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# QUESTION PAPER

June – 2023

(Solved)

## INTERNATIONAL BUSINESS ENVIRONMENT I.B.O.-1

Time: 3 Hours ]

[ Maximum Marks: 100

Note: Answer both Part-A and Part-B as per instructions.

### Part – A

**Q. 1. Comment on the following statements:**

**(a) Countries running deficit in their balance of payments accounts generally impose controls on movement of foreign exchange out of their economies.**

**Ans.** In order to properly understand the dynamics of the changing international scenario, managers require thorough knowledge of the macro-economic environment with main emphasis on its financial link between the domestic and global economies. Such data are compiled in the analysis of balance of payments, like the Reserve Bank of India compiles these data in our country. These data affect the foreign exchange markets and the developments happening in exchange markets require appropriate changes in the policies. A deficit situation in BOP on a continuous basis is seen as that the country is having problems in servicing its debts. So, it becomes very important for the corporate managers to regularly monitor BOP data of their country as well as of its trading partners. Therefore, BOP data present a view of the macroeconomic environment and is a major concern for the companies. So, it is true that BOP situation affects the exchange markets and is therefore of concern to everyone concerned with foreign exchange.

**(b) India has not entered the globalisation era in a significant manner.**

**Ans. Ref.:** See Chapter-5, Page No. 64, Q. No. 13.

**(c) MNCs, through their market power, create oligopolistic or monopolistic market conditions.**

**Ans.** The emergence and spread of MNCs have brought about an internationalization of production as also of investment. Quite a significant part of international trade now takes on the form of internal transactions of these corporations. As a result of interfirm transactions of TNCs, there has been a growing oligopolization or monopolization of market and rapid

increase in the concentration of power across the countries. Due to their giant size they occupy a dominant position in the market. They also take over other firms to acquire huge economic power. For example, Hindustan Lever Ltd. has acquired Tata Oil Mills, Ponds India etc. and thus has improved its market share in personal wash, washing powder, washing bars, shampoos and skin care creams. Thus a TNC is an international monopoly and the concentration of economic power is at the world level.

**(d) Intellectual property cannot transcend national boundaries.**

**Ans.** 'Intellectual Property' is a generic term that probably came into regular use during the twentieth century. This generic label is used to refer to a group of legal regimes, each of which, to different degrees, confers rights of ownership in a particular subject matter. Copyright, patents, designs, trade marks and protection against unfair competition form the traditional core of intellectual property. The subject matter of these rights is disparate. Inventions, literary works, artistic works, designs and trade marks formed the subject matter of early intellectual property law. One striking feature of intellectual property is that, despite its early historical links to the idea of monopoly and privilege, the scope of its subject matter continues to expand. The twentieth century has seen new or existing subject matter added to present intellectual property systems (for example, the protection of computer software as part of copyright, the patentability of micro-organisms as part of patent law), and new systems created to protect existing or new subject matter (for example, plant variety protection and circuit layouts). The strongly expansionary nature of intellectual property systems shows no sign of changing.

**(e) The dissatisfaction at the relative slow progress of trade liberalisation at global level has contributed to formation of regional groupings.**

**Ans. Ref.:** See Chapter-11, Page No. 166, Q. No. 19.

**(f) International trade laws and procedures are very simple for settlement of international trade disputes.**

**Ans.** The international trade law includes rules, regulations and customs governing trade between nations. International trade law is the tool used by the nation's government for taking corrective actions against trade. International trade law focuses on applying domestic rules to international trade rules and applying treaty-based international trade law governing trade. All disputes arising in connection with and out of this contract between the parties shall, at the first instance, be amicably settled by the parties. If the amicable method of settling the dispute fails, the dispute shall be settled by reconciliation. The Lex Mercatoria is the grouping of legal rules that guide and underlie international trade, which acts totally independently of the positive law of states, being considered normative.

#### **Part – B**

**Note :** Attempt the following questions.

**Q. 2. Define international business environment. How does the home country environment influence foreign business operations of a firm? Explain.**

**Ans. Ref.:** See Chapter-1, Page No. 5, Q. No. 15 and Page No. 8, Q. No. 18.

**Q. 3. What do you mean by the Balance of Payments? Describe various components of the Current Account. Distinguish between the Current Account and the Capital Account. Describe the components of the Capital Account.**

**Ans. Ref.:** See Chapter-3, Page No. 33, Q. No. 24 and Q. No. 25.

**Q. 4. Distinguish between tariff and non-tariff barriers. Explain non-tariff barriers which are normally used to restrict the international trade.**

**Ans. Ref.:** See Chapter-4, Page No. 45, Q. No. 19.

**Q. 5. What is an MNC? Why do firms become transnational? Discuss the issues and controversies related to MNCs.**

**Ans.** The UN centre for Transnational Enterprises defines the transnational corporations as “enterprises which own or control production or service facilities outside the country in which they are based.” Transnational Corporations are also known as Multinational Corporations (MNCs) or Multinational Enterprises (MNEs). The essence of transnationality is the international production and the attitude of management is geocentric having a global orientation.

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**Also Ref.:** See Chapter-7, Page No. 97, Q. No. 12 and Page No. 100, Q. No. 17.

**Q. 6. What is the rationale of Regional Economic Groupings? Do you think that such a grouping may be beneficial for India?**

**Ans. Ref.:** See Chapter-11, Page No. 168, Q. No. 22.

**Q. 7. What are the principal functions of Internet? Are they similar to a VAN? Describe at least four basic tools used on the Internet. How are these tools important for International Business?**

**Ans. Ref.:** See Chapter-20, Page No. 306, Q. No. 29 and Q. No. 30.

**Q. 8. Write short notes on the following:**

**(a) Distinguish between foreign direct investment and portfolio investment**

**Ans. Ref.:** See Chapter-6, Page No. 83, Q. No. 21.

**(b) Terms of Trade**

**Ans. Ref.:** See Chapter-2, Page No. 89, Q. No. 21 (i).

**(c) Role of UNCTAD in finding solutions to commodity problems**

**Ans. Ref.:** See Chapter-12, Page No. 178, Q. No. 20.

**(d) Electronic Data Interchange**

**Ans. Ref.:** See Chapter-20, Page No. 299, ‘Electronic Data Interchange (EDI)’.

# Sample Preview of The Chapter

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# International Business Environment

## Introduction to International Business Environment



Business may be defined as any economic activity on a continuous basis which involves production or purchase of goods for sale, transfer or exchange of goods, or supply of services undertaken with a view to earn profit. Business may be classified into following two groups on the basis of its geographical limits:

- (i) Domestic business.
- (ii) International business.

Domestic or internal business is carried within the geographical limits of a country while international business is carried outside the geographical limits of a country *i.e.* between two countries. Every business, whether domestic or international, operates within an environment. The term '*environment*' refers to the totality of all the factors, which are external and beyond the control of individual business enterprises. Although basic functions, processes and techniques of domestic as well as international business are essentially the same, the environment of international business differs from environment of domestic business. The environment of international business is an extremely complex phenomenon. The environmental factors vary from country to country. Hence, one cannot operate international business without thinking about environment.

Now we shall focus on the meaning, nature and relevance of the international business environment. We shall also highlight various aspects of international business environment such as geographical, economic, financial, socio-cultural, legal and ecological aspects.

Since the environment is the sum total of the history, geography, culture, sociology, politics and economics of a country, the environmental factors generally vary from country to country. The environment that is typical of India may not be found in other countries like the USA, UK and Japan. Unit 1 of this chapter deals with concept and relevance of international business environment. An environment may be classified as under:

- (i) Micro-environment
- (ii) Macro-environment

**Micro-environment** refers to the factors which directly influence a firm's decisions and operations. Micro-environment includes the factors in the firm's immediate environment such as suppliers, marketing intermediaries, services organizations, competitors and customers.

**Macro-environment** refers to the factors which affect the firm as well as other factors in the firm's micro-environment. Macro-environment includes the forces which operate at the domestic country, foreign

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country and global levels, such as economic, financial, socio-cultural, geographic, political, legal and ecological forces.

International business environment consists of various factors which may be classified as under:

- (a) Domestic environment
- (b) Foreign environment
- (c) Global environment

**Domestic environment** refers to the factors and forces existing and operating within the political boundary of a country in which business firm is working. Domestic environment consists of the factors such as competitors, economic conditions, political forces and legal forces.

**Foreign environment** refers to the factors and forces existing and operating in foreign country. Foreign environment consists of factors such as economic conditions, social and cultural values, political and legal forces technology prevalent in foreign countries.

**Global environment** refers to the factors and forces existing and operating worldwide. Global environment consists of forces have worldwide or regional influences on business operations like international financial system, international treaties, regional economic groupings etc.

A business and its environment interact and influence each-other. A business is a part of system and draws resources from its environment. Therefore, a business manager must understand the environment understanding of business environment is essential because it gets a first move advantage, acts as a warning signal for adverse conditions, sensitise the management, provides a basis of strategy, supplies source of intellectual stimulation, and helps in image building. Because of environmental differences, strategies a firm uses in the home country might not be appropriate in the foreign countries. Hence, a firm has to be careful in identifying various environmental forces operating not only at the home country, but also at host country and at global level. It is so because these environmental forces would influence firm's production, financial, personnel and marketing operations.

Following are the major components of foreign environment:

- (i) Geographical environment
- (ii) Economic and financial environment
- (iii) Socio-cultural environment
- (iv) Political environment
- (v) Legal environment
- (vi) Ecological environment.

**Geographical environment** refers to a country's climate, topography, natural resources and people.

Despite scientific and technological development, geographical environment retains its relevance for international business activity. Geographical environment affects the supply and demand of the products equally. For example, sugar industry is found in the regions where sugarcane is grown because of suitable climatic and soil conditions. Similarly, demand for air-conditioners and refrigerators will be for more in tropical regions than in temperate climate zones. Further, there will be no demand for woollens in tropical regions. Firm's distribution and logistic strategies are also influenced by geographical conditions in the foreign markets. Population of a country determines the market size and market potential of the products.

**Economic and financial environment** are closely related to each-other. Economic environment refers to broad characteristics of the economic system in which the firm carries out its business activities. Following are the major factors of economic environment influencing the foreign market decisions:

- (i) Economic development
- (ii) Gross national product and its sectoral distribution
- (iii) Expenditure pattern
- (iv) Infrastructure *i.e.* social overheads such as transportation, communication, warehousing, advertising etc.

**Financial environment** refers to broad characteristics of the financial system prevailing in the foreign country. Following are the major factors of financial environment influencing the foreign market decisions:

- (a) Monetary policy
- (b) Fiscal policy
- (c) Commercial policy or trade policy
- (d) Foreign investment policy
- (e) Balance of payments account.

**Socio-cultural environment** refers to social values prevailing in a country. Socio-cultural environment consists of customs, habits, beliefs, values, attitudes, language etc. Culture of a society changes only gradually and a business firm cannot afford to ignore this reality. Culture refers to that part of the total repertoire of human action which is socially transmitted. Culture consists of both material culture and non-material culture. Material culture involves man made things while non-material culture includes language, ideals, beliefs, values, music etc. Following are the important elements of culture:

- (i) Language
- (ii) Aesthetics

- (iii) Education
- (iv) Religions and superstitions
- (v) Attitudes and values
- (vi) Material culture
- (vii) Technology
- (viii) Social groups and organizations
- (ix) Business customs and practices.

**Political environment** of the international business is the set of governmental institutions. Political parties and organizations that are the expression of the people in the nations of the world. The political environment varies from country to country. It is very important to understand a particular government's actions with respect to taxes, dilution of equity control and expropriation. Following factors constitute the political environment of the countries:

- (i) Form of government and political party system
- (ii) Political ideology and role of government
- (iii) Political stability
- (iv) Political risks including confiscation, expropriations, nationalisation and domestication.

**Legal environment** of international business means the legal framework within which business firms operate. From the point of view of business, not all legislations are relevant. Legislations defining property and business organizations, laws of contracts and bankruptcy, mutual obligations of labour and management and laws and regulations constraining the way business activities are carried out constitute legal environment of business. Since different countries have different legal systems, a major problem faced by the international business firms in which country's laws—host country's or home country's or third country's laws shall binding in case of a dispute. Firms engaged in international business should also be aware of different modes of the settlement of trade disputes and role of International Chambers of Commerce; Court of Arbitration.

**Ecological environment** refers to the factors influencing the plants, people and institutions. Ecology refers to the interrelationship between people, the fauna (birds and animals) the flora (plants and forests) and their physical surroundings. Till recently the business had not cared for ecological effects of its activities. Guided entirely by its profit maximisation goal, the business caused tremendous damage to ecology. In many countries, with a view to protect environment, a number of laws have been passed. The purpose of environmental laws is to protect the purity of the

environment and preserve the ecological balance. For example, the Government of India has laid down emission norms for automobiles under the Motor Vehicles Rules, 1989.

**CHECK YOUR PROGRESS**

**Q. 1. What is micro-environment?**

**Ans.** Micro-environment refers to such players whose decisions and actions have a direct bearing on the enterprise. In other words, micro-environment means the actors in the enterprise's immediate environment, which directly influences the enterprise's decisions and operations. Micro-environment includes the following:

- (i) Input suppliers
- (ii) Workers and their unions
- (iii) Customers
- (iv) Competitors
- (v) Market intermediaries
- (vi) General public.

**Q. 2. Distinguish between domestic and foreign environments.**

**Ans.** Domestic environment refers to the factors and forces existing and operating within the political boundary of a country in which business firm is working. Since domestic environment exists at the national level, a business firm is generally familiar with it. On the other hand, foreign environment refers to the factors and forces operating in foreign country. Since foreign environment operates in foreign country, a firm is generally not familiar with it. A firm has to make conscious efforts to know the foreign environment.

**Q. 3. Mention the major components of foreign environment.**

**Ans.** Following are the major components of foreign environment:

- (i) Geographical environment
- (ii) Economic and financial environment
- (iii) Socio-cultural environment
- (iv) Political environment
- (v) Legal environment
- (vi) Ecological environment

**Q. 4. What is the significance of understanding foreign environment for a firm engaged in international business?**

**Ans.** Business environment is dynamic and is undergoing fast and significant changes. Changes in business environment influence the business decisions. Successful business firms would be those who have monitored the foreign environment to identify the opportunities and threats affecting their business.

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Following are the points showing significance of understanding foreign environment:

- (i) A firm gets a first mover advantage.
- (ii) It acts as a warning signal for adverse conditions.
- (iii) It provides a basis for strategy.
- (iv) It sensitises the management to the changing needs of the customers.

**Q. 5. What do you mean by global environment?**

**Ans.** Global environment refers to the factors and forces existing and operating on worldwide basis or regional basis. Global environment consists of forces listed as under:

- (i) International economic conditions
- (ii) International financial system
- (iii) International agreements and treaties
- (iv) Regional economic groupings.

Global environment transcends national boundaries and is not confined in its impact to just one country. Global environment exerts influence over domestic as well as foreign countries. Global forces exert worldwide or regional influences on business operations.

**Q. 6. Write three examples of global environmental forces having worldwide or regional influences on business operations.**

**Ans.** Following are three examples of global environmental forces having worldwide or regional influences on business operations:

- (i) World Trade Organization
- (ii) World Bank
- (iii) Association of South East Asian Nations. (ASEAN)

**Q. 7. What is economic environment?**

**Ans.** Economic environment refers to the broad characteristics of the economic system in which a firm operates. Economic environment consists of uncontrollable factors. Economic environment is sum total of institutional framework, physical framework and physical anatomy of the economy. The most important factors of economic environment are as under:

- (i) Economic development
- (ii) Gross National Product and its distribution
- (iii) Expenditure pattern
- (iv) Infrastructure.

**Q. 8. Distinguish between Current Account and Capital Account.**

**Ans.** Current account is that part of balance of payment account which shows all items of flow nature.

Flow is a variable which has time dimension *i.e.* related to a specific period of time. Current account includes the following:

- (i) Imports and exports of goods
- (ii) Imports and exports of services
- (iii) Unilateral transfers.

Capital account is that part of balance of payment account which shows all items of stock nature. Stock is a quantity which is measured at a point of time.

Capital account includes the following:

- (i) Capital receipts
- (ii) Capital payments

**Q. 9. Enumerate four elements of culture.**

**Ans.** Following are four elements of culture:

- (i) Language
- (ii) Education
- (iii) Religions and superstitions
- (iv) Attitudes and values.

**Q. 10. What is material culture?**

**Ans.** According to **Ball and McCulloch**, material culture refers to all man made objects and its study is concerned with how man makes things and who makes what and why.

**Q. 11. What is political instability?**

**Ans.** Political instability may be defined as frequent changes in the government and government policies. Political instability is caused by one or more factors given as follows:

- (i) Change in the type of government
- (ii) Shift in political parties forming the government
- (iii) Change in the government policies without change in the government
- (iv) Shifts in political parties.

**Q. 12. Distinguish between confiscation and expropriation.**

**Ans.** Confiscation refers to a situation under which a foreign investment is forfeited by a government. It implies that no compensation is paid for taking over the foreign investment. Expropriation refers to a situation under which a foreign investment is taken over by the government by paying some compensation, which may not be equal to market value of foreign investment. It implies that compensation is paid for taking over the foreign investment.

**Q. 13. What do you mean by domestication?**

**Ans.** Domestication refers to a situation under which freedom of operation of a foreign operator is