



Biyani Girls College
I Internal Examination 2019-20
BBA III Year
Subject- International Business

Time: 1.30 Hrs.

Set: A

MM: 40

[I] Multiple Choice Questions

(10*1=10)

1. The main objective of International Monetary Fund (IMF) was to

- (a) Promote International trade
- (b) Help economically backward countries
- (c) Maintain Stable exchange rate
- (d) Promote International Liquidity

Ans. (b)

2. Which one of the following is not an International financial institution?

- (a) ICICI
- (b) IMF
- (c) ADB
- (d) World Bank

Ans. (a)

3. The gains from two nations depends on

- (a) Domestic barter rates
- (b) Difference in domestic barter rate of the two countries
- (c) Terms of Trade
- (d) Degree of absolute advantage

Ans. (c)

4. Which one is not the form of FDI

- (a) Purchase of existing assets in foreign currency.
- (b) New Investment in Property, plant and equipment.
- (c) Making investment in the mutual funds
- (d) Transfer of many type of asset

Ans. (d)

5. What is EURO –III?

- (a) European Currency
- (b) Group of European Countries
- (c) European Film Festival
- (d) Pollution Center scale

Ans. (d)

6. Is licensing a mode of entry into International Business?

- (a) Yes
- (b) No

Ans. (a)

7. Which one of these is a cultural challenge in international business?

- (a) Communication
- (b) Social organization
- (c) Culture and strategy
- (d) Education system

Ans. (c)

8. Which of the following is not a mode of foreign capital inflow to India?

- (a) FDI
- (b) FII
- (c) NRI Accounts
- (d) None of these

Ans. (d)

9. In which one of these country duration of business meetings are generally long

- (a) British Countries
- (b) Asian Countries
- (c) European Countries
- (d) South American Countries

Ans. (b)

10. International Marketing is affected by which bodies of law?

- (a) International Law
- (b) Code law

(c) Theocratic Law

(d) Common Law

Ans. (c)

II] Long type Questions:

(10*3=30)

1. Explain Political Environment and state the determinants of political development

Ans. The political environment in international business consists of a set of political factors and government activities in a foreign market that can either facilitate or hinder a business' ability to conduct business activities in the foreign market. There is often a high degree of uncertainty when conducting business in a foreign country, and this risk is often referred to as political risk or sovereign risk.

Common Political Factors

Let's look at some common political factors that influence the international business landscape. The type of economic system a country builds is a political choice. Foreign countries often will have different economic systems from your domestic market, and adjustments often need to be made to take these differences into account. For example, a country may operate in a market economy where private individuals own most of the property and operate most of the businesses. A market economy is usually the best economic environment for a foreign business because of the protection of private property and contract rights.

Some countries lean more towards a socialist economy where many industries and businesses are owned by the state. Operating businesses in this environment will be more difficult, but products can still be produced and sold as people still pick their jobs and earn money.

A few countries operate under a communistic economic system where the state pretty much controls all aspects of the economy. Conducting business in this environment ranges from difficult to impossible.

Principal political ideologies may be categorized by way of economic systems, political systems, and governance structure as discussed below.

(i) Types of Government: Economic Systems:

Communism:

Based on Karl Marx's Theory of Social Change directed at the idea of a classless society, all the major factors of production in a country under communism are owned by the government and shared by all the people rather than profit-seeking enterprises, for the benefit of the society.

Since the government controls all the productive resources and industrial enterprises, it exerts significant control on determining production quantity, price, employment, and practically everything else. The focus of communism is on human welfare rather than profit making.

Typically communism involves seizure of power by a political party, maintaining the power by suppression of any opposition and commitment to achieve the ultimate goal of a worldwide communist state. After the Bolshevik Revolution in 1917 in Russia, the government overtook all the private businesses and this was repeated after each communist take-over of a country.

Countries following the communist philosophy had non-market and weak economies and the governments had an active role in economic planning. These countries had rigid and bureaucratic, political, and economic systems and indulged in huge foreign debts. Countries such as China, the former Soviet Union, Eastern European countries, North Korea, and Vietnam are also referred to as 'centrally planned economies'.

However, there exists marked difference between the communist countries too. Since there had been lack of incentive and motivation to workers and managers under communism to improve productivity, the system suffered from gross inefficiencies.

Socialism:

In a socialist form of government, basic and heavy industries are operated by the government, whereas small businesses may be privately owned. Basic industries, such as mining, oil exploration, steel, ship building, railways, roads, airlines, etc., are kept under government control. The extent of government control under socialism is lower than communism. Countries following socialist system include Sweden, France, India, Poland, etc. However, the socialist countries too differ from each other in terms of the degrees of public and private ownership.

Capitalism:

In stark contrast to communism, capitalism is the economic system in which there is a complete freedom of private ownership of productive resources and industries. Thus, there is full freedom to both the business enterprises and the consumers that provides for a 'free market economy'.

Under capitalism, individuals are allowed to produce goods and services under competitive conditions giving rise to a 'market- oriented system'. Market prices are determined by the forces of demand and supply. As individuals are motivated by private gains, it leads to product innovation, quality up gradation, increase in efficiency, and lower market prices. Capitalism too differs among countries. For instance, the US is highly capitalistic compared to Japan. Although business enterprises in Japan are privately owned, the Japanese Government does meticulously supervise their activities and, therefore, exerts indirect control.

The prevalence of the purest form of capitalism, laissez-faire, wherein the economic activity is left to the private sector with no government interference, is rare. Governments significantly influence a country's economic system. There is hardly any country that allows complete ownership either by the private sector or the government. Thus, the pure form of capitalism or communism hardly exists.

(ii) Types of Government: Political systems:

Democracy:

The word democracy is derived from demokratia, which means rule of the people or government by the people where citizens are directly involved in decision making. Over a period of time, there has been proliferation of population across the world and societies have become more complex. This has led to decision making by people's elected representatives in democratic countries. The most comprehensive definition of democracy is the government 'of the people, for the people, and by the people'. India is the largest democratic country in the world.

Totalitarianism:

It is a dictatorial form of centralized government that regulates every aspect of public and private behaviour. Power is centralized in the hands of a dictator who operates through a mixture of cultivating devoted followers and terrorizing those who do not agree with its policies.

Citizens in a totalitarian state are generally deprived of their basic rights of freedom of expression, organizing meetings, free media, tolerance, and elections, which are available under democracy.

Major forms of totalitarianism include:

- **Secular totalitarianism:**

In secular totalitarianism, the government uses military power to rule.

- **Fascist totalitarianism:**

Fascism is a right-wing nationalistic political ideology fundamentally opposed to democracy with a totalitarian and hierarchical structure. The term 'fascism' is derived from the Latin word/faces which refer to the bundle of rods bound around a projecting axe-head as a symbol of power and authority.

In Italian, the word 'fascism' refers to radical political groups of many different and sometimes opposing orientations. Fascist totalitarianism prevailed in Italy under Mussolini, Germany under Hitler, Spain under Franco, and Portugal under Salazar.

- **Authoritarian totalitarianism:**

Authoritarianism aims to control both the minds and souls of people and to convert them to its own faith whereas totalitarianism aspires to just rule people. Chile under Pinochet and South Africa prior to apartheid are the examples of such authoritarian totalitarianism.

- **Communist totalitarianism:**

This is the most widespread form of secular totalitarianism which advocates that socialism can be achieved only through totalitarian dictatorship. It is the left-wing totalitarianism that believes in equal distribution of wealth and complete government ownership and control on national resources.

- **Theocratic totalitarianism:**

Religious leaders also assume political leadership in theocratic totalitarianism, for instance, in the Islamic Republic of Iran.

(iii) Types of Government: Structure

Parliamentary:

The government consults its citizens from time to time and the parliament has power to formulate and execute laws. The British parliamentary system is one of the oldest in the world whereas in the US, the congress passes the law and the executive branch of the government is independent. India follows a Westminster form of parliamentary democracy.

2. Differentiate between International Business and Domestic Business

Ans. Definition of Domestic Business

The business transaction that occurs within the geographical limits of the country is known as domestic business. It is a business entity whose commercial activities are performed within a nation. Alternately known as internal business or sometimes as home trade. The producer and customers of the firm both reside in the country. In a domestic trade, the buyer and seller belong to the same country and so the trade agreement is based on the practices, laws and customs that are followed in the country.

There are many privileges which a domestic business enjoys like low transaction cost, less period between production and sale of goods, low transportation cost, encourages small-scale enterprises, etc.

Definition of International Business

International Business is one whose manufacturing and trade occur beyond the borders of the home country. All the economic activities indulged in cross-border transactions comes under international or external business. It includes all the commercial activities like sales, investment, logistics, etc., in which two or more countries are involved.

The company conducting international business is known as a multinational or transnational company. These companies enjoy a large customer base from different countries, and it does not have to depend on a single country for resources. Further, the international business expands the trade and investment amongst countries.

However, there are several drawbacks which act as a barrier to entry in the international market like tariffs and quota, political, socio-cultural, economic and other factors that affect the international business.

Below is the table of differentiation for further reference:

Basis	Domestic Business	International Business
Meaning	A business is said to be domestic, when its economic transactions are conducted within the geographical boundaries of the country.	International business is one which is engaged in economic transaction with several countries in the world.
Area of operation	Within the country	Whole world
Quality standards	Quite low	Very high
Deals in	Single Currencies	Multiple Currencies
Capital investment	Less	High
Restrictions	Few	Many
Nature of customers	Homogeneous	Heterogenous
Business research	It can be conducted easily.	It is difficult to conduct research.
Mobility of factors of production	Free	Restricted

3. State the scope of International business. Also present the challenges to international Business.

Ans. The scope of international business is much broader involving international marketing, international investments, management of foreign exchange, procuring international finance from IMF, IBRD, International Finance Corporation (IFC), International development association (IDA) etc. management of international human resource management of cultural diversity, management of international production and logistics, international strategic management and the like.

Nature of International Business

1. Accurate Information
2. Information not only accurate but should be timely
3. The size of the international business should be large
4. Market segmentation based on geographic segmentation
5. International markets have more potential than domestic markets

Scope of International Business

1. International Marketing
2. International Finance and Investments
3. Global HR
4. Foreign Exchange

Need for International Business

1. To achieve higher rate of profits
2. Expanding the production capacity beyond the demand of the domestic country
3. Severe competition in the home country
4. Limited home market
5. Political conditions
6. Availability of technology and managerial competence
7. Cost of manpower, transportation
8. Nearness to raw material
9. Liberalisation, Privatisation and Globalisation (LPG)
10. To increase market share
11. Increase in cross border business is due to falling trade barriers (WTO), decreasing costs in telecommunications and transportation; and freer capital markets

Reasons for Recent International Business Growth

1. Expansion of technology

2. Business is becoming more global because
 - Transportation is quicker
 - Communications enable control from afar
 - Transportation and communications costs are more conducive for international operations
3. Liberalization of cross-border movements
4. Lower Governmental barriers to the movement of goods, services, and resources enable Companies to take better advantage of international opportunities

Problems in International Business

1. Political factors
2. High foreign investments and high cost
3. Exchange instability
4. Entry requirements
5. Tariffs, quota etc.
6. Corruption and bureaucracy
7. Technological policy