



**NEERAJ®**

# **I.B.O.-1**

## **International Business Environment**

**Chapter Wise Reference Book  
Including Many Solved Sample Papers**

*Based on*

---

# **I.G.N.O.U.**

**& Various Central, State & Other Open Universities**

---

*By: A Panel of Educationists*



**NEERAJ  
PUBLICATIONS**

*(Publishers of Educational Books)*

---

Mob.: 8510009872, 8510009878 E-mail: [info@neerajbooks.com](mailto:info@neerajbooks.com)

Website: [www.neerajbooks.com](http://www.neerajbooks.com)

---

**MRP ₹ 450/-**

Content

# INTERNATIONAL BUSINESS ENVIRONMENT

Question Paper—June-2024 (Solved) .....	1-5
Question Paper—December-2023 (Solved) .....	1-2
Question Paper—June-2023 (Solved) .....	1-2
Question Paper—December-2022 (Solved) .....	1-2
Question Paper—Exam Held in March-2022 (Solved) .....	1-4
Question Paper—Exam Held in August-2021 (Solved) .....	1-3
Question Paper—Exam Held in February-2021 (Solved) .....	1-4
Question Paper—December, 2019 (Solved) .....	1-2

---

<i>S.No.</i>	<i>Chapterwise Reference Book</i>	<i>Page</i>
1.	Introduction to International Business Environment .....	1
2.	Theories of International Trade .....	15
3.	Balance of Payments .....	28
4.	Instruments of Trade Policy .....	40
5.	Globalization: An Overview .....	53
6.	International Investment .....	72
7.	Transnational Corporations .....	91
8.	Technology Transfer .....	108
9.	World Trade .....	122
10.	Multilateral Trading System .....	131

<i>S.No.</i>	<i>Chapterwise Reference Book</i>	<i>Page</i>
11.	Regional Economic Groupings .....	157
12.	International Commodity Agreements .....	171
13.	International Financial Institutions .....	182
14.	Legal Framework of Foreign Trade .....	202
15.	The Proper Law of the Contract or The LEX Cause .....	228
16.	Settlement of International Trade Disputes .....	238
17.	International Trade and Environment .....	252
18.	International Trade in Services.....	266
19.	International Business Ethics .....	279
20.	Electronic Commerce.....	297



**Sample Preview  
of the  
Solved  
Sample Question  
Papers**

*Published by:*



**NEERAJ  
PUBLICATIONS**

[www.neerajbooks.com](http://www.neerajbooks.com)

# QUESTION PAPER

June – 2024

(Solved)

## INTERNATIONAL BUSINESS ENVIRONMENT

I.B.O.-1

Time: 3 Hours ]

[ Maximum Marks : 100

Note: Answer both the Parts as directed.

### PART-A

**Q. 1. Comment on any four of the following statements:**

**(a) Trade policy is an important instrument to regulate the foreign trade.**

**Ans.** Trade policy refers to policy adopted by a country with reference to exports and imports. Trade policy can be free trade policy or protective trade policy. A free trade policy is one which does not impose any restriction on the trade of goods and services between different countries. A free trade policy involves complete absence of tariff and non-tariff barriers e.g. tariffs, quotas, exchange restrictions, taxes and subsidies on production, factor use and consumption. Though free trade offers several advantages, in reality particularly underdeveloped and developing countries were at a disadvantage in such a system of international trade. As a result, in the early 20th century. International economy saw the emergence of protective trade policies. A protective trade policy pursued by a country seeks to maintain a system of trade restrictions with the objective of protecting the domestic economy from the competition of foreign products. Protective trade policy has been pursued by underdeveloped countries.

**(b) Intellectual Property Rights have become an important issue in current international business scenario.**

**Ans. Ref.:** See Chapter-8, Page No. 110, 'Intellectual Property Rights'.

**(c) Culture cannot be easily isolated from such factors as economic and political conditions and institutions.**

**Ans. Ref.:** See Chapter-1, Page No. 2, 'Socio-Cultural Environment'.

**Also Add:** The number of companies operating internationally is growing constantly. The world is opening up for foreign firms and new destinations

in the company. Business are increasing when going international the challenges the company must handle are new and unfamiliar culture is one of these obstacles and can affect the entire co-operation. Culture can influence the business in different ways. Language problems, pricing difficulties and culture collisions are not uncommon, especially in the beginning. The company must be able to handle these difficulties in a way that is satisfying also for the other part. It is important, even before entering the foreign country, to inform the personal about the manners and custom in that new culture. Culture can be both a positive and negative influence and many companies are struggling in the new and foreign environment. The important thing to always have in mind is that the foreign culture is not as we are used to at home and to be prepared before starting the new foreign cooperation. By learning the host country's language can respect and trust more easily be won, and competitive advantages can arise.

**(d) Crossborder mergers and acquisitions have accelerated the pace of globalization.**

**Ans.** Cross-border mergers and acquisitions (M&As) have significantly accelerated globalization by integrating economies, businesses, and markets across national borders. Through such M&As, companies can access new markets, technologies, and resources, leading to enhanced global presence and competitiveness. This fosters the spread of ideas, innovations, and capital, promoting economic interdependence among countries. Moreover, cross-border M&As facilitate the sharing of best practices and create multinational enterprises that operate seamlessly across diverse regions. As a result, they break down barriers to trade, increase foreign direct investment (FDI), and contribute to the creation of a more interconnected and globalized economy.

**(e) Electronic commerce offers an excellent scope for domestic products to gain international visibility through the internet.**

**Ans.** Electronic commerce (e-commerce) provides a powerful platform for domestic products to reach international audiences through the internet, significantly expanding market potential. By utilizing online marketplaces, social media, and direct-to-consumer websites, local businesses can showcase their products globally without the need for physical stores or extensive international operations. E-commerce eliminates geographical barriers, allowing domestic producers to tap into diverse customer bases across the world with minimal costs. Additionally, digital marketing tools such as search engine optimization (SEO), social media advertising, and international shipping services make it easier for local businesses to increase visibility, enhance brand awareness, and compete on a global scale.

**(f) Business strategies which are successful in one country will also be equally successful in another country.**

**Ans.** Business strategies that are successful in one country may not always be equally successful in another due to differences in cultural, economic, political, and legal environments. Each country has unique market conditions, consumer behaviours, and regulatory frameworks that can significantly affect the implementation and success of a strategy. For example, marketing tactics that resonate with consumers in one country may fail to connect in another due to cultural differences. Similarly, pricing models or operational methods may need adaptation to align with local economic conditions. To succeed internationally, companies often need to customize their strategies to fit the specific context of each country they enter.

#### PART-B

**Note: Answer any four questions from this Section.**

**Q. 2. What role does the World Trade Organization (WTO) play in the international business? Is the WTO helpful to international trade or is it a hindrance?**

**Ans. Ref.:** See Chapter-10, Page No. 132, 'Functions of WTO' and 'Role of WTO'.

**Also Add:** The World Trade Organization (WTO) plays a central role in promoting and regulating international trade. It establishes rules to ensure smooth, predictable, and fair trade between nations. The WTO's key functions include negotiating trade

agreements, resolving trade disputes, and monitoring global trade policies.

**Role of the WTO in International Business:**

**Trade Liberalization:** The WTO works to reduce trade barriers like tariffs, quotas, and subsidies, facilitating easier market access for businesses globally.

**Dispute Resolution:** It provides a forum to resolve trade disputes between member countries, offering legal procedures to settle conflicts, which helps maintain global trade stability.

**Standardization:** The WTO sets standards on goods, services, and intellectual property to ensure fair competition and protect both businesses and consumers internationally.

**Transparency:** It encourages transparency in national trade policies, which helps businesses operate more predictably in international markets.

**Is the WTO Helpful or a Hindrance?**

**Helpful:** By lowering barriers to trade, the WTO enables businesses to expand into new markets and benefit from economies of scale.

Its dispute resolution mechanism creates a level playing field, protecting businesses from unfair practices.

The WTO's trade agreements promote global economic growth and stability, which are beneficial for international business.

**Hindrance:** Critics argue that the WTO's policies sometimes favor wealthier nations and multinational corporations, potentially disadvantaging developing countries.

The WTO's decision-making process can be slow and bureaucratic, which may delay trade reforms or resolutions.

**Q. 3. What do you mean by trade-in-services? What are the four alternative modes of international transactions in services? Explain salient features and benefits of GATS to India.**

**Ans. Ref.:** See Chapter-18, Page No. 270, Q. No. 4 and Page No. 271, Q. No. 13.

**Also Add: Salient Features and Benefits of GATS to India:**

**Market Access and Trade Opportunities:** GATS opens global markets for Indian service providers, particularly in IT, healthcare, and education sectors, offering greater export opportunities.

**Employment Generation:** Through Mode 4, India can export skilled labor, creating opportunities for Indian professionals in areas like engineering, healthcare, and IT in developed countries.

# **Sample Preview of The Chapter**

*Published by:*



**NEERAJ  
PUBLICATIONS**

[www.neerajbooks.com](http://www.neerajbooks.com)

# 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



## 2 / NEERAJ : INTERNATIONAL BUSINESS ENVIRONMENT

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.

#### 4 / NEERAJ : INTERNATIONAL BUSINESS ENVIRONMENT

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