TEXTBOOK QUESTIONS SOLVED

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. (b)
10. (d)

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.

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.

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.

*********** END **********