

## Chapter – 25

### International Business

---

#### I. Choose the Correct Answer

**Question 1.**

Movement of goods, services, intellectual property, human assets, technology and so on among the countries .....

- (a) International Trade
- (b) International business
- (c) Entrepot Trade
- (d) Internal trade

**Answer:**

- (a) International Trade

**Question 2.**

Goods are imported for purpose of re – export to another country is termed as .....

- (a) Import Trade
- (b) Export Trade
- (c) Entrepot Trade
- (d) International trade

**Answer:**

- (c) Entrepot Trade

**Question 3.**

Movement of goods, services among the countries .....

- (a) International Trade
- (b) International business
- (c) Entrepot Trade
- (d) Internal trade

**Answer:**

- (b) International business

**Question 4.**

Selling of goods from home country to foreign country is called .....

- (a) Home Trade
- (b) Entrepot Trade
- (c) Foreign Trade
- (d) Joint Venture

**Answer:**

- (c) Foreign Trade

## **II. Very Short Answer Questions**

**Question 1.**

What do you mean by international business?

**Answer:**

International business denotes all those business activities which take place beyond the geographical limits of the country. It involves the international movements of capital personnel, technology, and intellectual property like patents, trademarks, and know-how and copyrights.

**Question 2.**

What is meant by Export Trade?

**Answer:**

When the firm of a country sells goods and services to a firm of another country it is called export trade. Export trade indicates the selling of goods and services from the home country to a foreign country.

**Question 3.**

What is meant by Import Trade?

**Answer:**

When the business firm of a country purchases goods from the firm of another country it is called import trade. Importing means the purchase of foreign products and bringing them into one's home country.

**Example:** Indian Enterprise purchases petroleum products, electrical goods. etc.

**Question 4.**

What is meant by Entrepot Trade?

**Answer:**

When the firm of country imports goods for the purpose of exporting the same goods to the firms of some other country with or without making any change in the goods meant for export it is known as entrepot trade.

**Question 5.**

Give any two reasons for International Business.

**Answer:**

1. To avoid uneven distribution of natural resources across the world and specialization attained by certain countries.
2. To fully utilize the cost benefits.

### **III. Short Answer Questions**

**Question 1.**

Describe importance of external trade to an economy.

**Answer:****1. Unequal Distribution of Natural Resources:**

Countries across the world are not endowed with the natural resources of various types equally and equitably. This uneven distribution of resources worldwide makes it necessary the exchange of goods among the countries through international business.

**2. Uneven Availability of Factors of Production:**

The availability of various factors of production namely, land, labour, capital and technology for producing goods and services differ among different countries. International business moves the surplus factor in one country over to another country where it is in short supply.

**3. Specialisation:**

Certain countries or some geographical areas of a certain country specialize in

the production of goods and services due to some natural advantages like abundant availability of skilled labour, favourable climatic conditions, availability of natural resources, technical know-how, etc. International business transfers the abundant surplus to other countries that do not have these specialized goods or products.

#### **4. Cost-Benefit:**

Production cost varies significantly among the countries due to differences in socioeconomic, geographical, demographical, technical, and political environments prevailing therein. This makes the firms engaged in international business import the goods available at lower prices from other countries and exports the goods which bring them better prices to other countries.

#### **Question 2.**

What is the necessity for entrepot trade?

**Answer:**

**Entrepot is necessary because of the following reasons:**

1. The country may not have any accessible trade routes connecting the importing country.
2. The goods imported may require further processing or finishing before exporting, and these facilities may be lacking in the exporting or importing country.
3. There may not have any bilateral trade agreement between both countries.

#### **Question 3.**

What are the limitations of international business?

**Answer:**

The following are the major limitations of international business.

- The parent firm has to make 100 percent equity investments in the foreign subsidiaries. As a result, international business is, not

suitable for small and medium-sized companies which have insufficient fund.

- The parent company has to bear the entire losses resulting from the failure, of its foreign operations.
- International business is subject to greater political risks.

## IV. Long Answer Questions

### Question 1.

List out the advantages of international trade.

**Answer:**

#### **Geographical Specialization:**

Countries across the world differ significantly in terms of natural resources, capital equipment, manpower, technology and land and so on. Some countries are rich in mineral resources, hydro-electric power, metallic resources, and so on. International business is required to exchange the surplus resources resulting from geographical specialisation for deficit resources in other countries.

#### **Optimum use of Natural Resources:**

The international business operates on a simple principle that a country which can produce more efficiently and trade the surplus production with other countries has to procure what it cannot produce more efficiently. This enables the countries to optimally utilize the scarce resources available with them.

#### **Economic Development:**

International business helps the developing countries greatly in achieving rapid economic development by importing machinery, equipment, technology, talent, and so on. Even the developed countries like Japan, the USA, UK, etc., have achieved remarkable economic progress through the import of raw materials and export of manufactured goods.

#### **Generation of Employment:**

International business generates employment opportunities by assisting the expansion and growth of agricultural and industrial activities. It provides

direct employment to those people who are hired by export and import firms and generates indirect employment to a number of intermediary firms like, clearing and forwarding agents, indent houses transport organizations, outsourcing agencies, etc.

**Higher Standard of Living:**

On account of international business, the citizens of the country can buy more varieties of goods and services which cannot be produced cost-effectively within the home country. This exchange of goods and services among the countries enhances the standard of living of people.

**Price Equalization:**

International business helps to stabilize the prices of various commodities which are fluctuating on a daily basis in the world market, international business prevents violent fluctuations of prices of various commodities and helps maintain prices of various commodities at a stable level in each and every country.

**Prospects for Higher Profit:**

International business helps the which produce goods in excess to sell them at a relatively higher price to various countries in the international market. This enables them to earn higher profits.

**Capacity Utilisation:**

International business enables firms across the country to sell their goods and services on a large scale in the international market. As a result, their machinery and equipment are used to their full capacity. In the short very prospect of selling goods in the international market besides selling the goods in home, market keeps the machinery, tools, equipment, and factory fully engaged all through the year.

**International Peace:**

International business makes countries across the world become inter-dependent while these countries are independent in their functioning. All the factors collectively contribute to maintaining international peace.

**Question 2.**

Enumerate the disadvantages of international trade.

**Answer:**

**1. Economic Dependence :** International trade is more likely to make the country too much dependent on imports from foreign countries. The former may not take any efforts to produce goods and services indigenously to substitute imported goods and thus becoming self-sufficient.

**2. Inhibition of Growth of Home Industries:** International business may discourage the growth of the indigenous industry. Unrestricted imports and severe competition from foreign companies may ruin the home industries altogether.

**3. Import of Harmful Goods :** International business may lead to import of luxurious goods, spurious goods, dangerous goods, etc. It may harm the well-being of people.

**4. Shortage of Essential Goods in Home Country:** The export of essential commodities out of the greed of earning more foreign exchange may result in an absolute shortage of these goods at home country and people may have to buy these commodities at an exorbitant price in the local market.

**5. Misuse of Natural Resources :** Excessive export of scarce natural resources to various countries across the world may lead to faster depletion of the resources in the exporting countries.

**6. Political Exploitation:** International business may create economic dependence among the countries which may threaten their political independence.

**7. Rivalry among the Nations:** Acute competition for exports may lead to rivalry among the nations. This may lead to a conflict of interest among the countries and end up in wars among them.

**8. Invasion of Culture:** International business may result in an invasion of a country's culture. The younger generation is more likely to imitate foreign culture and buy goods and services beyond their means to gain acceptance in the affluent section of society. This will ruin the conventional lifestyle of the society.

### Question 3.

Distinguish between internal and international trade.

Answer:

Basis	Domestic Business	International Business
<b>1. Meaning</b>	Domestic business refers to business transactions transacted within the geographical boundaries of a country	International business refers to the business transactions transacted in beyond the boundaries of a country
<b>2. Participants in Business</b>	People / organizations within the country participate in business activities	People/organizations outside the country participate in business activities
<b>3. Mobility of Factor of Production</b>	The factors of production i.e. labour,, capital, technology, material, etc., move freely within the boundaries of the country	The factors of production i.e. labour,, capital, technology, material, etc., move across the boundaries of the country.
<b>4. Nature of Consumers</b>	Consumers are relatively homogenous in nature in terms of culture, behavior ,taste, preferences, legal system, customs and practices, etc.,	Consumers are relatively heterogeneous in nature in terms of culture, behavior ,taste, preferences, legal system, customs and practices, etc. prevailing across the countries,
<b>5. Business System</b>	Domestic business is governed by the rules, laws, policies taxation system of a single country	International business is governed by rules, laws and policies ,tariffs and quotas etc., of multiple countries
<b>6. Currency Used</b>	Domestic business transactions are settled by local currency of a country.	International business transactions are settled by foreign currencies.
<b>7. Mode of Transport</b>	The goods involved in domestic business are mainly transported by roadways and railways.	The goods involved in international business is mainly transported by water and airways.
<b>8. Risk Exposure</b>	The risks involved in domestic business are relatively less.	The risks involved in international business are more due to distance, difference in socio-economic and political conditions. change in foreign exchanges value, etc.,
<b>9. Scope of Market</b>	The scope of market is limited to national boundaries of a country.	The scope of international business is very wide and extends beyond the frontiers of a country.
<b>10. Payment of Excise duty</b>	Payment of excise duty involves simple procedures and it is relatively low in domestic trade	The process of payment of excise is complicated in international business and the rate of excise duty is relatively high.