# NCERT Solutions for Class 11
# Business Studies
# Chapter 11 International Business-I

**Exercises**
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**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) Contracted**
**(c) Joint venture**
**(d) None of these**

**Solution:** (a) Licensing

**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**

**Solution:** (c) Contract manufacturing

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**Question 3: When two or more firms come together to create a new business entity that is legally separate and distinct from its parents is known as**
**(a) Contract manufacturing**
**(b) Franchising**
**(c) Joint ventures**
**(d) Licensing**

**Solution:** (c) Joint ventures

**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**

**Solution:** (c) Limited presence in foreign markets

**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**

**Solution:** (d) Joint venture

**Question 6: Which one of the following modes of entry permits greatest degree of control over overseas operations?**
**(a) Licensing/franchising**
**(b) Wholly owned subsidiary**
**(c) Contract manufacturing**
**(d) Joint venture**

**Solution:** (b) Wholly owned subsidiary

**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**

**Solution:** (c) Contract manufacturing

**Question 8: Which one of the following is not amongst India's major export item?**
**(a) Textiles and garments**
**(b) Franchising**

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

**Solution:** (b) Franchising

**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**

**Solution:** (a) Ayurvedic medicines

**Question 10: Which one of the following is not amongst India's major trading partner?**
**(a) USA**
**(b) UK**
**(c) Germany**
**(d) New Zealand**

**Solution:** (d) New Zealand

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**Short Answer Questions**

**Question 1: Differentiate between international trade and international business.**

**Solution:**

| | International trade | International business |
|---|---|---|
| 1 | International trade refers to the exchange of goods and services across the international boundaries of countries. | Nternational business not only includes movement of capital, of goods and services, but also of capital, personnel, technology and intellectual property like patents, trademarks, know-how and copyrights. |
| 2 | International trade means movements of goods only. | Business transaction that takes place between two or more countries is known as international business. |
| 3 | International trade is a narrow term. | International business is much broader than international trade. |

**Question 2: Discuss any three advantages of international business.**

**Solution:** Three advantages of international business are:
**(1) Earning of foreign exchange**: International business helps a country to earn foreign exchange which it can later use for meeting its imports of capital goods, technology, petroleum products and fertilizers, pharmaceutical products and a host of other consumer products which otherwise might not be available domestically.
**(2) More efficient use of resources**: International business allows a country to produce what a country can produce more efficiently and trade the surplus production so generated with other countries to procure what they can produce more efficiently.
**(3) Improving growth prospects and employment potentials**: International business encourages many countries, especially the developing ones to produce on a larger scale which not only helps in improving their growth prospects, but also created opportunities for employment of people living in these countries

**Question 3: What is the major reason underlying trade between nations?**

**Solution:** The major reason underlying trade between nations are:

**(1)** Unequal distribution of natural resources among different nations.

**(2)** Availability of various factors of production such as labour, capital and raw materials that are required for producing different goods and services differ among nations.

**(3)** Labour productivity and production costs differ among nations due to various socio-economic, geographical and political reasons.

**Question 4: Discuss as to why nations trade.**

**Solution:** The nations cannot produce equally well or cheaply all that they need because of the unequal distribution of natural resources and various other factors such as labour productivity and production costs. Therefore, some countries are in an advantageous position in producing select goods and services which other countries cannot produce that effectively and efficiently, and viceversa and procuring the rest through trade with other countries which the other countries can produce at lower costs.

**Question 5: Enumerate limitations of contract manufacturing.**

**Solution:** The limitations of contract manufacturing are:
**(1)** Local firms might not adhere to production design and quality standards, thus causing serious product quality problems to the international firm.
**(2)** Local manufacturer in the foreign country loses his control over the manufacturing process because goods are produced strictly as per the terms and specifications of the contract.
**(3)** The profitability of local firm producing under contract manufacturing is low as it is not free to sell the contracted output as per its will. It has to sell the goods to the international company at prices agreed upon under the contract which may be lower than the open market prices.

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

**Solution:** Licensing is an easier way to expand globally because:
**(1)** Under the licensing system, it is the licensor who sets up the business unit and invests his/her own money in the business and the licensor has to virtually make no investments abroad. Therefore, it is considered a less expensive mode of entering into international business.

**(2)** Licensor is paid by the licensee by way of fees fixed in advance as a percentage of production or sales turnover and licensor does not bear risk of losses.
**(3)** Since the business in the foreign country is managed by the licensee who is a local person, there are lower risks of business takeovers or government interventions.
**(4)** Licensee being a local person has greater market knowledge and contacts which can prove to be quite helpful to the licensor in successfully conducting its marketing operations.

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

**Solution:**

| | **Contract manufacturing** | **Wholly owned production subsidiary** |
|---|---|---|
| 1 | A firm enters into a contract with one or a few local manufacturers in foreign countries to get certain components or goods produced as per its specifications. | The parent company acquires full control over the foreign company by making 100 per cent investment in its equity capital. |

| | | |
|---|---|---|
| 2 | The firm has limited control over the local manufacturer. | The parent company has full control over its operations in another country through the subsidiary. |
| 3 | There is no or little investment in the foreign countries | The parent company buys up the entire equity of the firm abroad and makes this firm its subsidiary. |

**Question 8: Distinguish between licensing and franchising.**

**Solution:**

| S.no | Licensing | Franchising |
|---|---|---|
| **1** | The licensor grants licence to a foreign company (licensee) to produce and sell goods under the licensor's logo and trademarks for a fee. | The franchiser grants a foreign firm (franchisee) the right to operate a business using a common brand name for an initial or a regular fee. |
| **2** | Operations are related to | Operations are related to the |
| **3** | production and marketing of goods. | services business. |

| | | |
|---|---|---|
| **4** | Less stringent rules and regulations | Strict rules and regulations |

**Question 9: List major items of India's exports.**

**Solution:** The major items of India's exports are:
**(1)** Tea,
**(2)** Basmati rice,
**(3)** Spices,
**(4)** Leather and leather products &
**(5)** Semi-precious stones.
**(6)** Ores and minerals
**(7)** Chemical and related products
**(8)** Textiles

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

**Solution:** The major items that are exported from India are:
**(1)** tea,
**(2)** pearls,
**(3)** precious and semi-precious stones,
**(4)** medicinal and pharmaceutical products,
**(5)** rice,
**(6)** spices,

**(7)** iron ore and concentrates,
**(8)** leather and leather manufactures

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

**Solution:** The major countries with whom India trades are:

**(1)** USA
**(2)** UK
**(3)** Belgium
**(4)** Germany
**(5)** Japan,
**(6)** Switzerland
**(7)** Hong Kong
**(8)** UAE
**(9)** China
**(10)** Singapore
**(11)** Malaysia.

**Long Answer Questions**

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

**Solution:** Manufacturing and trade beyond the boundaries of one's own country is known as international business. It involves not only the international movements of goods and services, but also of capital, personnel, technology and intellectual property like patents, trademarks, technical know-how and copyrights. It is different from domestic business in following ways:

| S.no | Domestic business | International business |
|---|---|---|
| **1** | Trade within the national boundaries of a country. | Trade between two or more countries. |
| **2** | People or organisations from one nation Participate | People or organisations of different countries Participate |
| **3** | More homogeneous in nature. | Lack homogeneity due to differences in language, preferences, customs, etc., across markets. |
| **4** | It is subject to political system and risks of one single country. | It have different forms of political systems and different degrees of risks which often become a barrier to international business. |
| **5** | Subjected to rules, laws or taxation system of one country. | Subjected to rules, regulations and laws of many |

| | | |
|---|---|---|
| | | countries. |
| **6** | Currency of domestic country is used. | used. Transactions involve use of currencies of more than one country. |

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

**Solution:** International trade comprises of exports and imports of goods and forms an important component of international business. But the scope of international business has substantially expanded. International trade in services such as international travel and tourism, transportation, communication, banking, ware-housing, distribution and advertising has considerably grown. The other equally important developments are increased foreign investments and overseas production of goods and services. Companies have started increasingly making investments into foreign countries and undertaking production of goods and services in foreign countries to come closer to foreign customers and serve them more effectively at lower costs. All these activities form part of international business. So, we can say that international business is a much broader term and is comprised of both the trade and production of goods and services across frontiers.

**Question 3: "What benefits do firms derive by entering into international trade". Comment.**

**Solution:** There are many benefits that firms derive by entering into international trade:

**(1) Prospects for higher profits**: International business can be more profitable than the domestic business as business firms can earn more profits by selling their products in countries where prices are high.

**(2) Increased capacity utilisation**: Firms can make use of their surplus production capacities and also improving the profitability of their operations by going for overseas expansion and procuring orders from foreign customers. Production on a larger scale often leads to economies of scale, which in turn lowers production cost and improves per unit profit margin.

**(3) Prospects for growth**: Once the market in the domestic country becomes saturated, it becomes difficult to grow the turnover. By entering into overseas markets, business firms can improve prospects of their growth.

**(4) Way out to intense competition in domestic market**: If the competition in the domestic market is very intense, internationalization seems to be the only way to achieve significant growth. International business thus acts as a catalyst of growth for firms facing tough market conditions on the domestic turf.

**(5) Improved business vision**: The growth of international business of many companies is essentially a part of their business policies or strategic management. The vision to become international comes from the urge to grow, the need to become more competitive, the need to diversify and to gain strategic advantages of internationalization.

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

**Solution:** The exporting is better way of entering into international markets than setting up wholly owned subsidiaries abroad in following ways:

**(1)**Exporting is the easiest way of gaining entry into international markets. It is less complex than setting up and managing joint ventures or wholly owned subsidiaries abroad.

**(2)** Exporting involves lesser time and effort as business firms are not required to invest that much time and money as is needed when they set up manufacturing plants and facilities as wholly owned subsidiary in host countries.

**(3)** exporting does not require much of investment in foreign countries, exposure to foreign investment risks is nil or much lower than that in establishing wholly owned subsidiary.

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

**Solution:** The factors that govern the choice of mode of entry into international business are:
**(1) Complexity**: It is a major factor governing the choice of a mode of entry into international business. The level of complexity differs from one mode to another. For example: Starting an export and import business is less complex than setting up and managing joint-ventures or wholly owned subsidiaries abroad.
**(2) Risk factor**: The risk involvement differ from one mode to another. For example: there is no or little risk involved in the contract manufacturing, exporting and licensing modes while the risk is comparatively higher in setting up a wholly owned subsidiary. Thus, companies needs and requirements play an important role in choosing risk factor.
**(3) Ownership and control**: Companies want to have full ownership and decision-making control over the foreign firm. Therefore, they choose wholly owned subsidiary mode to enter into international business. On the other

hand, modes of entry into international business such as licensing and exporting do not offer ownership rights to the parent company.

**(4) Investment**: It also have an important role while choosing various modes. If a company don't want to invest more amount of money, then it can choose importing and exporting or for licensing a foreign company for entering into international business. One should also choose wholly owned subsidiary mode but the cost of setting up and managing is very high. Thus, the mode of entry preferred by a firm depends on its capacity and readiness to make an investment

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

**Solution:** India is now the 10th largest economy in the world and the fastest growing economy, next only to China. As per the Goldman Sachs Report 2004, India is projected to be the second largest economy by 2050. Despite these features, India’s involvement with international business is not very impressive. India’s share in world trade in 2003 was abysmally low, just 0.8 per cent as compared to those of other developing countries such as China (5.9 per cent), Hong Kong (3.0 per cent), South Korea (2.6 per cent), Malaysia (1.3 per cent), Singapore (1.9 per cent), and Thailand (1.1 per cent).

**(1)** Post liberalization, the share of foreign trade in the country's GDP (Gross Domestic Product) has grown from 14.6% in 1990-91 to 24.1% in 2003-04. Exports and imports have been increasing continuously since then.

**(2)** India's total merchandise export was Rs. 606 crore in 1950-51. It has grown to Rs. 293,367 crores in 2003-04. Thus, there has been an increase of 480 times in exports in the last five decades.

**(3)** India's total import was Rs. 6.8 crore in 1950-51. It has grown to Rs. 359,108 crores in 2003-03. This shows a growth of 590 times over the same period.

**(4)** Although in overall terms India accounts for just 0.8 per cent of world exports, in many individual product items such as tea, pearls, precious and semi-precious stones, medicinal and pharmaceutical products, rice, spices, iron ore and concentrates, leather and leather manufactures, textile yarns fabrics, garments and tobacco, its share is much higher and ranges between 3 per cent to 13 per cent. Also it holds the distinct position of being the largest exporter in the world in select commodities such as basmati rice, tea, and ayurvedic products.

**(5)** India mainly imported crude oil and petroleum products, capital goods (i.e., machinery), electronic goods, pearl, precious and semi- precious stones, gold, silver and chemicals.

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

**Solution:** Invisible trade basically refers to the trading of services because of the intangible aspect of services. Trade in services includes trade in tourism and travel, boarding and lodging, entertainment and recreation, transportation, professional services, communication, construction and engineering, marketing, educational and financial services. India's trade in services has increased substantially over the years. Both the exports and imports of services relating to foreign travel, transportation and insurance have increased at a high rate during the last four decades. Software and other miscellaneous services (including professional technical and business services) have emerged as the main categories of India's exports of services. While the relative share of travel and transportation has declined from 64.3% in 1995-96 to 29.6% in 2003-2004, the share of software exports has gone up from 10.2% to around 49% in the corresponding period.