NCERT SOLUTIONS

CLASS - 11th



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Class : 11th

Subject : Business Studies

Chapter : 11

Chapter Name : International business

Q1 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. Public Private Partnership

Answer. a. Licensing

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Q2 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 venture

d. Licensing

Answer. c. Joint venture

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Q3 Which of the following is not an advantage of exporting?

a. Easier way to enter into

b. Comparatively lower risks international markets

c. Limited presence in foreign

d. Less investment markets requirements

Answer. c. Limited presence in foreign

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Q4 Which one of the following modes of entry permits the greatest degree of control over overseas operations?

a. Licensing/franchising

b. Wholly owned subsidiary

c. Contract manufacturing

d. Joint venture

Answer. b. Wholly owned subsidiary

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Q5 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

Answer. c. Oil and petroleum products

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Q6 Which one of the following is not amongst India's major import items?

a. Ayurveda medicines

b. Oil and petroleum products

c. Pearls and precious stones

d. Machinery

Answer. a. Ayurveda medicines

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Q7 Which of the following documents are not required for obtaining an export licence?

a. IEC number

b. Letter of credit

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c. Registration-cum-membership

d. Bank account number certificate

Answer. b. Letter of credit

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Q8 Which of the following documents is not required in connection with an import transaction?

a. Bill of lading

b. Shipping bill

c. Certificate of origin

d. Shipment advice

Answer. d. Shipment advice

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Q9 Which of the following do not form part of duty drawback scheme?

a. Refund of excise duties

b. Refund of customs duties

c. Refund of export duties

d. Refund of income dock charges at the port of shipment

Answer. d. Refund of income dock charges at the port of shipment

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Q10 Which one of the following is not a part of export documents?

a. Commercial invoice

b. Certificate of origin

c. Bill of entry

d. Mate's receipt

Answer. c. Bill of entry

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Q11 A receipt issued by the commanding officer of the ship when the cargo is loaded on the ship is known as:

a. Shipping receipt

b. Mate receipt

c. Cargo receipt

d. Charter receipt

Answer. b. Mate receipt

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Q12 Which of the following document is prepared by the exporter and includes details of the cargo in terms of the shipper's name, the number of packages, the shipping bill, port of destination and name of the vehicle carrying the cargo?

a. Shipping bill

b. Packaging list

c. Mate's receipt

d. Bill of exchange

Answer. a. Shipping bill

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Q13 The document containing the guarantee of a bank of honour drafts drawn on it by an exporter is:

a. Letter of hypothecation

b. Letter of credit

c. Bill of lading

d. Bill of exchange

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Answer. b. Letter of credit

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Q14 TRIP is one of the WTO agreements that deal with:

a. Trade in agriculture

b. Trade in services

c. Trade related investment

d. None of these measures

Answer d. None of these measures

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Q1 Differentiate between international trade and international business.

Answer. International Business: International business refers to business activities or transactions that takes place across the globe. When the manufacturing and trading takes place outside or beyond one's national frontiers it is known as international business.

International trade : International trade means movements of goods only. It involves only the movements of goods and international currency is used for dealing. International trade is a narrow.

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Q2 Discuss any three advantages of international business.

Answer. Some of the benefits of international business to the nations and business firms are discussed below.

Benefits to Countries

(i) 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 fertilisers, pharma-ceutical products and a host of other consumer products which otherwise might not be available domestically.

(ii) More efficient use of resources: As stated earlier, international business operates on a simple principle — produce what your country can produce more efficiently, and trade the surplus production so generated with other countries to procure what they can produce more efficiently. When countries trade on this principle, they end up producing much more than what they can when each of them attempts to produce all the goods and services on its own. If such an enhanced pool of goods and services is distributed equitably amongst nations, it benefits all the trading nations.

(iii) Improving growth prospects and employment potentials: Producing solely for the purposes of domestic consumption severely restricts a country's prospects for growth and employment. Many countries, especially the developing ones, could not execute their plans to produce on a larger scale, and thus create employment for people because their domestic market was not large enough to absorb all that extra production. Later on a few countries such as Singapore.

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Q3 What is the major reason underlying trade between nations?

Answer. The major reason behind international business is that the countries have unequal distribution of natural resources among them or have differences in their productivity levels because of which they cannot produce all that they need equally well or at equal costs. Trade between nations 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.

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Q4 Why is it said that licensing is an easier way to expand globally?

Answer. Permitting another party in a foreign country to produce and sell goods under your trademarks, patents or copy rights in lieu of some fee is another way of entering into international business. It is under the licensing system that Pepsi and Coca Cola are produced and sold all over the world by local bottlers in foreign countries. Franchising is similar to

licensing, but it is a term used in connection with the provision of services. McDonalds, for instance, operates fast food restaurants the world over through its franchising system.

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Q5 Differentiate between contract manufacturing and setting up wholly owned production subsidiary abroad.

Answer. Contract manufacturing refers to a type of international business where 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. Contract manufacturing, also known as Outsourcing.

Wholly Owned Subsidiaries

This entry mode of international business is preferred by companies which want to exercise full control over their overseas operations. The parent company acquires full control over the foreign company by making 100 percent investment in its equity capital.

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Q6 Discuss the formalities involved in getting an export licence.

Answer. Obtaining export licence: Having become assured about payments, the exporting firm initiates the steps relating to compliance of export regulations. Export of goods in India is subject to custom laws which demand that the export firm must have an export licence before it proceeds with exports. Important pre-requisites for getting an export licence are as follows:

- ➔ Opening a bank account in any bank authorised by the Reserve Bank of India (RBI) and getting an account number.
- ➔ Obtaining Import Export Code (IEC) number from the Directorate General Foreign Trade (DGFT) or Regional Import Export Licensing Authority.
- ➔ Registering with appropriate export promotion council.

➔ Registering with Export Credit and Guarantee Corporation (ECGC) in order to safeguard against risks of non payments.

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Q7 Why is it necessary to get registered with an export promotion council?

Answer. Export Promotion Councils are non-profit organisations registered under the Companies Act or the Societies Registration Act, as the case may be. The basic objective of the export promotion councils is to promote and develop the country's exports of particular products falling under their jurisdiction. At present, there are 21 EPC's dealing with different commodities.

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Q8 Why is it necessary for an export firm to go in for pre-shipment inspection?

Answer. The Export Inspection Council of India was setup by the Government of India under Section 3 of the Export Quality Control and Inspection Act 1963. The council aims at sound development of export trade through quality control and pre-shipment inspection. The council is an apex body for controlling the activities related to quality control and pre-shipment inspection of commodities meant for export. Barring a few exceptions, all the commodities destined for exports must be passed by EIC.

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Q9 What is bill of lading? How does it differ from bill of entry?

Answer. Bill of lading: It is a document prepared and signed by the master of the ship acknowledging the receipt of goods on board. It contains terms and conditions on which the goods are to be taken to the port of destination.

Bill of entry: Bill of entry is a form supplied by the customs office to the importer. It is to be filled in by the importer at the time of receiving the goods. It has to be in triplicate and is to be submitted to the customs office. The bill of entry contains information such as name and address of the importer, name of the ship, number of packages, marks on the package, description of goods, quantity and value of goods, name and address of the exporter, port of destination, and customs duty payable.

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Q10 Explain the meaning of mate’s receipt.

Answer. This receipt is given by the commanding officer of the ship to the exporter after the cargo is loaded on the ship. The mate’s receipt indicates the name of the vessel, berth, date of shipment, description of packages, marks and numbers, condition of the cargo at the time of receipt on board the ship, etc. The shipping company does not issue the bill of lading unless it receives the mate’s receipt.

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Q11 What is a letter of credit? Why does an exporter need this document?

Answer. The goods must be cleared from the customs before these can be loaded on the ship. For obtaining customs clearance, the exporter prepares the shipping bill.

Five copies of the shipping bill along with the following documents are then submitted to the Customs Appraiser at the Customs House:

- ➔ Export Contract or Export Order
- ➔ Letter of Credit
- ➔ Commercial Invoice

- ➔ Certificate of Origin
- ➔ Certificate of Inspection, where necessary
- ➔ Marine Insurance Policy

After submission of these documents, the Superintendent of the concerned port trust is approached for obtaining the carting order.

Letter of credit: A letter of credit is a guarantee issued by the importer's bank that it will honour up to a certain amount the payment of export bills to the bank of the exporter. Letter of credit is the most appropriate and secure method of payment adopted to settle international transactions.

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Q12 Discuss the process involved in securing payment for exports.

Answer. After the shipment of goods, the exporter informs the importer about the shipment of goods. The importer needs various documents to claim the title of goods on their arrival at his/her country and getting them customs cleared. The documents that are needed in this connection include certified copy of invoice, bill of lading, packing list, insurance policy, certificate of origin and letter of credit. The exporter sends these documents through his/her banker with the instruction that these may be delivered to the importer after acceptance of the bill of exchange — a document which is sent along with the above mentioned documents. Submission of the relevant documents to the bank for the purpose of getting the payment from the bank is called 'negotiation of the documents'.

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Q1 "International business is more than international trade". Comment.

Answer. International trade comprises of exports and imports of goods and forms an important component of international business. But the scope of international business is substantially wider than that of international trade. International business includes international exchange of services such as international travel and tourism, transportation, communication, banking,

warehousing, distribution and advertising. It also covers foreign investments and overseas production of goods and services.

Multinational companies have started making investments into foreign countries and undertaking production of goods and services in foreign countries to explore foreign markets and produce at lower costs. All these activities form part of international business. To conclude, 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. International trade is done through exporting of goods while international business modes include licensing, franchising, contract manufacturing, joint ventures and establishment of wholly owned subsidiaries apart from exporting.

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Q2 What benefits do firms derive by entering into international business?

Answer. Some of the benefits of international business to the nations and business firms are discussed below.

Benefits to Countries

(i) 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 fertilisers, pharma- ceutical products and a host of other consumer products which otherwise might not be available domestically.

(ii) More efficient use of resources: As stated earlier, international business operates on a simple principle — produce what your country can produce more efficiently, and trade the surplus production so generated with other countries to procure what they can produce more efficiently. When countries trade on this principle, they end up producing much more than what they can when each of them attempts to produce all the goods and services on its own. If such an enhanced pool of goods and services is distributed equitably amongst nations, it benefits all the trading nations.

(iii) Improving growth prospects and employment potentials: Producing solely for the purposes of domestic consumption severely restricts a country's prospects for growth and employment. Many countries, especially the developing ones, could not execute their plans to produce on a

larger scale, and thus create employment for people because their domestic market was not large enough to absorb all that extra production.

(iv) Increased standard of living: In the absence of international trade of goods and services, it would not have been possible for the world community to consume goods and services produced in other countries that the people in these countries are able to consume and enjoy a higher standard of living.

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Q3 In what ways is exporting a better way of entering 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 the 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. Since 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.

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Q4 Rekha Garments has received an order to export 2000 men’s trousers to Swift Imports Ltd., located in Australia. Discuss the procedure that Rekha Garments would need to go through for executing the export order.

Answer. Export Procedures: The starting point in an export transaction is the receipt of an enquiry from the overseas buyer. In response, the exporter prepares an export quotation — called proforma invoice, giving out details about the export goods and the terms and conditions of export. In case, the importer finds the quotation acceptable, he/she places an order or indent and gets a letter of credit issued from his/her bank to the exporter. The exporter then proceeds with the formalities related to obtaining an export licence from the Director General of Foreign Trade and getting a registration-cum-membership certificate from the export promotion council looking after the export of the concerned product. In case, the exporter requires funds, he/she can avail of pre-shipment finance from a bank. The exporter then proceeds with the production or procurement of the goods and gets them inspected from Export Inspection Council. If required by the importer,

The exporter approaches the foreign consulate for obtaining the certificate of origin to enable the importer to claim tariff of quota concessions at the time of clearance of cargo at the import destination. The exporter, then, makes arrangement, for reserving space on the ship and insuring goods against transit perils. After obtaining the excise clearance, goods are sent to the concerned port for customs clearance. Since customs clearance is a tedious process, exporters often employ C&F agents for availing their services in preparation of various customs documents and getting the goods customs cleared. After customs clearance and payment of dock charges to the port authorities and freight charges to the shipping company, goods are loaded on the ship. The captain of the ship issues a mate's receipt. This mate's receipt is submitted to the shipping company's office for the payment of freight. After receiving the freight charges, the shipping company issues a bill of lading, which is a document of contract relating to shipment of the goods by the shipping company. Once the goods are dispatched, the exporter prepares an invoice and sends the necessary documents, such as certified copy of invoice, bill of lading, packing list, insurance policy, certificate of origin, letter of credit and bill of exchange to the importer through his/her bank to release a certificate of payment. Certificate of payment is a document that certifies that the export transaction is over and the payment has been received.

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Q5 Your firm is planning to import textile machinery from Canada. Describe the procedure involved in importing.

Answer. Import Procedure: The procedure to import is also beset with several formalities. The process starts with a search for export firms and making a trade enquiry about the product, its price and terms and conditions of exports. Having selected an export firm, the importer asks the

exporter to send him/her a formal quotation called proforma invoice. The importer, then, proceeds to obtain the import licence, if required, from the office of the Directorate General Foreign Trade (DGFT) or Regional Import Export Licensing Authority. The importer also applies for the Import Export Code (IEC) number. This number is required to be mentioned on most of the import documents. Since payment for imports requires foreign currency, the importer has to send an application to a bank authorised for sanction of the necessary foreign exchange.

After obtaining an import licence, the importer places an import order or indent with the exporter for supply of the specified products. If required as per the terms of contract, the importer arranges for the issuance of a letter of credit to the exporter from the bank. Having shipped the goods under shipment advice to the importer, the exporter sends a set of necessary documents containing bill of exchange, commercial invoice, bill of lading/airway bill, packing list, certificate of origin, marine insurance policy, etc., to enable the importer claim title to the goods on their arrival at the port of destination. The exporter sends these documents through his/her bank to the importer. The bank presents these documents to the importer and after obtaining his/her acceptance of the bill of exchange, delivers the documents to the importer.

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Q6 Identify various organisations that have been set up in the country by the government for promoting country's foreign trade.

Answer. The Government of India has also set up from time-to-time various institutions in order to facilitate the process of foreign trade in our country. Some of the important institutions are as follows:

Department of Commerce: The Department of Commerce in the Ministry of Commerce, Government of India, is the apex body responsible for the country's external trade and all matters connected with it. This may be in the form of increasing commercial relations with other countries, state trading, export promotional measures and the development, and regulation of certain export oriented industries and commodities. The Department of Commerce formulates policies in the sphere of foreign trade. It also frames the import and export policy of the country in general.

Export Promotion Councils (EPCs): Export Promotion Councils are non-profit organisations registered under the Companies Act or the Societies Registration Act, as the case may be. The basic objective of the export promotion councils is to promote and develop the country's exports

of particular products falling under their jurisdiction. At present, there are 21 EPC's dealing with different commodities.

Commodity Boards: Commodity Boards are the boards which have been specially established by the Government of India for the development of production of traditional commodities and their exports. These boards are supplementary to the EPCs. The functions of commodity boards are similar to those of EPCs. At present there are seven commodity boards in India: Coffee Board, Rubber Board, Tobacco Board, Spice Board, Central Silk Board, Tea Board, and Coir Board.

Export Inspection Council (EIC): The Export Inspection Council of India was setup by the Government of India under Section 3 of the Export Quality Control and Inspection Act 1963. The council aims at sound development of export trade through quality control and pre-shipment inspection. The council is an apex body for controlling the activities related to quality control and pre-shipment inspection of commodities meant for export.

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Q7 What is IMF? Discuss its various objectives and functions.

Answer. The International Monetary Fund (IMF) is the second international organisation next to the World Bank. IMF which came into existence in 1945 has its headquarters located in Washington DC. In 2005, it had 191 countries as its members. The major idea underlying the setting up of the IMF is to evolve an orderly international monetary system, i.e., facilitating system of international payments and adjustments in exchange rates among national currencies. Major objectives of IMF include

- ➔ To promote international monetary cooperation through a permanent institution,
- ➔ To facilitate expansion of balanced growth of international trade and to contribute thereby to the promotion and maintenance of high levels of employment and real income.
- ➔ To promote exchange stability with a view to maintain orderly exchange arrangements among member countries, and
- ➔ To assist in the establishment of a multilateral system of payments in respect of current transactions between members.
- ➔ Functions of IMF
- ➔ Various functions are performed by the IMF to achieve the aforesaid objectives. Some of the important functions of IMF include:
- ➔ Acting as a short-term credit institution;

- ➔ Providing machinery for the orderly adjustment of exchange rates;
- ➔ Acting as a reservoir of the currencies of all the member countries, from which a borrower nation can borrow the currency of other nations;
- ➔ Acting as a lending institution of foreign currency and current transaction;
- ➔ Determining the value of a country's currency and altering it, if needed, so as to bring about an orderly adjustment of exchange rates of member countries; and
- ➔ Providing machinery for inter- national consultations.

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Q8 Write a detailed note on features, structure, objectives and functioning of WTO.

Answer. On the lines of IMF and the World Bank, it was initially decided at the Bretton Woods conference to set up the International Trade Organisation (ITO) to promote and facilitate international trade among the member countries and to overcome various restrictions and discriminations as were being practiced at that time. But the idea could not materialise due to stiff opposition from the United States. Instead of altogether abandoning the idea, we can state more explicitly the following as the major objectives of WTO:

- ➔ To ensure reduction of tariffs and other trade barriers imposed by different countries;
- ➔ To engage in such activities which improve the standards of living, create employment, increase income and effective demand and facilitate higher production and trade;
- ➔ To facilitate the optimal use of the world's resources for sustainable development; and
- ➔ To promote an integrated, more viable and durable trading system.
- ➔ Functions of WTO
- ➔ The major functions of WTO include:
- ➔ Promoting an environment that is encouraging to its member countries to come forward to WTO in mitigating their grievances;
- ➔ Laying down a commonly accepted code of conduct with a view to reducing trade barriers, including tariffs and eliminating discriminations in international trade relations;
- ➔ Acting as a dispute settlement body;
- ➔ Ensuring that all rules regulations prescribed in the Act are duly followed by the member countries for the settlement of their disputes;
- ➔ Holding consultations with the IMF and the IBRD and its affiliated agencies so as to bring better understanding and cooperation in global economic policy making; and

- ➔ Supervising on a regular basis the operations of the revised Agreements and Ministerial declarations relating to goods, services and Trade Related Intellectual Property Rights (TRIPS).

Benefits of WTO

Since its inception in 1995, the WTO has come a long way in constituting the legal and institutional foundation of the present day multilateral trading system. It has been instrumental not only in facilitating trade, but also in improving living standards and cooperation among member countries. Some of the major benefits of WTO are as follows:

- ➔ WTO helps promote international peace and facilitates international business.
- ➔ All disputes between member nations are settled with mutual consultations.
- ➔ Rules make international trade and relations very smooth and predictable.
- ➔ Free trade improves the living standard of the people by increasing the income level.

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