation and a firm's profit, input and employment."

Q.7. What are Exchange Control and why are they done?

Ans. **Exchange Controls:** Restrictions on the use of the foreign exchange by the central bank are called exchange controls. When it is adopted, all the exporters are required to surrender their foreign exchange earnings to the central bank. This is done to curb imports.

Exchange control are done with the objectives of:

(a) correcting the adverse balance of payments.

(b) over valuing the exchange rate.

(c) restricting the flight of capital.

(d) Maintaining fixed and stable exchange rate.

(e) Producing the scare foreign exchange resources and allocating them rationally.

(f) redirecting foreign trade in bilateral forms.

(g) consuming foreign exchange for debt servicing.

Q.8. What is foreign Exchange Market?

Ans. **Foreign Exchange Market :** The foreign exchange market is the place where money denominated in one currency is bought and sold with money denominated in another currency. For instance, if US firm import goods from a British company, US dollar needs to be converted into sterling. This conversion from one currency into another is typical of the transactions that take place in the foreign exchange market.

Q.9. What are the main functions of foreign Exchange Market.

Ans. Functions of foreign exchange market –

A well developed foreign exchange market is of vital importance to IB as it discharges three important functions:

(a) Facilitates conversion of currencies.

(b) Provides credit for international transactions.

(c) Minimises exposure to the risks of exchange rate fluctuations.

Q.10. Differentiate between balance of trade and balance of payment.

Ans. Balance of trade includes only those transactions arising ant of the exports and imports of only the visible items. It does not take into account exchange of invisible items such as service rendered by shipping, insurance, banking, payment of interest etc.

While balance of payments take into account the exchange of both visible and invisible items (the current account item and capital account includes unilateral payments account and official reserve account.

Q.11. What is cross rate of exchange?

Ans. Sometimes, the value of a currency in terms of another one is not known directly. In such cases, one currency is sold for a common currency and again the common currency is exchanged for the desired currency. This is known as cross rate leading and the rate established between the two currencies is known as cross rate of exchange.

(I) Foreign Investment : The term 'international or foreign investment' is a broader concept which capsulates 'Foreign Direct Investment' (FDI) and Portfolio Investments.

(1) FDI – It refers to the investment in a foreign country where the investor has full control over the investment. It includes any ownership of long term assets as well as certain short term assets in one country by individuals or organisations of another nation. It can be in the form of Joint Ventures, wholly-owned subsidiaries or Acquisitions.

FDI implies that the investor exerts a significant degree of influence on the management of the enterprise resident in other country. It involves both the initial transaction between the two countries and all the subsequent transactions between them. Flow of FDI comprises capital provided by a direct investor or capital received from a FDI enterprise by a Foreign direct Investor FDI are governed by long-term considerations because these investments can not be easily liquidated. Hence government policy, industrial and economic prospects, long-term political stability influences the FDI decision.

(2) Portfolio Investment – If the investor has only a sort of property investment in investing the capital, in buying entities, bonds or other securities abroad, it is referred to Portfolio Investment. PIS are more sensitive than FDIs because Portfolio investors do not have direct involvement with the management of the enterprise, as in the case with FDIs.

PIs can be in two forms –

(a) FIIs – Foreign Institutional Investments like Mutual Funds.

(b) GDRs – Global Depository Receipts.

ADRs – American Depository Receipts.

FCCBs – Foreign Currency Convertible bonds.

These are instruments issued by Indian Companies for facilitating portfolio investments by foreigners in Indian securities.

PIs are the investments, in which the funds are managed through others, as the investor uses his capital to get a return on it, without comprehending much control over the use of the capital.

CHAPTER – 4

POLITICAL ENVIRONMENT

Q.1. What relevance does political environment holds for International business?

Ans. Political environment refers to the influence of the system of government and judiciary in a nation. The system of government in a nation wields considerable impact on its business. A political system that is stable, honest, efficient and dynamic and which ensures political participation to the people and assures personal security to the citizens, is a primary factor for economic development.

Acc. to '**Doole and Lowe'** – 'The political environment of international business includes any national or international political factors that can effect the organisations operations or its decision making.'

The political environment comprises three dimensions:

(1) The host country environment.

(2) The International environment.

(3) The Home country environment.

All these dimensions has to be carefully analysed by an international marketer. The political set-up of any country influences the carrying of international business as one needs to take decision as whether to invest or not, how to develop the identified markets and how to plan the strategic formulation.

Thus, political environment is relevant to IB, as political factors play a vital role in the following areas.

(a) The nature of regulatory framework.

(b) The degree of government control over MNC activities.

(c) The relative importance of various pressure groups within a nation.

(d) The likelihood of trade embargoes i.e. prohibitions on trade with particular nation.

(e) The degree of lossess from political risks and the extent to which insurance can be taken.

(f) The tax regimes pertaining with specific countries.

Q.2. Explain the global political system.

Ans. The global political system, like the political system of a nation, consists of numerous players, each of whom has its own particularly interests, goals and aspirations. The major participants in the international political system are international organizations, like the World Bank, the International Monetary Fund, WTO and the United Nations.

In domestic politics, the authority to make and enforce decisions likes with the governments, where in international system, the decision-making authority is dispersed among many governmental, inter-governmental and non-governmental groups.

Q.4. What is a democratic form of political system?

Ans. Democracy is one of the basis form of political system. It refers to a political arrangements in which the supreme power is vested in the people. It rests on the ideology that all citizens should be equal politically and legally; should enjoy widespread freedom and should participate in political process.

A democratic form of government exhibits a system, where the public, in a democratic manner elects their representatives who do the ruling. A representative democracy rests on the assumption that if the elected representatives fail to perform adequately they will be voted down in the next election. India is the world's largest democracy.

Q.5. Write the principles of democracy?

Ans. The Principles of democracy are –

(1) Prominent rule of Law

(2) Universal right to vote

(3) Freedom of expression, speech and association.

(4) Limited term for elected officials.

(5) An accessability to political decision-making process.

(6) An independent and fair court system with high regard for individuals right and property.

Q.6. Explain totalitarianism.

Ans. Totalitarianism, also called authoritarianism, is a form of government in which individual freedom is completely subordinated to the power of the authority of state and concentrated in the hands of one person or in a small group, which is not constitutionally accountable to the people.

Nazi Germany under Adolf Hitler is example of totalitarian governments.

Q.7. Explain briefly :

(a) Theocratic totalitarianism : A political system that is under the control of religious leaders is theocratic totalitarianism. In such a system religious leaders are the political leaders and they frame and enforce laws and regulations that are based on religious beliefs.

- Afghanistan and Iran are examples of political dispensation.

(b) Monarchy : This political system is a form of authoritaritism. It is based on the ideology that king is the supreme power and the country is ruled by the royal family of the country. The residents follow the norms and code of conduct as laid by the supreme power, and he is preceded by his son or daughter.

It can be as absolute Monarchism or Constitutional monarchism, depending upon the degree of decision-making and control.

(c) Dictatorship : At times when economic depression arises and a pure democratic system is not workable in a complex society with a large constituency, there arises a need to bring change in the political set-up. This gives rise to Dictatorship, where the power is exercised by one man in an autocrat manner. It is based on the principle of obedience, which believes that people show efficiency and productivity when they are forced to follow certain rules and regulations.

Q.8. Explain Political Risks.

Ans. Corporates face political risk when they conduct business with the outside world.

Political Risks may be defined as any governmental action or politically motivated event that could adversely affect the long-term profitability or value of a firms.

Political risk affects different firms in different ways. It can threaten the market of an exporter, the production facilities of a manufacturer or the ability of a firm to repatriate its profits from a host country to home country. It can be expropriation, confiscation, domestication or nationalisation.

Q.9. What is political soverignity.

Ans. Political soverignity can be defined as supreme and independent political authority. In the control of international law, a sovereign state is independent and free from all external control, enjoys full legal equality with other states, selects its own political economy and governs its own territory. Soverignity refers to both the powers exercised by a state in relation to other countries and supreme power exercised over its own members.

Q.10. How does international business affects the national security?

Ans. All states recognize their responsibility to maintain law and order within their borders and defined their population against organized military aggression from outside. The priority that government gives to defence depends largely on perception of threat to national security. Countries sometimes argue that it is necessary to protect certain industries because they are important for national security. Thus, it becomes important to avoid foreign trade or competition in those areas or industries.

CHAPTER – 5

LEGAL ENVIRONMENT

Q.1. What is legal environment?

Ans. Among the many components of the marketers operating environment, there exists the laws which governs business activities, which comprises the legal environment.

Legal environment refers to the legal system obtaining in a country. The legal system than refers to the rules and laws that regulate behaviour of individuals and organisations. Failure to comply with the laws means that penalities will be inflicted by the courts depending on the seriousness of the offence.

Q.2. What importance legal environment holds for international business?

Ans. The legal system of a country is of immense importance to IB. A country's law regulate business practice, defines the manner in which business transactions are to be carried out and set down the rights and obligations of those involved in business deals. It takes an added importance for IB on the ground that since no single uniform international law governing business transactions exist, hence a study of legal environment helps the marketer to explore the laws of each country individually and makes him prepared to face the complex varied environments.

Certain treaties and agreements are respected by a number of countries that profoundly influence international business operations.

A treaty is a formal agreement between two or more nations in reference to peace, alliance, economies etc. Treaties can cover almost any subject of mutual concern to nations-from ending war and conflict to the elimination of nuclear weapons, to the promotion of trade and investment across national borders. Treaties may be bilateral (between two nations) or multilateral (among several nations).

A convention is a treaty on matters of common concern, usually negotiated on a regional or global basis open to adoption by nations.

Some important treaties and conventions are –

(1) Treaties of Friendship, Commerce and Navigation (FCN Treaties) – These are bilateral agreements that provide a broad range of protection to foreign nationals doing business in a host country. All the treaties are different, but typically states that each country will allow the establishment of foreign branches or subsidiary corporations, the free flow of capital and technology the equitable and non discriminatory treatment of foreign firms; the privilege of acquiring and owning real estate, and most favoured nation trading status for goods.

(2) The Treaty of Rome (1957) : This was the agreement which gave rise to European Community (EU). Six member countries (Belgium, West Germany, France, Italy, Luxembourg, Netherlands) signed this treaty to achieve the free movement of people, goods, service and capital, eradicating barriers and creating a common market.

(3) Maastricht Treaty : If the Treaty of Rome created the EU, the Maastricht Treaty carried the Union beyond what was initially thought to be possible. Members of the EU net in 1991 for a summit meeting in Yaashicht, Netherlands, to plan for more advanced stages of integration among the member nations. The result was the historic treaty that was signed in 1993. The treaty called for creation of common currency and political union.

(4) The Vienna Convention on the Law of Treaties (1980) : This convention covers issues such as the interpretation, amendment, termination and the rights and duties of countries party to a treaty which is in force. This convention has a bearing on international business because treaties affect trade between parties from countries that are signatories to various conventions.

(5) Paris Convention : The first international property treaty was the International Convention for the protection of Industrial property better known as the Paris Convention. This convention guarantees that foreign trademarks and patent applications from signatory countries receive the same treatment, priority as domestic applicants. In other words, no signatory country can give intellectual property protection to its own citizens unless it provides the same protection to the citizens of other countries. This principle of 'national treatment' – an animating principle of all intellectual property treaties- eliminated the potential discrimination against foreigners in obtaining patents.

(6) The Patent Cooperation Treaty (1970) – This treaty supplemented the Paris convention by establishing a centralised patent application process. The PCT application is filled on a standard form with the World Intellectual Organisation (WIPO), a UN agency. WIPO processes the common application and forwards it to the countries designated by the applicant. After the filing, the applicant will have upto 30 months to begin the processing the application in the countries in which it wishes to obtain protection. This allows the applicant business to lock in one application date while giving it time to raise capital on the basis of patent filing. Failing to raise capital, the applicant can work away without having spent needless seems in world wide patent processing.

Q.5. Explain the Intellectual Property Laws.

Ans. Property that results from people's intellectual talent and abilities is called intellectual property and includes designs, novels, patents, trademarks, copyrights, computer software etc. It is possible to establish ownership rights over intellectual property through patents, copyrights, & trademarks.

A patent grants the inventor of a new product or process exclusive rights of manufacture, use or sale of that invention.

Copyrights are the legal rights of authors, composers, play wrights, artistsand publishers to publish and disperse their work as they wish.

Trade Marks are designs and names, often officially registered, by which business people designate and differentiate their products.

The philosophy behind intellectual property laws is to reward the originator of an invention, book, musical record, clothes design etc, for his or her idea and effort. Such laws are a very important stimulous to innovation and creative work. They provide an incentive for people to search for novel ways of doing things and reward creativity.

CHAPTER – 6

INTERNATION TRADE ENVIRONMENT

Q.1. What are the reasons for which countries trade?

Ans. The basic reasons why trade may take place between countries are –

(1) Difference in Technology : Advantageous trade can occur between countries if the countries differ in their technological abilities to produce goods and services. Technology refers to the techniques used to turn resources into outputs.

(2) Differences in Resource Edowments : Trade can occur between countries if the countries differ in their endowments of resources. Resource endowments refers to the skills and abilities of a country's workforce the natural resources available within its borders and the sophistication of its capital stock.

(3) Differences in demand : Trade can also occur between countries if demand or preferences differ between countries. Individuals in different countries may have different preferences or demands for various products. As Chinese demand more rice than Americans and the Japanese demand more fish than Americans, even if they all faced the same prices.

(4) Existence of Economies of Scale in Production : Economics of scale refer to a production process in which production costs fall as the scale of production rises. The existence of economies of scale in production is sufficient to generate advantageous trade between two countries.

(5) Existence of Government policies : Government tax and subsidy programs can be sufficient to generate advantages in production of certain products. In these circumstances, advantageous trade may arise solely due to differences in government policies across countries.

Q.2. Explain the trade theories of Merchantiliser, Absolute Advantage, Comparative advantage.

Ans. Merchantilism : Merchantilism is the first international trade theory and it emerged in England in the mid-16th century. The main hypothesis of this theory is that gold and silver are the mainstays of national wealth and essentials to vigorous commerce. During the 17th century, gold and silver were the currency of trade between nations, a country could accumulate gold and silver by exporting more and importing less. By doing so, a country can increase its wealth and prestige. Consistent with this belief, the merchantilist doctrine advocates state intervention to achieve surplus in the balance of trade. To achieve surplus, government is expected to discourage imports by imposing tariffs and quotas and subsidiary exports.

Theory of Absolute Advantage : The theory of absolute advantage has been propounded by Adam Smith which is based on the principle of division of labour. Smith argued that countries differ in their ability to produce goods efficiently, therefore, every country should specialise in producing those products which it can produce at less cost than that of other countries and exchange these products with other products produced cheaply by other countries. By specialising in the production of goods in which each nation/has an advantage and by selling/buying from the other, both countries stand, to gain by engaging in trade. Thus, Smith denounced the doctrine of zero-sum game (as believed by Merchantilists) and advocated in its place the principle of positive game.

Theory of Comparative Cost Advantage :

As an extension to absolute cost advantage theory, David Ricardo developed the theory of comparative cost advantage, to explain the situation when one country has absolute cost advantage in producingmany products.

Using a two-country-two-commodity model, Ricardo-explains that trade between countries can be profitable even if one of the two countries can produce both the commodities more efficiently than the other country, provided it can produced one of these commodities with comparatively greater efficiency than the other commodity. The law of comparative advantage indicates that a country should specalise in the production of those goods in which it is more efficient and leave the production of the other commodity to the other country. Ricardo has taken the hypothetical example of production costs of cloth and wine in England and Portugal to illustrate the comparative cost advantage theory.

Country	No. of Units of Labour per unit of cloth	No. of units of labour per unit of wine	Exchange Ratio between wine and cloth
England	100	120	1 wine = 1.2 cloth
Portugal	90	80	1 wine = 0.88 cloth

Illustrating the example,

Thus, it can be seen that Portugal has + 3 advantage in wine and + 1 advantage in cloth. Based on comparative cost advantage Portugal specializes in wine with + 3 advantage. Similarly, England has – 3 disadvantage in wine and only -1 disadvantage in cloth. Hence, it specializes in cloth with comparatively less disadvantage.

The narrow difference in cost ratios indicates comparative cost advantage.

Q.3. Enumerate the Main objectives of imposing trade barriers and explain briefly the various barriers to world Trade.

Ans. Though there are a number of advocates of free trade, international trade is generally characterized by the existence of various trade barriers.

Trade barriers refer to the government policies and measures which obstruct the free flow of goods and services across national borders. The main objectives of imposing trade barriers are :

- To protect domestic industries or certain other sectors of the economy from foreign competition.

- To guard against dumping.

- To promote indigenous research and development.

Trade barriers may be broadly divided into two groups – Tariff and Non-Tariff barriers.

Barriers to Trade

(I) Tariffs

Export Tariff

Import Tariff

Transit Tariff

(II) Non-Tariff Barriers

Financial and fiscal

Quantitative Restrictions

Qualitative Restrictions

Administrative Restrictions

A Tariff is a tax imposed on goods involved in international trade. Tariffs are imposed on goods imported, in which case they are called import duties. Tariffs Taxes are also imposed on goods when they leave the country (export tariff) or they pass through one country boundary for another (transit tariff).

Types of Tariffs :

(i) Ad Valorena tariffs are imposed as %s on values of goods imported.

(ii) **Specific** tariffs relate to some specific attributes of the goods- weight, quantity, value etc.

(iii) A **Compound** tariff is levied and is calculated partly as a % on value and partly as a rate per unit or weight.

(b)

(i) **Restriction** tariffs are extended to collect revenues i.e. they less obstruct the free flow of imports.

(ii) **Protection** tariffs are intended to protect domestic industries. These are very high and obstruct the flow of imports.

(II) Non-tariff Barriers – A second category of government interventions on international trade relates to NTBs. Any government regulation, policy or procedures other than a tariff that has the effect of restricting international trade or affecting over seas investment becomes a non-tariff barriers.

(A) Financial and fiscal : (i) Subsidies : A subsidy is a payment made by the govt. to a domestic producer. Subsidies can take several forms such as cash grants, low-interest rates, tax breaks etc. Subsidies help domestic producer in 2 ways : (1) They help them compete against low-cost foreign imports. (2) To gain excess in export markets.

(ii) Foreign Exchange Regulations : These are the impose way of regulating imports in a no. of countries. This is done by the state monopolising the foreign exchange resources and not releasing foreign exchange for imports of items which the govt. do not approve for various reasons.

(iii) Prior Import duties : For some goods high restrictions are made by the govt. and thus import duties are made to be deposited in advance in prior to the imports made.

(iv) Currency Controls : This refers to the restrictions on the convertibility of a currency into other currencies. A company wishing to import goods, must pay for those in a common, internationally acceptable currency (VS dollar etc) License is required to obtain the currency from its nations domestic banking system. Govt. can declare that company's desiring such a currency apply for a license to obtain it. Thus, a country's govt. can discourage imports by restricting.

(B) Quantitative Restrictions : (i) Quota : Quotas refer to numerical limits on the quantity of goods that may be imported into a country during a specified period. The quantity of goods that may be imported is stated in a license issued to a group of individuals or firm. The importer has to pay a penalty if the quantity imported exceeds the one specified in the license. This is used to protect industries such as agriculture, textiles and motor vehicles, from the threat of foreign competition Voluntary Export Restraint.

(ii) VER – A variant on the quota is VER. A VER is a quota on trade imposed by the exporting country, at the request of the importing country. The classical example of the use of VER is the automobile industry in 1980s. A country facing a persistent trade deficit against another country may adhere to a self-imposed limit on the export.

(iii) Embayo – An embayo refers to a complete ban on trade (exports and imports) in one or two products with a particular country. An embayo may be placed on one or more goods or completely ban trade in all goods. It is the most restrictive NTB and is applied to accomplish political goals or avoid hurting religious feelings. Ex. Beef import in India.

(iv) Local Content Requirements – These refer to the legal stipulation that a specified amount of a good or service to be supplied by producers in the domestic market. More specifically, this restriction refers to indigenisation efforts of a govt. The govt. may state that local labour, components and other inputs should be used, in the production of goods (partially at least). This measure helps domestic supplies of components and local labour.

(v) Import Licensing : For some import goods licensing is very necessary, that in some way restricts the imports as getting license is time consuming and cumbersome task, many firms avoid it hence obsinevils imports.

(c) Qualitative Restrictions : Product and Testing Standards : Countries generally specify quality standards to be met by imported goods for various health, welfare and safety reasons. This NTB regulates that foreign goods meet a country's domestic product or testing standards before they can be offered for sale in that country.

This process is further complicated by the standards of testing and certification of the products regarding the achievement of the set standards. These testing procedures being expensive, time-consuming and cumbersome, acts as a trade barrier.

(D) Administrative Restrictions : Regulatory Controls or bureaucratic rules designed to impair the flow of imports into a country are called and-Restrictions or delays. This NTB includes a wide range of govt. actions such as requiring international air carriers to land at inconvenient airport, requiring product inspection that damages the product itself, purposely. Understaffing customs offices to cause unusal delays andrequiring special licenses that take a long time to obtain.

Other restrictive measures include environmental regulations, health and safety inspections and charging taxes and fees for public services that affect the ability of IBS to compete in host countries. The objective of all these measures is to offer protection to domestic producers.

Q.4. Write an explanatory note on WTO and its predecessor GATT.

Ans. GATT (General Agreement on Trade and Tariffs) : In 1947, 23 countries thought of making an association which can liberalise trade and be concerned with negotiations regarding the reduction of trade barriers and thereby improving international trade relations. Based on this GATT came into being on Jan 1948. GATT, which was a multilateral treaty, laid down agreed rules for conducting international trade. It also gave a forum in which countries could discuss and overcome their trade problems and negotiate to enlarge international trading opportunities. The rapid and uninterrupted growth in the volume of international trade till 1994 provided a good testimony for the success of GATT.

It was a result of international desire to liberalise trade that GATT was transformed to WTO with effect from 1 January 1995.

WTO (World Trade Organisation) : WTO, the successor to the GATT, that came into being on January 1, 1995, is the only international organisation dealing with the rules of trade between nations. It provides a framework of principles and rules for globalisation of business to achieve all round economic prosperity. At its heart are the WTO agreements, negotiated and signed by the bulk of the world's trading nations and ratified in their parliaments. The goal is to help producers of goods and services, exporters, and importers conduct their business fairly and freely.

WTO agreements have three main objectives :

- To help trade flow as freely as possible.
- To achieve further liberalization gradually through negotiation.
- To set up an impartial means of settling disputes.

Q.5. What do you understand by regional economic integration?

Ans. Integration between countries is the order of the day. Firms, in the initial stages of internationalisation, must be aware of the regional groups that encompass countries targeted for manufacturing locations or market opportunities. In the 1950s and 1960s regional integration gained significant momentum.

Some countries create business opportunities for themselves by integrating their economies in order to avoid unnecessary competition among themselves and also from other countries. 'Integration' also called 'regional economic integration' involves the organising of individual countries into groups that eventually abolish trade restrictions with member countries and also may engage in other activities that promote their citizens welfare.

Economic integration among countries take several forms with different 'degrees of integration' between the members of the group. Thus, one can think of a free trade area (FTA), a customs union, a common market, an economic union and a complete economic integration between the individual member countries of a region.

Q.6. Explain the different forms of regional economic integration.

Ans. Following are the various forms of regional economic integration :

(1) Free trade area (FTA) : A FTA consists of a group of small countries generally with geographical vicinity which have abolished all tariffs (and quantitative restrictions) between themselves. Members are however, free to apply tariff and other qualitative restrictions against outsiders. The European Free Trade Association (EFTA), formed in 1959 is an example of free trade association.

(2) Customs Union : A Customs union is one step forward in the direction of integration. Apart from abolishing inter-member tariff and other restrictions on trade, members also agree to impose uniform tariff and other quantitative restrictions against the outsider non-member countries. The Belgium-Luxembourg Economic Union (BLEU) was an example of Customs union.

(3) Common Market : A Common market represents a still higher form of economic integration. Besides allowing the free trade in goods, it also allows free movement of the factors of production within the common market ared. The European Common Market (ECM) is an example of the common market.

(4) Economic Union : In the case of economic union, apart from allowing free trade and factor movements between the member countries, the members adopt integrated fiscal and monetary policies.

(5) Economic integration : In economic integration there is complete economic fusion of member countries and there is a supernational authority whose decisions are binding on the members. The monetary, fiscal and social policies of the members are completely unified.

CHAPTER – 7

INTERNATION FINANCIAL ENVIRONMENT

Q.1. What is FDI? Give example.

Ans. The investment made by a company in new manufacturing or marketing, facilities in a foreign country is referred to as 'Foreign Direct Investment' (FDI). Investment made by Enron in power plant in India is an example of FDI.

Q.2. What is 'Flow of Foreign Direct Investment'?

Ans. The investment made by a company in a foreign country over a given period (for example, one year) is called flow of FDI.

Q.3. What is 'Stock of Foreign Direct Investment'?

Ans. The total amount of investment made by a company in a foreign country up to a given time is called the stock of FDI.

Q.4. What are the various forms of FDI?

Ans. The forms of FDI includes:

- Purchase of existing assets in a foreign country.
- New investment in property, plant, equipment.
- Participation in a joint venture with a local partner.

- Transfer of many types of assets like human resources, systems, technological know-how in exchange few equity in foreign companies.

- Export of goods for equity (Generally used in the initial stage of the establishment of a company).

- Through Trading in Equity.

Q.5. Explain the Various reasons for foreign Direct Investment.

Ans. FDI is the ownership and control over held in foreign countries. There are many reasons for FDI, some are:

(1) To increase sales and profits.

(2) To Enter fast growing markets.

(3) To reduce cost of production and other operations.

(4) To consolidate Trade Blocs.

(5) To protect domestic markets.

(6) To protect foreign markets.

(7) To acquire technological and managerial know-how.

Q.6. What is Foreign exchange?

Ans. Acc. to '**Dr. Paul Einzig**' – "Foreign exchange is the system or process of converting one national currency into another, and of transferring money from one country to another."

Q.7. What do you understand by FEMA and FERA.

Ans. FEMA stands for 'Foreign Exchange Management Act', which came intoeffect from Jan 1 2000, replacing FERA – Foreign Exchange Regulation Act, 1973.

Q.8. What are the objectives of FEMA?

Ans. The objectives of FEMA are: to facilitate external trade payments; and to promote the orderly developments and maintenance of foreign exchange market.

Q.9. What is Foreign Exchange Market.

Ans. The foreign exchange market is a market in which foreign exchange transactions take place. In other words, it is a market in which national currencies are bought and sold against one another.

Q.10. Explain 'Spot exchange'.

Ans. Spot exchange refers to the class of foreign exchange transaction which requires the immediate delivery, or exchange of currencies on the spot.

Q.11. Explain 'Spot rate' and 'Spot - market'.

Ans. The rate of exchange effective for the spot transaction is known as 'spot rate' and the market for such transactions is known as 'spot market'.

Q.12. Explain 'forward exchange', 'forward exchange rate' and 'forward market'.

Ans. The 'forward exchange' is an agreement between two parties, requiring the delivery at some specified future data of a specified amount of foreign currency by one of the parties against payment in domestic currency by the other party, at the price agreed upon in the contract.'

The rate of exchange applicable to the forward contract is called 'forward exchange rate'.

The market for forward, transactions is known as the 'forward market'.

Q.13. Explain 'Option', 'Call option', 'put option' and exercising the option?

Ans. An **'option'** is a contract or financial instrument that gives holder the light, but not the obligation, to sell or buy a given quantity of an asset at a specified price at a specified future date.

An option to buy the underlying asset is known as a '**Call option**'.

An option to sell, the underlying asset is known as a '**put option**'.

Buying or selling the underlying asset, via the option is known as "**exercising the option.**"

Q.14. Explain 'Arbitrage'.

Ans. 'Arbitrage' is the simultaneous buying and selling of foreign currencies with the intention of making profits from the differences between the exchange rate prevailing at the same time in different markets.

Q.15. What do you understand by Hedging?

Ans. 'Hedging' refers to covering of export risks, and it provides a mechanism to exporters and importers to guard themselves against lossess arising from fluctuations in exchange rates.

Q.16. Explain 'Convertibility of the rupee'.

Ans. Free convertibility of a currency means that the currency, can be exchanged for any other convertible currency, without any restriction at the market determined exchange rates. 'Convertibility of the rupee thus means that the rupee can be freely converted into dollar, pound stirling, yen etc and vice-versa at the rates of exchange determined by the demand and supply forces.

Q.17. Explain the two important exchange rate systems.

Ans. The two important exchange rate systems are:

(1) Fixed Exchange rates : It is a system under which countries agree to keep their currencies at a fixed, pegged rate and change their value only at fairly infrequent intervals, when the economic situation forces them to do so. This is also known as stable or pegged exchange rate system.

(2) Flexible Exchange rates : Under the flexible exchange rate system, exchange rates are freely determined in an open market primarily by private dealings, and they, like other market prices, vary from day-to-day. This is also known as floating exchange rate system.

CHAPTER – 8

INTERNATIONAL TRADE PRACTICES AND DOCUMENTATION

Q.1. What role export documents play in IB?

Ans. Export documents play a vital role in IB as it facilitates the smooth flow of goods and payment thereof across national frontiers.

Q.2. What are the four major categories of export documents? Explain.

Ans. Export documents have the following four categories:

(1) Commercial documents : These are the documents by which physical transfer of goods and its ownership is transferred to importer and the procedure of export sales is performed. The major commercial documents are:

(i) Commercial invoices

(ii) Bill of exchange

(iii) Bill of lading

(iv) Letter of Credit

(v) Maritne Insurance Policy.

(2) Regulatory documents : These are the documents which are required for complying with the rules and regulations governing export trade transactions. The major regulatory documents are:

(i) Foreign exchange regulations

(ii) Customs formalities

(iii) Export inspections

(3) Export assistance documents : In export assistance documents, those documents are involved which are required for claiming assistance underthe various export assistance measures.

(4) Documents required by importing countries : These documents comprises of:

(i) Certificate of Origin.

(ii) Consular invoice.

(iii) Quality control certificate.

Q.3. What are the Principal export documents.

Ans. There are eight principal export documents, which the exporter is required to send to the importer. These documents are:

(i) Commercial invoice

(ii) Packing List

(iii) Bill of Lading

(iv) Combined Transport Document

(v) Certificate of Inspection/Quality Control

(vi) Insurance policy or Certificate

(vii) Certificate of origin

(viii) Bill of Exchange and Shipment A

Q.4. Explain Letter of Credit.

Ans. A Letter of Credit is a document containing the guarantee of a bank to honour drafts drawn on it by an exporter, under certain conditions and upto certain amounts, provided that the bedeficiary fulfills the stipulated condition.

Q.5. Explain G.R. Form.

Ans. G.R. Form has been prescribed by the Reserve Bank of India under FERA to ensure that the foreign exchange receipts in respect of exports are impatriated to India.

CHAPTER – 9

INTERNATIONAL BUSINESS ORGANISATION

Q.1. What is MNC?

Ans. An MNC (Multi-National Organisation) is an organisation the engages in production or services activities through its own affliates in several countries, maintains control over the policies of those affliates, and manages from a global perspective. With a global perspective, top managers allocate resources and coordinate activities to take best possible advantages of favourable business conditions throughout the world.

Ex- IBM, General Motors, Mishibishi etc.

Q.2. State the essential purposes of an organisational structures.

Ans. An MNC needs an appropriate organisational structure to implement its strategies. Organisational structure (also called organisational design) is its basic vehicle through which the work of the organisation is actually implemented. Infact, strategy, determines the structure needed for implementation. It is essential as through the structure firm shall:

(a) allocate organisational resources.

(b) assign tasks to its employees.

(c) Instruct employees about the firm's rules, procedures and expectations relating to their jobs.

(d) Collect and transmit information necessary for problem solving and decision-making.

Q.3. Explain briefly with help of diagram the different types of IB organisational structures.

Ans. An MNC can adopt any of the following organisational structures:

(I) International Division Structure : Under this structure, the overseas unit is an adjunct to the parent company. It handles all the international activities which may be organised by function, product or area. All the overseas subsidiaries are under the authority of the international division head, who co-ordinates the overseas activities. **Example** – Coco-cola organisation design.

International Division Structure

Chief Executive Officer

Home-office Departments

Production Marketing Finance
Personnel

Overseas Subsidiaries – International Operations

France Japan
Egypt Australia
Argentina

(2) World wide Functional Structure : In this, each functional department or division is responsible for its activities around the world. This design is used by MNCs that have narrow or similar product lines. It results in what is often called a U-form organisation, where 'U' stands for Unity. British airways is the best examples for such organisation design.

CEO

Manufacturing Marketing Finance
Other Functions

Locations Locations

Plant A Germany Plant B Brazil US Africa Europe

World Wide Functional Structure

(3) Geographic Area Structure : In this, World wide activities are organised by dividing the globe into different geographic area. The regional manager, as the Vice-president of each area is responsible for all business activities within that geographic area. This type of structure is particularly suitable for those firms whose strategy is marketing-driven rather than dependent on manufacturing efficiencies or technological innovations. This structure has more acceptance among European MNCs, such as Nestle.

CEO

Europe & Latin America Division N. America and Pacific Division

UK Venezuela Italy

US Japan

CanadaManufacturing Finance

Marketing

Geographic Area Structure

(4) Product Organisation : This is the most common organisation structure followed by an MNC. The product design assigns worldwide responsibility for specific products or product groups to separate operating divisions within a firm. The global product divisions operate as profit centres. Managers of product divisions such the operations with considerable autonomy HLL is an Indian firm which has product structure.

CEO

Product Division A Product Division B Product Division C

S. America Africa Europe

Australia Far East

UK Germany Spain

Portugal France

Manufacturing Marketing Finance

Manufacturing Marketing Finance

Manufacturing Marketing Finance

Manufacturing Marketing Finance

Manufacturing Marketing Finance

Global Product Division

5) Mixed Structure : Seldom will companies have all their activities organised on the structures already mentioned. Most firms follow a hybrid design which best suits their purpose as dictated by size, strategy, technology, environment, and culture. The primary advantage of the mixed structures that it allows the firm to create the specific types of design that best meets its needs. Philips, Sanyo are known to follow hybrid structures.

CEO

Area President N. America

President Product A World wide concept N. America

President Product B worldwide except N. America

Subsidiary Head 1

Subsidiary Head 2

Subsidiary Head 1

Subsidiary Head 2

Subsidiary Head 1

Subsidiary Head 2

Mixed/Hybrid Structure

(6) Matrix Structure : The most complex form of international organisational design is the matrix structure. The matrix design emerges when one design is superimposed on top of an existing, but different form. The resulting design, is quite fluid, with new matrix dimensions being created, reduced or eliminated as needed.

WIPRO has a matrix structure. The entire business of WIPRO is divided into three divisions, viz: Wipro Technologies, Wipro Infotech and Wipro Consumer Care and Lighting. Each division has its own functional heads. A functional head of a division will have two matrix bosses- head of divisions and functional executive/ at headquarters. And the arrangement is working well.

CEO

Global Marketing Global Finance Global Operations Global HR

Global Product Manager A

Global Product Manager B

Global Product Manager C

Global Product Manager D

Matrix Structure

(7) Networked Structure : The networked structure is a form of organisation in which many functions of an MNC are contracted out to other independent firms and coordinated through the use of information technology networks to operate as if they were a single corporation. This type of structure is often known as virtual corporations because it performs as if it were virtually single corporations.

Benettom is a well-known example of a firm that uses a networked structure.

Q.4. State what all reasons can contribute for conflicts between headquarters and subsidiaries of an MNC.

Ans. MNCs need a well managed and properly coordinated relationship between its head-quarters and subsidiaries. The reasons that can lead to conflicts, if not properly managed are:

(1) Information Sharing : MNCs headquarters share information with the subsidiaries, regarding their markets, demand, customer problems, daily sales, financial position etc., if the information is not sent properly it causes conflicts.

(2) Resource Sharing : Major resources like human, financial material and technology are to be utilised optimally, if not done carefully can generate conflicts.

(3) Decision flows : Decision made by the MNC and the approval for same flows in all directions, from MNCs to headquarters and from headquarters to subsidiaries for implementation and further information, that need to be done with utmost care.

(4) Co-ordination of activities : Both the headquarters and subsidiaries have to have a well co-ordinated relationship for the conduct of various activities.

(5) Control of operations : MNC headquarters control the operation of its subsidiaries based on the customer need, competitors, position etc. If not done properly, can lead to the arise of conflicts.

(6) Strategy formulation : MNC headquarter help the subsidiaries to formulate the strategies for their countries. It directs and guides in implementing, evaluating and controlling strategy.

Q.5. What factors affect the choice of organisations of IB.

Ans. Any of the following factors can affect the choice of organisation of IB.

(a) Resources and financial capacity.

(b) Size of organisation.

(c) Management vision and mission

(d) Competition in the market.

(e) Type of demand of goods.

(f) Foreign market rules and regulations.

(g) Availability of government assistance and incentives.

(h) Stability of local markets. (i) Customs and traditions of concerned market.

Q.6. What do you understand by 'SBU'?

Ans. 'SBU' means strategic business Unit, which is a grouping of a business activities that are treated as self-contained entities for the purpose of strategic planning and control. Hence, SBU could be a division of a company, a department or collection of departments a subsidiary or a function undertaken within the firm.

□□□□

BACHELOR OF BUSINESS ADMINISTRATION (Part III) EXAMINATION

(Faculty of Commerce)

(Three – Year Scheme of 10+2+3 Pattern)

INTERNATIONAL BUSINESS

Unsolved Paper – 2011

Time allowed : Three Hour *Maximum Marks : 100*

Attempt five questions in all. Question Nos. 1 and 2 are compulsory.

Part-I

Q.1 Answer all the ten questions. All questions carry equal marks. (Answer limit up to 50 words each). 2 x 10 = 20

(i) Why do we study International Business? (Any four reasons)

(ii) Two misconceptions about culture.

(iii) What is cultural lag?

(iv) Differentiate between Common Law and Code Law.

(v) Concept of Product Liability.

(vi) Regulatory role of the Government in International Business.

(vii) Any four features of free economy.

(viii) Any four impact of foreign direct investment on country development.

(ix) Theocracy Vs. Monarchy.

(x) Differentiate between International company and Multinational Company.

Q.2 Answer all the five questions. All questions carry equal marks (Answer limit up to 100 words each). 5 x 4 = 20

(i) Write about the components of culture.

(ii) Write and define any four foreign market entry strategies.

(iii) Differentiate between fixed exchange Rate and Floating Exchange Rate.

(iv) Any four assumptions of Comparative Cost Advantage Theory of International trade.

(v) Any four features of FEMA.

Part-II

Attempt any three questions. Each question carries 20 marks.

Q.3 (a) How is international business broader in scope compared to international trade and international market? Analyse.

(b) Discuss the nature of international business.

Q.4 (a) What is political environment? How does it affect international business?

(b) Do you believe that political stability leads to business development and vice versa? If yes, state the answer with examples.

Q.5 "Some argue that WTO is the third pillar of global business. But many argue that WTO is the Wrong Trade Organization? Critically comment.

Q.6 Describe briefly the main channels of distribution used in export markets. Which one you recommend for the product of a small manufacture and why?

Q.7 (a) What is meant by disequilibrium in balance of payments? How is disequilibrium in the balance of payments adjusted? Discuss.

(b) Discuss the effect of Tariff.

Unsolved Paper – 2010

Time Allowed : 3 Hours ***Max. Marks : 100***

Attempt five questions in all. Question Nos. 1 and 2 are compulsory.

Part-I

Q.1 Answer all the ten questions. All questions carry equal marks. (Answer limit up to 50 words each). 2 x 10 = 20

(i) Give any two features of International Business.

(ii) Define culture.

(iii) Write any four features of mixed economic system.

(iv) What are the indicators of political instability?

(v) Differentiate between bilateralism and multilateralism.

(vi) What are the significant features of TRIMS?

(vii) Write different modes of entry to International Business.

(viii) How does culture affects International Business?

(ix) What is FOB?

(x) Tariff Vs. Quota.

Q.2 Answer all the five questions. All questions carry equal marks (Answer limit up to 100 words each). 5 x 4 = 20

(i) Which factors affect international pricing?

(ii) Differentiate between balance of Trade and Balance of payment.

(iii) Differentiate between GATT and WTO.

(iv) What type of relationship exists between the headquarters and subsidiaries?

(v) How two legal system i.e. common law and code law differ?

Part-II

Attempt any three questions. Each question carries 20 marks.

Q.3 What is foreign Direct Investment? What are the advantages and disadvantages of foreign investment?

Q.4 Discuss and competitive advantage and problems of International Business.

Q.5 What is regional economic integration? Discuss the advantages and disadvantages of regional economic integration.

Q.6 Critically evaluate the comparative cost theory of International Trade.

Q.7 Write short notes on:

(i) Letter of Credit.

(ii) Incomerms.

Q.8 (a) What are Spot and forward exchange rates? How do they differ from each other?

(b) Discuss various determinants of exchanges rates.

Unsolved Paper – 2009

Time Allowed : 3 Hours ***Max. Marks : 100***

Attempt five questions in all. Question Nos. 1 and 2 are compulsory.

Part-I

Q.1 Answer all the ten questions. All questions carry equal marks. (Answer limit up to 50 words each). 2 x 10 = 20

(i) Define Balance of Payments.

(ii) Define International Business.

(iii) Write names of two economic systems.

(iv) Define letter of credit.

(v) Define Intellectual Property Rights.

(vi) What are non-tariff trade barriers?

(vii) What is exchange rate?

(viii) What is foreign Direct Investment?

(ix) What are Free Trade Investment?

(x) What does the acronym NAMA stand for?

Q.2 Answer all the five questions. All questions carry equal marks (Answer limit up to 100 words each). 5 x 4 = 20

(i) What types of conflict arise between headquarters and subsidiaries?

(ii) How does exchange rate affect interest rate?

(iii) What are the main functions of W.T.O.?

(iv) Explain the Indo-Lanka Free Trade Agreement?

(v) What are the basis of international trade?

Part-II

Attempt any three questions. Each question carries 20 marks.

Q.3 How do the cultural factor affect international business? How does Indian culture affect the international business?

Q.4 Explain the following:

(i) Currency Swat

(ii) Special Features Islamic Law

(ii) Interest Rate Swap

Q.5 What is W.T.O.? Explain its growing relevance in the context of Asian countries?

Q.6 What is the FDI Policy of India? How far has it helped Indian industries and promoted India's foreign trade?

Q.7 What is the comparative cost theory of international trade? Examine critically.

Q.8 Write short notes on:

(i) SAPTA

(ii) SAARC

Unsolved Paper – 2008

Time Allowed : 3 Hours ***Max. Marks : 100***

Attempt five questions in all. Question Nos. 1 and 2 are compulsory.

Part-I

Q.1 Answer all the ten questions. All questions carry equal marks. (Answer limit up to 50 words each) 2 x 10= 20

(i) What is the role of International Business?

(ii) Define values.

(iii) What do you mean by exchange rate?

(iv) Define dictatorship?

(v) What is warranty?

(vi) Define comparative advantage theory.

(vii) What is foreign direct investment?

(viii) Explain letter of credit.

(ix) Define skimming pricing.

(x) What do you mean by international business organizations?

Q.2 Answer all the five questions. All questions carry equal marks. (Answer limit up to 100 words each) 5 x 4 = 20

(i) Distinguish between domestic business and international business.

(ii) What are misconceptions about culture?

(iii) What is the importance of political environment for international business.

(iv) What are channels of distribution?

(v) Explain the conflict between headquarter and subsidiaries.

Part-II

Attempt any three questions. Each question carries 20 marks.

Q.3 What do you mean by foreign investment? Critically appraise the harmful effect of foreign investment.

Q.4 What is pattern of world trading? Explain the barriers to world trade.

Q.5 Explain :

(i) Major political objectives

(ii) Promotion

Q.6 Write a note on different types of international business organizations.

Q.7 Write short notes on any two of the following:

(i) Driving forces of international business.

(ii) Indicators of economic wealth

(iii) Theory of absolute cost advantage

Unsolved Paper – 2007

Time Allowed : 3 Hours ***M.M. – 100***

Attempt five questions in all. Question Nos. 1 and 2 are compulsory.

Part-I

Q.1 Answer all the ten questions. All questions carry equal marks. (Answer limit up to 50 words each) 2 x 10 = 20

(i) What is meaning of International Business?

(ii) What do you know about TRIPs?

(iii) Define Culture components of Culture.

(iv) What is the meaning of Terms of Trade?

(v) What do you mean by Protection of Cultural Identity?

(vi) What do you mean by Exchange control?

(vii) What is GATT?

(viii) What is the meaning of countertrade?

(ix) What is foreign trade multiplier?

(x) What is trade versus Aid?

Q.2 Answer all the five questions. All questions carry equal marks (Answer limit up to 100 words each) 5 x 4 = 20

(i) What is the scope of International Business?

(ii) Explain the Political System in the context of International Business.

(iii) Explain any five components of foreign Exchange market.

(iv) What are the new trends of global organizations?

(v) What is the importance of Foreign Direct Investment?

Part-II

Attempt any three questions. Each question carries 20 marks.

Q.3 How does globalization help in International Business? Explain with its drivers and restrainers.

Q.4 What is international Business? What are its advantage? What restricts International Business?

Q.5 What do you understand by regional integration? Explain the benefits in the context of Indo-Lanka free trade agreement.

Q.6 Explain the International Market Entry Strategies.

Q.7 What is WTO? Explain its growing relevance in the context of Asian Countries.

Q.8 Explain the following:

(i) Theories of International Investment.

(ii) Merchandise Trade

Q.9 Write short notes

(i) Balance of Payments

(ii) Currency Swap

(iii) Methods of International Payment

Unsolved Paper – 2006

Time Allowed : 3 Hours ***M.M. – 100***

Attempt five questions in all. Question Nos. 1 and 2 are compulsory.

Part-I

Q.1 Answer all the ten questions. All questions carry equal marks. (Answer limit up to 5 words each). 2 x 10 = 20

(i) Write names of two economic systems.

(ii) Define Balance of payment.

(iii) What is exchange rate?

(iv) What is foreign rate?

(v) What is democratic form of government?

(vi) What are Trade related Investment measures (TRIMs)?

(vii) What are non tariff trade barriers?

(viii) Define intellectual property rights.

(ix) What are acronym NAMA stands for?

(x) What are Free Trade Agreements/

Q.2 Answer all the five questions. All questions carry equal marks (Answer limit up to 100 words each) 5 x 4 = 20

(i) What are the basis of international trade?

(ii) What role customs and values play in international business?

(iii) How does exchange rate affect interest rate?

(iv) How the international business affects the national security?

(v) What types of conflict arise between headquarters and subsidiaries?

Part-II

Attempt any three questions. Each question carries 20 marks.

Q.3 How do cultural factors affect international business? How does Indian culture affect the international business?

Q.4 What challenges the WTO has thrown to Indian company? Explain with the suitable example?

Q.5 What is FDI policy of India? How far it has helped Indian industries and promoted India's foreign trade?

Q.6 What is comparative cost theory of international trade? Examine critically.

Q.7 Explain the following:

(i) Interest Rate Swap

(ii) Currency Swap

(iii) Intellectual Property Rights

(iv) Special Features of Islamic Law

Q.8 What are the causes of disequilibrium in balance of payments? How such disequilibrium can be correct?

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