

# International Business

## PART 1

### Objective Questions

#### • Multiple Choice Questions

1. The basic problem faced by those engaged in international trade is 'different countries have different currencies'. In order to resolve this issue, which currency is considered as the most popular currency in international trade?

(a) US Dollars (b) UK Euro  
(c) Japanese Yen (d) Indian Rupee

**Ans.** (a) US Dollars

2. International trade requires movement of goods across the boundaries of a nation. Which of the following is the cheapest mode of transporting goods to longer distances?

(a) Road (b) Rail  
(c) Ships (d) Air

**Ans.** (c) Ships

3. International business involves ..... degree of risk.

(a) low  
(b) moderate  
(c) high  
(d) Can't be determined

**Ans.** (c) high

4. In case of international business, there is a wide time gap between order and ..... of goods.

(a) demand (b) supply  
(c) trade (d) exchange

**Ans.** (b) supply

5. The fundamental reason behind international business is that the countries cannot produce all the goods that they need, with respect to

(a) quality (b) cost  
(c) Both (a) and (b) (d) None of these

**Ans.** (c) Both (a) and (b)

6. Cost of production differ in different countries due to ..... factor.

(a) Socio-economic (b) Political  
(c) Geographical (d) All of these

**Ans.** (d) All of these

7. Labour, capital and ..... are the factors of production whose availability differs from country to country.

(a) Tools (b) Entrepreneurs  
(c) Raw material (d) All of these

**Ans.** (c) Raw material

8. Which type of domestic markets drive companies to go international in search of new markets for their products?

(a) Monopolistic markets  
(b) Highly competitive markets  
(c) Oligopoly  
(d) Monopoly

**Ans.** (b) Due to highly competitive domestic market, there is not much of a scope left for growth in the domestic market. Therefore, many companies tend to go international in search of new markets for their products.

9. International trade should be done with extreme caution as it may lead to ..... use of natural resources, which may make a country poor by depleting its natural resources.

(a) extensive (b) intensive  
(c) moderate (d) regressive

**Ans.** (b) International trade may make nations greedy for growth and development which may cause them to use their natural resources intensively. This makes nations poor in the long run by depleting its natural resources.

10. International trade has its own advantages and disadvantages. Which of the following is not an area which puts international trade at disadvantageous position?

(a) Language  
(b) Time involved  
(c) Intensive use of natural resources  
(d) Capacity utilisation

**Ans.** (d) Capacity utilisation

- 11.** International trade is advantageous to  
 (a) nations (b) firms  
 (c) Both (a) and (b) (d) None of these

**Ans.** (c) Both (a) and (b)

- 12.** Which of these is an advantage of international business to the nation?  
 (a) Better Utilisation of Resources  
 (b) Prospects for Higher Profits  
 (c) Way Out to Intense Competition in Domestic Market  
 (d) All of these

**Ans.** (a) Better Utilisation of Resources

- 13. Statement I** The degree of mobility of factors of production like labour and capital across nations is relatively less.

**Statement II** Domestic markets are relatively less homogeneous in nature as compared to international markets.

**Alternatives**

- (a) Statement I is correct and Statement II is wrong  
 (b) Statement II is correct and Statement I is wrong  
 (c) Both the statements are correct  
 (d) Both the statements are incorrect

**Ans.** (a) Domestic markets are relatively more homogeneous in nature as compared to international markets.

- 14. Statement I** In international business, there is use of domestic currency.

**Statement II** Business systems and practices vary considerably across countries.

**Alternatives**

- (a) Statement I is correct and Statement II is wrong  
 (b) Statement II is correct and Statement I is wrong  
 (c) Both the statements are correct  
 (d) Both the statements are incorrect

**Ans.** (b) In international business, there is use of foreign currencies.

- 15. Statement I** A large number of domestic firms in India found it very difficult to compete in the world market.

**Statement II** In International business, various other stakeholders such as suppliers, employees, middlemen, shareholders and partners are from different nations.

**Alternatives**

- (a) Statement I is correct and Statement II is wrong  
 (b) Statement II is correct and Statement I is wrong  
 (c) Both the statements are correct  
 (d) Both the statements are incorrect

**Ans.** (c) Both the statements are correct

## • Assertion–Reasoning MCQs

**Directions** (Q.Nos. 1-3) *There are two statements marked as Assertion (A) and Reason (R). Read the statements and choose the appropriate option from the options given below.*

- (a) Both Assertion (A) and Reason (R) are true and Reason (R) is the correct explanation of Assertion (A).  
 (b) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).  
 (c) Assertion (A) is false, but Reason (R) is true.  
 (d) Assertion (A) is true, but Reason (R) is false.

- 1. Assertion (A)** International trade helps in speeding up the industrialisation of a country.

**Reason (R)** Developing countries export scarce raw materials and capital goods and advanced technology required for rapid industrial development.

**Ans.** (d) Developing countries import scarce raw materials and capital goods and advanced technology required for rapid industrial development.

- 2. Assertion (A)** International trade helps people to improve their standard of living.

**Reason (R)** International trade helps people of a country to have access to a large variety of goods and services.

**Ans.** (a) Both Assertion (A) and Reason (R) are true and Reason (R) is the correct explanation of Assertion (A).

- 3. Assertion (A)** Imports enable the country to ensure its sovereignty and territorial integrity.

**Reason (R)** A country can import food grains and other essential commodities to prevent starvation.

**Ans.** (d) Countries import equipment for its armed forces—Army, Air Force and Navy which enable them to ensure sovereignty and territorial integrity.

## • Case Based MCQs

- 1. Direction** *Read the following text and answer question no. (i) to (vi) on the basis of the same.*

Aman Woollen Ltd. a leading woollen items manufacturing company established 20 years ago by Aman, is well-known for its quality goods and consumers have high brand loyalty for its products especially shawls. The company was doing very well but due to riots, terrorism, unrest in the area for past 10 years their sales are consistently slashing down. To solve this problem, the marketing manager of the company suggested to explore the possibility of going international and to appoint wholesalers country wide. The financial manager supported his suggestion and informed that government is also providing subsidies and technical and marketing

support to such export-oriented industries as international trade offers many benefits to the nation. They also believe that in other countries they would be able to charge more price than they are currently charging. This will lead to better business strength.

- (i) Which of the following is not the benefit of foreign trade to a nation?
- (a) Economic growth
  - (b) Earning of foreign exchange
  - (c) Higher profits
  - (d) Price stability

**Ans.** (d) Price stability

- (ii) A wholesaler helps a manufacturer to enjoy economies of scale by
- (a) providing him market information
  - (b) providing orders
  - (c) bearing risk
  - (d) providing financial support

**Ans.** (b) providing orders

- (iii) International trade offers many benefits to the nation, one such benefit is that it provides a way out to intense competition in domestic market, which implies
- (a) winding up internal business
  - (b) doing international business
  - (c) doing technological upgradation
  - (d) promotion of goods and services

**Ans.** (b) doing international business

- (iv) International business includes which among the following?
- (a) Merchandise and service exports and imports
  - (b) Licensing and franchising
  - (c) Foreign investments
  - (d) All of the above

**Ans.** (d) All of the above

- (v) In international trade, when prices in the domestic market are low, firms cannot earn more profits by selling their products in those countries in which prices are high.
- (a) True
  - (b) False
  - (c) Partially true
  - (d) None of these

**Ans.** (b) When prices in the domestic market are low, firms can earn more profits by selling their products in those countries in which prices are high. This is one of the benefits of international trade to the firms.

- (vi) Which benefit of international trade to firm is highlighted in the line, “They also believe that in other countries they would be able to charge more price than they are currently charging. This will lead to better business strength”?

- (a) Improved Business Vision
- (b) Increased Capacity Utilisation
- (c) Prospects for Growth
- (d) Prospects for Higher Profits

**Ans.** (d) Prospects for Higher Profits

**2. Direction** Read the following text and answer question no. (i) to (vi) on the basis of the same.

When the Indian economy opened in 1991, Harsha decided to take advantage of the same and start a business at an international level. He is very good in making paper crafts and decided to monetise the same. He made lot of such crafts and sold them in the foreign countries. He hired few like-minded people and started a small firm.

By following the same practice of selling high-quality paper crafts in international markets, the firm earned lot of revenue. Firm started to cater to more clients and at a larger level production, costs declined.

People in other countries who would like these kinds of products but can't purchase due to unavailability are also helped by this kind of trade.

These people will have access to these products and can use for their home décor and even to ease out some of their tasks. This practice of selling in foreign market further helped the firm to increase the business when the domestic. In the process, the firm also achieved maximum utilization of the human resources and other small machines who earlier used to be working at below maximum production levels.

- (i) Which advantage of international trade (to nation) is highlighted in the line, “He hired few like-minded people and started a small firm.”?
- (a) Earning of foreign exchange
  - (b) Better utilisation of resources
  - (c) Improving growth prospects and employment potential
  - (d) Increased standard of living

**Ans.** (c) Improving growth prospects and employment potential

- (ii) Which advantage of international trade (to firms) is highlighted in the line, “By following the same practice of selling high-quality paper crafts in international markets, the firm earned lot of revenue.”?

- (a) Prospects for higher profits
- (b) Way out to intense competition in domestic market
- (c) Increased capacity utilisation
- (d) Improved business vision

**Ans.** (a) Prospects for higher profits

- (iii) Which advantage of international trade (to nation) is highlighted in the line, “People in other countries who would like these kinds of products but can’t purchase due to unavailability are also helped by this kind of trade.”?

- (a) Speed-up industrialisation
- (b) Meet consumer demand
- (c) Overcome famine
- (d) Ensure national defense

**Ans.** (b) Meet consumer demand

- (iv) Which advantage of international business (to nations) is highlighted in the line, “These people will have access to these products and can use for their home décor and even to ease out some of their tasks.”?

- (a) Earning of foreign exchange
- (b) Better utilisation of resources
- (c) Improving growth prospects and employment potential
- (d) Increased standard of living

**Ans.** (b) Increased standard of living

- (v) Which advantage of international business (to firm) is highlighted in the line, “This practice of selling in foreign market further helped the firm to increase the business when the domestic.”?

- (a) Prospects for higher profits
- (b) Increased capacity utilisation
- (c) Prospects for growth
- (d) Improved business vision

**Ans.** (c) Prospects for growth

- (vi) Which advantage of international business (to firm) is highlighted in the line, “In the process, the firm also achieved maximum utilisation of the human resources and other small machines who earlier used to be working at below maximum production levels.”?

- (a) Prospects for higher profits
- (b) Increased capacity utilisation
- (c) Prospects for growth
- (d) Improved business vision

**Ans.** (b) Increased capacity utilisation

## PART 2

# Subjective Questions

### • Short Answer (SA) Type Questions

1. What do you mean by international trade? Explain in brief. Also, how are transactions related to international trade settled?

**Ans.** International trade is the component of international business. It comprises of buying and selling of goods and services beyond the geographical borders of the country. It involves not only the international movement of goods and services, but also of capital, personnel, technology and intellectual property like patents, trademarks, copyright, etc. It is also referred to as ‘foreign trade’ or ‘external trade’. It can also be understood as exchange of goods and services between residents of different countries. It involves the use of foreign exchange to discharge trade obligations and settle the transactions.

2. Patel Ltd. is a reputed company in the field of garments manufacturing in India. The company manufactures superior quality products. But the management is worried about its future prospects. The company is facing certain problems

- (a) The domestic prices of its garments are low.
- (b) Under-utilisation of capacity.
- (c) Demand for garments is saturated in domestic market.

A meeting is called by the BoD to discuss the matter. The members arrived at a conclusion that internationalisation of business is the final solution to the problems faced by the company. Such internationalisation will result in the benefits to the company.

The company believes in assuming social responsibility. Hence, it also favoured ‘internationalisation of business’ as it will also lead to benefits for the question’s nation. On the basis of above case, answer the following questions

- (i) Define international business.
- (ii) Write any one benefit of international business each to the nation and firm.

**Ans.** (i) Manufacturing and trading beyond the boundaries of one’s own country is known as international or external business.

- (ii) One benefit of international business to the nation is **Earning of Foreign Exchange** International business helps a country to earn foreign exchange which can be used to import capital goods, technology, petroleum products, etc. which are not available in the country or are relatively costlier if produced domestically.



One benefit of international business to the firm is **Higher Profits**. Generally, international business is more beneficial than the domestic business. When the domestic prices are not satisfactory, business firms can earn more profits by selling their products in the international markets where prices are higher.

3. Foreign trade does not only help the macroeconomic variables and national economies at large but also firms importing and exporting goods and services. With reference to the statement, explain the benefits of international trade to the firms.

**Ans.** Following are the benefits of international trade to the firms

- (i) **Improved Business Vision** Most enterprises have an urge to grow, to become more competitive, to diversify and derive the benefits of going global through international trade.
- (ii) **Prospects for Growth** When the domestic demand for a firm's products or services start getting saturated in the domestic market, then firms can considerably improve prospects of their growth by venturing out in the international market.
- (iii) **Way Out to Intense Competition in Domestic Market** Highly competitive domestic market drives many companies to go international in search of markets for their products.
- (iv) **Increased Capacity Utilisation** Many business and industrial enterprises have unused capacity, that can be efficiently utilised for further production. Thus, surplus production can be used to generate extra profits from foreign trade.

4. Differentiate between domestic and international business on the following basis

- (i) Nationality of buyers and sellers
- (ii) Nationality of other shareholders
- (iii) Political system and risks
- (iv) Business regulations and policies

**Ans.** Difference between Domestic and International Business

Basis	Domestic Business	International Business
Nationality of Buyers and Sellers	People or organisations from one nation participate in domestic business transactions.	People or organisations of different countries participate in international business transactions.
Nationality of other Stakeholders	Various other stakeholders such as suppliers, employees, middlemen, shareholders and partners are usually citizens of the same country.	Various other stakeholders such as suppliers, employees, middlemen, shareholders and partners are from different nations.

Basis	Domestic Business	International Business
Political System and Risks	Domestic business is subject to political system and risks of one single country.	Different countries have different forms of political systems and different degrees of risks which often become a barrier to international business.
Business Regulations and Policies	Domestic business is subject to rules, laws and policies, taxation system, etc., of a single country.	International business transactions are subject to rules, laws and policies, tariffs and quotas, etc. of multiple countries.

## • Long Answer (LA) Type Questions

1. What are the reasons for growing popularity of international trade in the modern times?

**Ans.** The reasons for the growing popularity of international trade are

- (i) **Natural Resources are Unevenly Distributed** The natural resources are unevenly distributed throughout the world. Some countries are rich in certain resources while other countries in certain other resources. The countries produce goods according to the availability of naturally occurring resources and then sell these to other countries. They also buy the goods produced by some other country, as per their need.
- (ii) **Availability of Factors of Production** Factors of production, viz. land, labour and capital differ from country to country. Because of this, different countries produce different goods and then trade amongst themselves.
- (iii) **Specialisation** Certain countries specialise in the production of certain specific goods. e.g., India specialises in the production of handicrafts. So, handicraft goods are exported from India.
- (iv) **Cost Benefits** The cost of production of goods and services differ from country to country due to difference in geographical, socio-economical and political environment. Some countries can produce goods economically as compared to other countries, thus leading to international trade. For example, China can produce electronic goods cheaply. Because of this, other countries import electronic goods from China.

2. International business has entered into a new era of reforms. India too did not remain cut-off from these developments. India was under a severe debt trap and was facing crippling balance of payment crisis. In 1991, it approached the International Monetary Fund (IMF) for raising funds to tide over its balance of payment deficits. IMF agreed to lend

money to India subject to the condition that India would undergo structural changes to be able to ensure repayment of borrowed funds. India had no alternative but to agree to the proposal. It was the very conditions imposed by IMF which more or less forced India to liberalise its economic policies. Since then a fairly large amount of liberalisation at the economic front has taken place. Though the process or reforms have somewhat slowed down, India is very much on the path to globalisation and integrating with the world economy.

While, on the one hand, many Multinational Corporations (MNCs) have ventured into Indian market for selling their products and services. Many Indian companies too have stepped out of the country to market their products and services to consumers in foreign countries.

- (i) As per the given case, what do you understand by 'globalisation' and 'liberalisation'?
- (ii) IMF forced India to make structural changes so that international trade is encouraged. Do you think that encouraging international trade is good for the country? (NCERT)

**Ans.** (i) **Globalisation** means integration of the economy of the country with the world economy.

**Liberalisation** means freedom from government regulations in a country to allow for private sector companies to operate business transactions with fewer restrictions.

- (ii) Yes, I think that encouraging international trade is beneficial for the country. It provides following benefits to a nation
  - (a) **Earning of Foreign Exchange** International trade helps countries to earn foreign exchange. This helps a country to import those goods and services which it cannot produce efficiently.
  - (b) **Better Utilisation of Resources** Since, countries tend to produce goods in which they have a comparative advantage, wasteful duplication of resources is prevented and they end up producing more.
  - (c) **Improving Growth Prospects and Employment Potential** Many countries follow the principle 'export and flourish' and improve their growth prospects, thereby, creating employment opportunities for their citizens.
  - (d) **Increased Standard of Living** International trade helps people of a country to have access to a large variety of goods and services. This helps them to improve their standard of living.

# Chapter Test

## Multiple Choice Questions

1. Many countries follow the principle ..... and improve their growth prospects, thereby, creating employment opportunities for their citizens.  
(a) import and earn                      (b) export and earn                      (c) import and flourish                      (d) export and flourish
2. Pick the odd one out  
(a) International trade                      (b) Import trade                      (c) Foreign trade                      (d) External trade
3. In International business, the degree of mobility of factors of production like labour and capital across nations is relatively .....  
(a) equal                      (b) less                      (c) high                      (d) can't be determined
4. **Statement I** Countries exchange their surplus production with goods that they are in excess supply in their country.  
**Statement II** Companies engage in international business so as to import available resources from other countries at higher prices and export goods on which they can fetch better prices.  
**Alternatives**  
(a) Statement I is correct and Statement II is wrong                      (b) Statement II is correct and Statement I is wrong  
(c) Both the statements are correct                      (d) Both the statements are incorrect

## Short Answer (SA) Type Questions

1. How does international trade help in stabilising the prices of a product?
2. How does international trade help nations to improve on economic variables such as employment, foreign exchange and efficient utilisation of resources?
3. **Tourism and transportation** have emerged as major components of international trade in services. Most of the airlines, shipping companies, travel agencies and hotels get their major share of revenues from their overseas customers and operations abroad. Several countries have come to heavily depend on services as an important source of foreign exchange earnings and employment. India, for example, earns a sizeable amount of foreign exchange from exports of services related to travel and tourism.  
**Business services** When one country provides services to other country and in the process earns foreign exchange, this is also treated as a form of international business activity. Fee received for services like banking, insurance, rentals, engineering and management services form part of country's foreign exchange earnings. Undertaking of construction projects in foreign countries is also an example of export of business services. The other examples of such services include overseas management contracts where arrangements are made by one company of a country which provides personnel to perform general or specialised management functions for another company in a foreign country in lieu of the other country. (NCERT)  
(i) Is international trade related to only goods?  
(ii) Enumerate the different services which are traded internationally.
4. Mention any four points that differentiate domestic business from international business.

## Long Answer (LA) Type Questions

1. What do you mean by International trade? How does it help the firms?
2. International trade helps the world at a larger level. For instance, country X produces certain grains more than anywhere else in the world because of nutrients present in its soil. It produces so much that even after self-consumption in country, they have some quantity left so they export to countries where there is shortage of those grains. This also helps in creating harmony and cooperation between the countries. With increasing demand for these high-quality grains all over the world, the country started to produce at larger level by making utilisation of resources better. Consequently, lot of people got involved in production and export of such grains leading to overall prosperity levels in the country.  
Identify and state the objectives of international trade highlighted in the passage by quoting the lines.

## Answers

### Multiple Choice Questions

1. (d)    2. (b)    3. (b)    4. (d)