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NCERT Solutions for 11th Class Business Studies: Chapter 11- International Business-I

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Class 11: Business Studies Chapter 11 solutions. Complete Class 11 Business Studies Chapter 11 Notes.

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I.Multiple Choice Questions

Question 1. In which of the following modes of entry, does the domestic manufacturer give the right to use intellectual property such as patent and trademark to a manufacturer in a foreign country for a fee

(a) Licensing (b) Contract manufacturing

(c) Joint venture (d) None of these

Question 2. Outsourcing a part of or entire production and concentrating on marketing operations in international business is known as

(a) Licensing (b) Franchising

(c) Contract manufacturing (d) Joint venture

Question 3. When two or more firms come together to create a new business entity that is legally separate and distinct from its parents it is known as

(a) Contract manufacturing (b) Franchising

(c) Joint ventures (d) Licensing

Question 4. Which of the following is not an advantage of exporting?

(a) Easier way to enter into international markets

(b) Comparatively lower risks

(c) Limited presence in foreign markets

(d) Less investment requirements

Question 5. Which one of the following modes of entry requires higher level of risks?

(a) Licensing (b) Franchising

(c) Contract manufacturing (d) Joint venture

Question 6. Which one of the following modes of entry permits greater degree of control over overseas operations?

(a) Licensing/franchising (b) Wholly owned subsidiary

(c) Contract manufacturing (d) Joint venture

Question 7. Which one of the following modes of entry brings the firm closer to international markets?

(a) Licensing (b) Franchising

(c) Contract manufacturing (d) Joint venture

Question 8. Which one of the following is not amongst India's major export items?

(a) Textiles and garments (b) Gems and jewellery

(c) Oil and petroleum products (d) Basmati rice

Question 9. Which one of the following is not amongst India's major import items?

(a) Ayurvedic medicines (b) Oil and petroleum products

(c) Pearls and precious stones (d) Machinery

Question 10. Which one of the following is not amongst India's major trading partners?

(a) USA (b) UK

(c) Germany (d) New Zealand

Answer:

1. (a) 2. (c) 3. (c) 4. (a) 5. (c)

6. (b) 7. (c) 8. (d) 9. (6) 10. (d)

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II. Short Answer Type Questions

Question 1. Differentiate between international trade and international business.

Answer: Difference between international trade and international business is similar to difference between trade and business.

1. The scope of international business is much wider than international trade. International trade means exports and imports of goods which is an important component of international business but international business includes much more than this.

2. International trade in services like travel and tourism, transportation, communication, banking, warehousing, distribution and advertising is a part of international business.
3. International business also includes foreign direct investments, contract manufacturing, and setting up wholly owned subsidiaries etc. which are not included in international trade.

Question 2. Discuss any three advantages of international business.

Answer: The following are some of the advantages of foreign trade:

1. **Optimum use of resources:** Foreign trade helps in the optimum use of natural resources and avoids wastage's of resources. It ensures the presence of stable price by avoiding wide fluctuations in prices. It tries to equalise the world price.
2. **Increased standard of living:** It ensures more production to meet the demand of the people of different countries. By increased production, it becomes possible to increase income and the standard of living of its people. It also increases the standard of living by increasing more employment opportunities. It enables a country to import those goods which it cannot produce.
3. **Large scale production:** It ensures large production because the production is carried on to meet the demand of its people as well as world market. Large scale production also ensures a great deal of internal economies which reduces the cost of production.

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Question.3. What is the major reason under lying trade between nations?

Answer. The major reason behind international business is that the countries cannot produce equally well or cheaply all the commodities. This is called theory of comparative cost advantage. It is so because resources are unequally distributed in natural resources. Some countries are abundant in one commodity and scarce in others while opposite is true for some other country. It makes a case for international trade and exchanging abundant commodity with scarce commodity by nations. Different nations are endowed with different factors of production which includes land, labour, capital and entrepreneurship. For example, India is a labour abundant country. Therefore, it is advisable for India to produce such commodities which use labour intensive methods and exchange it for those which use capital intensive methods. USA is a capital abundant country. Therefore, nations need to trade. Due to these reasons one country has a comparative advantage in production of particular goods as compared to other countries. Consequently, each country fins it advantageous to produce those selected goods and services that it can produce more effectively at home and importing those goods in which other nations have a comparative cost advantage.

Question 4. Discuss as to why nations trade.

Answer: Nations trade because of following reasons:

1. **Unequal distribution of natural resources:** Resources are unequally distributed in natural resources. Some countries are abundant in one commodity and scarce in other while opposite is true for some other country. It makes a case for international trade and exchanging abundant commodity with scarce commodity by nations.
2. **Unequal availability of factors of production:** Different nations are endowed with different factors of production which includes land, labour, capital and entrepreneurship. For example, India is a labour abundant country. Therefore, it is advisable for India to produce such commodities which use labour intensive methods and exchange it for those which use capital intensive methods. USA is a capital abundant country. Therefore, nations need to trade.
3. **Theory of Comparative Cost Advantage:** Due to these factors, some countries are in an advantageous position in producing selected goods and services which other countries cannot produce that effectively and efficiently and vice-versa. Consequently, each country finds it advantageous to produce those selected goods and services that it can produce more effectively at home and importing those goods in which other nations have a comparative cost advantage.
4. **Geographical Specialisation:** The international business as it exists today is the result of geographical specialisation. Even within a country each state specialises in those goods for which it is geographically more suitable. Similarly, each nation specialises in those goods in which it is specialised as per availability of resources and exchanges it for other goods and services in foreign market.
5. **Cost minimization principle of firms:** Firms get involved in international business to minimise their costs and maximise their profits.

Question 5. Enumerate limitations of contract manufacturing.

Answer: Major limitations of contract manufacturing are discussed below:

1. **Non adherence to quality standards:** Local firms may not adhere to quality standards or product design. It may cause serious quality problems for international firm. .
2. **No control on production by local producer:** Local producer has no control on manufacturing as goods are manufactured strictly as per the terms and specifications by international firm.
3. **Zero control over sales:** Local producer can’t sell the output to customers directly. He needs to sell to the international firm at a pre-determined price. It reduces profits of local firm.

Question 6. Why is it said that licensing is an easier way to expand globally?

Answer: It is said that licensing is an easier way to expand globally because of its advantages over other modes of international business.

1. **Less Expensive:** Under the licensing, it is the licensee who sets up the business unit. Therefore, licensor has to invest no money. Therefore, it is considered as a cheaper way of entering*into international business.
2. **Zero Risk of Loss:** Licensor need not take pain of risk of profits and loss. He is paid a pre-determined fees called royalty by the licensee. As long as licensor continues to produce under the license, licensor keeps on getting his fees irrespective of whether licensee is making profits or incurring losses.
3. **Less risk of government intervention or takeovers:** A local person handles the business in foreign country. Therefore, there are lesser chances of government intervention or takeovers.
4. **Better knowledge of local needs:** Since licensee is the local person, he has better understanding of local needs, marketing strategies and business environment.
5. **Safety of Intellectual Property Rights:** As per the terms of the licensing, only licensee can make use of licensor's copyrights, patents and brand names in foreign countries. Therefore, there is lesser risk of these intellectual property rights being missed by other local firms.

Question 7. Differentiate between contract manufacturing and setting up wholly owned production subsidiary abroad.

Answer: The difference between contract manufacturing and wholly-owned subsidiary is discussed below:

Basis	Contract Manufacturing	Wholly Owned Subsidiary
Meaning	It refers to the type of international business where a firm enters into contract with some local manufactures in foreign countries to get certain components of goods produced as per their specifications.	In this the parent company acquires the full control over the foreign company by purchasing its 100% equity capital.
Forms	It can take three forms: (*a*) Getting produced certain parts of final products which will be used for the production of final products later. (*b*) Assembly of components into final products. (*c*) Complete manufacture of the products like garments.	It can be established in two ways: (*a*) As a green field venture, in which an altogether a new firm is set up to start operations in a foreign country. (*b*) Acquiring an existing firm in foreign country and using it for manufacturing and promoting its products in home country.

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Question 8. Distinguish between licensing and franchising.

Answer:

Basis	Licensing	Franchising
Meaning	Licensing is a contractual agreement in which one firm grants access to its patents, trade secrets, technology to another firm in a foreign country for a fee. This fee is called royalty.	Franchising is basically a specialized form of licensing in which franchisor sells intangible property to the franchisee but also imposes strict rules on franchisee as to how business is to be done.
Connected with	Licensing is used in connection with production and marketing of goods.	The term franchising is used in connection with production of services.
Stringency	Licensing is relatively less stringent than franchising. Strict rules and regulations are not set by licensors as to how licensees should operate while running their business.	Franchising is relatively more stringent than licensing. Strict rules and regulations are set by franchisers as to how franchisees should operate while running their business.

Question 9. List major items of India's import.

Answer: India's major items of imports include crude oil and petroleum products, capital goods, electronic goods, pearls, precious and semi-precious stones, gold, silver and chemicals.

Question 10. What are the major items that are exported from India?

Answer: India's major items of exports include textiles, garments, gems and jewellery, engineering products and chemicals, agriculture and allied products.

Question 11. List the major countries with whom India trades.

Answer: India's major trading partners are USA, UK, Germany, Japan, Belgium, Hong Kong, UAE, China, Switzerland, Singapore and Malaysia.

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III. Long Answer Type Questions

Question 1. What is international business? How is it different from domestic business?

Answer: International business refers to business which is carried on in two or more nations. It means carrying on business activities beyond national boundaries. These activities normally include the transaction of economic resources such as goods, capital, services (comprising technology, skilled labour, and transportation, etc.), and international production. It refers to that business activity that takes place beyond the geographical limits of a country. Production may either involve production of physical goods or provision of services like banking, finance, insurance, construction, trading, and so on. Thus, international business includes not only international trade of goods and services but also foreign investment, especially foreign direct investment.

Differences between International Business and Domestic Business are summarised below:

Basis	International Business	Domestic Business
Nationality of buyers and Sellers	People of different nationality participate in international business.	People of one nationality participate in domestic business. Exceptions are possible.
Nationality of other stake-holders	Employees, suppliers, customers, shareholders, partners, middlemen etc. belong to different nationality in international business.	Employees, suppliers, customers, shareholders, partners, middlemen etc. belong to same nationality in domestic business. Exceptions are possible.
Political Systems	International business is subject to political system of many nations.	Domestic business is subject to political system of one country.
Risk	Degree of risk is higher in international business.	Degree of risk is lower as compared to international business.
Mobility of factors of production	Mobility of factors of production is less across countries.	Mobility of factors of production is more within geographical boundaries of the country.
Consumer's taste and preferences	International markets are heterogeneous in terms of taste and preferences of the customer.	Domestic markets are more homogeneous in terms of taste and preferences of the consumer.
Currency	International business involves usage of foreign currency.	Domestic business makes use of domestic currency.
Business regulations and policy	International business is subject to rules laws, policies, and taxation system etc of multiple countries.	Domestic business is subject to rules, laws, policies, and taxation system etc of single country.
Differences in business systems and practices.	Business systems and policies are heterogeneous in two countries.	Business system and policies are more homogeneous within a country.

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Question 2. "International business is more than international trade". Comment.

Answer: It is rightly said that international business is more than international trade. The scope of international business is much wider than international trade. International trade means exports and imports of goods which is an important component of international business but international business includes much more than this. International trade in services like travel and tourism, transportation, communication, banking, warehousing, distribution and advertising is a part of international business. International business also includes foreign direct investments, contract manufacturing, and setting up wholly owned subsidiaries etc. which are not included in international trade. It is clear from the diagram given below:

Question 3. What benefits do firms derive by entering into international business?

Answer: The trade between two or more nations is termed as foreign trade or international trade. It involves exchange of goods and services between the trades of two countries. Foreign trade consists of import trade, export trade and entrepot trade. In the early stages of human civilization, production was confined as per consumption. Human wants were limited. Nowadays, human wants are increasing and as such no man was considered to be self-dependent. Like this no country can live in isolation and claimed the status to be self-sufficient. Because of this reason countries have trade relationships with each other. The primary objective of foreign trade is to increase foreign trade and increase the standard of living of its people. There is an increasing demand for foreign trade because of the following reasons:

1. The natural resources are unevenly distributed.
2. The presence of specialisation and division of labour.
3. Different countries have difference in economic growth rate.
4. The presence of the theory of comparative cost.
   The following are some of the advantages of foreign trade:

1. **Optimum use of Resources:** Foreign trade helps in the optimum use of natural resources and avoids wastages of resources.
2. **Stable Price:** It ensures the presence of stable price by avoiding wide fluctuations in prices. It tries to equalise the world price.
3. **Availability of all types of goods:** It enables a country to import those goods which it cannot produce.
4. **Increased Standard of living:** It ensures more production to meet the demand of the people of different countries. By increased production, it becomes possible to increase income and the standard of living of its people. It also increases the standard of living by increasing more employment opportunities.
5. **Large Scale production:** It ensures large production because the production is carried on to meet the demand of its people as well as world market. Large scale production also ensures a great deal of internal economies which reduces the cost of production.

Question 4. In what ways is exporting a better way of entering into international markets than setting up wholly owned subsidiaries abroad.

Answer: Exporting is a better way of entering into international markets than setting up wholly owned subsidiaries abroad in following ways:

1. **Easiest Way:** It is easy to enter international markets through exports as compared to wholly owned subsidiaries.
2. **Less Involving:** It is less involving as compared to establishing a wholly owned subsidiary because firms need not invest that much time and money.
3. **Zero risk of Foreign Investment:** Exporting does not require much of investment in foreign countries. Therefore, foreign investments risks are low as compared to when a firm starts its wholly owned subsidiary in foreign country.
4. **Less Costly:** In a wholly owned subsidiary, 100% equity investment is to be made by foreign company. Therefore, small and medium size producers can't think of this mode of entering into international business.
5. **Risk of Profit and Loss:** In wholly owned subsidiary, 100% equity capital is contributed by foreign company alone. Therefore, it alone has to bear the risk of losses.
6. **Government Intervention:** Some countries are averse to setting up of 100% wholly owned subsidiaries by foreign companies. This form of business operations is subject to high degree of political risks.

Question 5. Discuss briefly the factors that govern the choice of mode of entry into international business.

Answer: Following factors govern the choice of mode of entry into international business,

1. **Ease of entry:** First and foremost factor that determines the choice of mode of entry into international business is ease of entry. A businessman wants to adopt such mode of entry into international business which is easy and less formalities requiring. Exporting, importing, licensing and franchising are better ways from this perspective.
2. **Cost:** Second determining factor is cost involved. For example, very less cost is involved in exporting, importing, licensing, franchising and contract manufacturing as compared to joint ventures and setting wholly owned subsidiaries.
3. **Control over production:** If the foreign company or producer wants full control over production activities in local country, he will prefer franchising, wholly owned subsidiary or joint venture with majority share holding. If it is not so important, he will prefer exporting, importing, contract manufacturing licensing etc.

4. **Sharing of Technology:** If the company has no problem in sharing of technology then it may choose joint venture or franchising. But if it does not want to share its technology and trade secrets, it will prefer wholly owned subsidiary or exporting,
5. **Risk Involved:** If a firm is ready to take risk, it may choose wholly owned subsidiary or joint ventures but if it is willing to minimize its loss then it should choose exporting, licensing, franchising or contract manufacturing.

Question 6. Discuss the major trends in India's foreign trade. Also list the major products that India trades with other countries.

Answer: India is 10th largest economy in the world. It is the second fastest growing economy, next only to China. But India's performance in international business is not very good. India's share in world trade in 2003 was just 0.8%. In absolute terms, there has been significant increase in imports as well as exports. Total exports have increased from 606 crores in 1950-51 to Rs. 2, 93,367 crores in 2003-04 while imports have increased from 608 crores in 1950-51 to 3, 59,108 crores in 2003-04. Exports increased 480 times while imports increased 590 times indicating that there is adverse balance of trade. India's major trading partners are USA, UK, Germany, Japan, Belgium, Hong Kong, UAE, China, Switzerland, Singapore and Malaysia.

India's major items of exports include: Textiles, garments, gems and jewellery, engineering products and chemicals, agriculture and allied products.

India's major items of imports include: Crude oil and petroleum products, capital goods, electronic goods, pearls, precious and semi precious stones, gold, silver and chemicals.

Before 1991, promotion of import substitution and discouraging of exports was government strategy. Imports consisted of machinery, equipment and intermediates in production, petroleum and petroleum-products. After green revolution, imports of fertilizer too increased.

Before 1991, India's exports consisted of agricultural products like tea, raw cotton with the diversifying industrial structure, promoted by import substitution, exports of manufactures were growing. During 1986-91, external trade formed only 13.40 % of the GDP. During the 1990-2000, this share is rising continuously.

India's foreign trade has grown to exports of $250 billion and imports of $380 billion in 2010-11. The ratio of exports plus imports to GDP has grown from 13.40 % during 1985-90 to almost three times that, being 37.7 % in 2010-11. On adding services it becomes from 22.9 % in the 1990s to 49.0 % in 2010-11.

Leading role has been played by 'invisibles' which includes both services, mainly software services, export of which has grown to $59 billion in 2010-11. It has decreased the current account deficit from $130 billion to $44. This deficit was compensated by capital account surplus of $59 billion in that year.

But it is only because of IT services and we are still lacking in manufacturing exports which can generate a large volume of employment. We have not done as well as China and Malaysia have done.

Question 7. What is invisible trade? Discuss salient aspects of India's trade in services.

Answer: Trade in services is called invisible trade. Since services are invisible, export and import of services has been named as invisible trade. In absolute terms, there has been significant increase in India's foreign trade in services. Export and import of foreign travel, transportation and insurance has largely increased during last four decades. There has been a change in composition of services exports. Software and other miscellaneous services have emerged as the main categories of India's export of services. Share of travel and transportation has declined to 29.6% in 2003-04 from 64.3% in 1995-96 while the share of software exports has increased from 10.2% in 1995-96 to 49% in 2003-04.

Table showing Percentage share of major services to total services exports

Sector/Year	1995-96	2000-01	2001-02	2002-03	2003-04
Travel	36.9	21.5	18.3	16.0	16.5
Transportation	27.4	12.6	12.6	12.2	13.1
Software	10.2	39.0	44.1	46.2	48.9
Miscellaneous	22.9	21.3	20.3	22.4	18.7

The composition of India's external trade has been changing. During 1950s and 60s exports were mainly of primary goods. Over time, the role of engineering goods has been increasing. Overall manufactured goods constitute 66 % of total exports, of which engineering goods are 27%. Textiles and textile products, garments and leather products make around 10 % of India's exports.

In nutshell, we can say that the role of the external or internationally traded goods sector has been growing steadily in Indian economy. At present imports and exports together account for upto 49 % of India's GDP which was 18% in 1990s. In India there is greater share of exports of services which are IT software services, called IT- enabled services (ITES). It contributed more than 20% of India's export earnings. India accounts for about 45% of the world's BPO services.

The major Indian IT companies, TCS, Infosys and Wipro, initiated and perfected the Global Services Delivery (GSD) model. It is because India has a vast pool of software engineers and an even bigger pool of English-knowing staff. With growing competition in the market for such services, Indian companies have moved from BPO to Knowledge Process Outsourcing (KPO), which involves providing services for R and D and to high-end consulting.

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Chapterwise NCERT Solutions for Class 11 Business Studies:

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Organise pre-service and in-service training of teachers; develop and disseminate innovative educational techniques and practices;collaborate and network with state educational departments, universities, NGOs and other educational institutions; act as a clearing house for ideas and information in matters related to school education; and act as a nodal agency for achieving the goals of Universalisation of Elementary Education. In addition to research, development, training, extension, publication and dissemination activities, NCERT is an implementation agency for bilateral cultural exchange programmes with other countries in the field of school education.Its headquarters are located at Sri Aurobindo Marg in New Delhi. Visit the Official NCERT website to learn more.