Model answer

Course: MBA

Semester: I

Subject: International Business Environment and Management

1. **Short Answer questions**

I. A Global Company is a company that operates in two or more countries, leveraging the global environment to approach varying markets in attaining revenue generation. These international operations are pursued as a result of the strategic potential provided by technological developments, making new markets a more convenient and profitable pursuit both in sourcing production and pursuing growth. International operations are therefore a direct result of either achieving higher levels of revenue or a lower cost structure within the operations or value-chain. MNC operations often attain economies of scale, through mass producing in external markets at substantially cheaper costs, or economies of scope, through horizontal expansion into new geographic markets. If successful, these both result in positive effects on the income statement (either larger revenues or stronger margins), but contain the innate risk in developing these new opportunities.

II. There has been growth in globalization in recent decades due to (at least) the following eight factors:
   a. Technology is expanding, especially in transportation and communications.
   b. Governments are removing international business restrictions.
   c. Institutions provide services to ease the conduct of international business.
   d. Consumers know about and want foreign goods and services.
   e. Competition has become more global.
   f. Political relationships have improved among some major economic powers.
   g. Countries cooperate more on transnational issues.
   h. Cross-national cooperation and agreements.

III. Marketing mode of entering international business are:
   a. Exporting
      i. Direct Exports
         1. 1.1.1 Types
         2. 1.1.2 Advantages
         3. 1.1.3 Disadvantages
      ii. Indirect exports
         1. 1.2.1 Types
         2. 1.2.2 Advantages
         3. 1.2.3 Disadvantages
   b. Licensing
   c. Franchising
   d. Turnkey projects
   e. Wholly owned subsidiaries (WOS)
   f. Joint venture
   g. Strategic alliance

IV. A country should choose what to produce on the basis of the relative scarcity of labour, land, and capital. Basically, on this view the relative scarcity of a factor or of factors determines the comparative advantage of the country.
   a. Labour-capital -- India and Egypt produce wheat with labour intensive techniques, Canada produces wheat with capital intensive techniques.

V. Legal requirements can put pervasive impact on business organisations such as Indian farm act doesn't allow everybody to buy farm produce in bulk.

VI. Few methods are :
   a. Find out the cultural variations
   b. Understand the importance of these variance
   c. Keep positive attitude towards cultural differences
   d. Develop methods to address the difference.
   e. Imbibe features in product and services offered in line with cultural differences.

VII. The purpose of both tariff and non-tariff barriers is same that is to impose restriction on import but they differ in approach and manner.
Tariff barriers ensure revenue for a government but non-tariff barriers do not bring any revenue. Import Licenses and Import quotas are some of the non-tariff barriers.
Non-tariff barriers are country specific and often based upon flimsy grounds that can serve to sour relations between countries whereas tariff barriers are more transparent in nature. Tariff barriers have slow impact whereas non-tariff barriers have quick impact. Tariff barriers relatively permanent and difficult to remove where as non-tariff barriers are easy to change.

VIII. The World Trade Organization (WTO) deals with the global rules of trade between nations. Its main function is to ensure that trade flows as smoothly, predictably and freely as possible. India has been a WTO member since 1 January 1995. WTO negotiations produce general rules that apply to all Members, and specific commitments made by individual Member governments. The specific commitments are listed in documents called "schedules of concessions", which reflect specific tariff concessions and other commitments that they have given in the context of trade negotiations, such as the Uruguay Round. For trade in goods in general, these usually consist of maximum tariff levels which are often referred to as "bound tariffs".

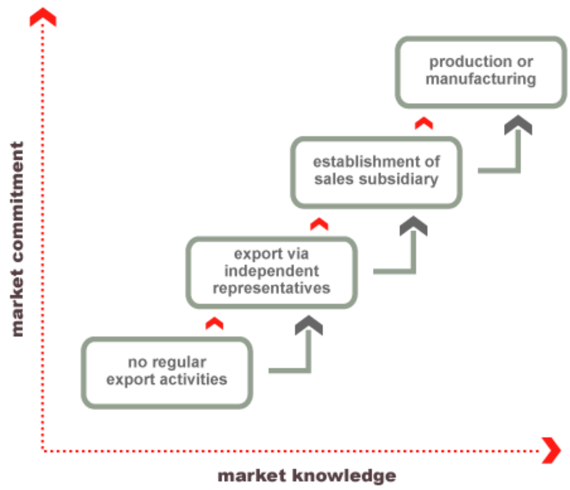
IX. The concept of purchasing power parity allows one to estimate what the exchange rate between two currencies would have to be in order for the exchange to be on par with the purchasing power of the two countries' currencies. Using that PPP rate for hypothetical currency conversions, a given amount of one currency thus has the same purchasing power whether used directly to purchase a market basket of goods or used to convert at the PPP rate to the other currency and then purchase the market basket using that currency.

X. Few reasons are as follows:
   a. Widening current account deficit
   b. Policy inaction
   c. Low forex reserves

d. Growth slowdown
e. Dependence on foreign money
f. Recovery in the US
g. Stimulus withdrawal
h. Capital controls
i. Trends in other markets
j. Speculative trading

Long Answer Questions:

2. In economics, internationalization has been viewed as a process of increasing involvement of enterprises in international markets. The process consists of following points that a firm should follow sequentially.



Examinee shouls explian these points with suitable examples.

3. The principle of absolute advantage refers to the ability of a party (an individual, or firm, or country) to produce more of a good or service than competitors, using the same amount of resources. Adam Smith first described the principle of absolute advantage in the context of international trade, using labour as the only input. Since absolute advantage is determined by a simple comparison of labour productivities, it is possible for a party to have no absolute advantage in anything; in that case, according to the theory of absolute advantage, no trade will occur with the other party. It can be contrasted with the concept of comparative advantage which refers to the ability to produce specific goods at a lower opportunity cost.

   Mergers and acquisitions (abbreviated M&A) are both an aspect of corporate strategy, corporate finance and management dealing with the buying, selling, dividing and combining of different companies and similar entities that can help an enterprise grow rapidly in its sector or location of origin, or a new field or new location, without creating a subsidiary, other child entity or using a joint venture. The distinction between a "merger" and an "acquisition" has become increasingly blurred in various respects (particularly in terms of the ultimate economic outcome), although it has not completely disappeared in all situations. From a legal point of view, a merger is a legal consolidation of two companies into one entity, whereas an acquisition occurs when one company takes over another and completely establishes itself as the new owner (in which case the target company still exists as an independent legal entity controlled by the acquirer). Either structure can result in the economic and financial consolidation of the two entities. In practice, a deal that is an acquisition for legal purposes may be euphemistically called a "merger of equals" if both CEOs agree that joining together is in the best interest of both of their companies, while when the deal is unfriendly (that is, when the target company does not want to be purchased) it is almost always regarded as an "acquisition".

4. Democracy is a form of government in which all eligible citizens participate equally—either directly or through elected representatives—in the proposal, development, and creation of laws. It encompasses social, economic and cultural conditions that enable the free and equal practice of political self-determination. The examinee must explain the nature of democracy such as free court and justice system, publically elected government, Limited term of elected office bearers and should also include forms of democracy such as :
    - Conservative
    - Reactionary
    - Liberal
    - Radical

   Free bureaucracy, etc. Similarly The examinee must explain the Totalitarian form pf Government through:
    - Authoritarian
    - Fascist
    - Theocratic
    - Communism

Examinee should give proper example to explain how political systems could influence business organisations.

5. Major components of Culture are:
    a. Language
    b. Religion
    c. Education
    d. Attitude and beliefs
    e. Customs
    f. Aesthetics

They should also briefly explain dominant and non-dominant culture and Level of culture. They must cite few examples that clarify the role of culture on business decisions.

6. Trade policy or international trade policy is a set of rules and regulations that are intended to change international trade flows, particularly to restrict imports. Every nation has some form of '''trade policy''' in place, with public officials formulating the policy which they think would be most appropriate for their country. Their aim is to boost the nation's international trade. The purpose of trade policy is to help a nation's international trade run more smoothly, by setting clear standards and goals which can be understood by potential trading partners. In many regions, groups of nations work together to create mutually beneficial trade policies. Trade policy can involve various complex types of actions, such as the elimination of quantitative restrictions or the reduction of tariffs. According to a geographic dimension, there is unilateral, bilateral, regional, and multilateral liberalization.

   Examinee should discuss few most common trade barriers as 'Tariffs': Taxes levied on products that are traded across borders are called tariffs. However, governments impose tariffs essentially on imports and not on exports. Two most popular types of tariffs are: • Ad valorem: This tariff involves a set percentage of the price of the imported goods. • Specific: This refers to a specific amount charged by the government on import of goods. '''Subsidies''': Subsidies work to foster export by providing financial assistance to locally-manufactured goods. Subsidies help to either sustain economic activities that face losses or reduce the net price of production. '''Quotas'''; Import quotas are the trade limits set by the government to restrict the quantity of imports during a specified period of time. '''Embargo''' is an extreme form of trade barrier. Embargoes prohibit import from a particular country as a part of the foreign policy. In the modern world, embargoes are imposed during wartimes or due to severe failure of diplomatic relations. '''A voluntary export restraint''': is a restriction set by a government on the quantity of goods that can be exported out of a country during a specified period of time. Often the word voluntary is placed in quotes because these restraints are typically implemented upon the insistence of the importing nations.

   - To appreciate trade with other nations.
   - To protect domestic market prevailing in the country.
   - To increase the export of particular product that will help in expanding domestic market.
   - To prevent the imports of particular goods for giving protection to infant industries or developing key industry or saving foreign exchange, etc.
   - To encourage the imports of capital goods for speeding up the economic development of the country.
   - To restrict the imports of goods that create unfavourable balance of payments.

- To assist or prevent the export or import of goods and services for achieving the desired rate of exchange.
- To enter into trade agreements with foreign nations for stabilizing the foreign trade.

7. The foreign exchange is a process of trading of currencies of different nations. The foreign exchange is done through Foreign exchange markets. The main participants in this market are the larger international banks. Financial centres' around the world function as anchors of trading between a wide range of different types of buyers and sellers around the clock, with the exception of weekends. The foreign exchange market determines the relative values of different currencies.
   The foreign exchange market works through financial institutions, and it operates on several levels. Behind the scenes banks turn to a smaller number of financial firms known as "dealers," who are actively involved in large quantities of foreign exchange trading. Most foreign exchange dealers are banks, so this behind-the-scenes market is sometimes called the "interbank market", although a few insurance companies and other kinds of financial firms are involved. Trades between foreign exchange dealers can be very large, involving hundreds of millions of dollars.
   The common terms used in Foreign exchange market are:
   a. OTC
   b. E-trading
   c. Bid
   d. Offer
   e. Spread
   f. Cross rate
   g. Base Currency
   h. Currency Pair
   i. Directional quality
   j. Exposure etc.
8. The balance of payments accounts of a country record the payments and receipts of the residents of the country in their transactions with residents of other countries. If all transactions are included, the payments and receipts of each country are, and must be, equal. Any apparent inequality simply leaves one country acquiring assets in the others. For example, if Americans buy automobiles from Japan, and have no other transactions with Japan, the Japanese must end up holding dollars, which they may hold in the form of bank deposits in the United States or in some other U.S. investment. The payments of Americans to Japan for automobiles are balanced by the payments of Japanese to U.S. individuals and institutions, including banks, for the acquisition of dollar assets. Put another way, Japan sold the United States automobiles, and the United States sold Japan dollars or dollar-denominated assets such as Treasury bills and New York office buildings. Although the totals of payments and receipts are necessarily equal,

there will be inequalities—excesses of payments or receipts, called surplus or deficit in particular kinds of transactions. Thus, there can be a deficit or surplus in any of the following: merchandise trade (goods), services trade, foreign investment income, unilateral transfers (foreign aid), private investment, the flow of gold and money between central banks and treasuries, or any combination of these or other international transactions. The difference between the value of goods and services exported out of a country and the value of goods and services imported into the country.

The balance of trade is the official term for net exports that makes up the balance of payments. The balance of trade can be a "favourable" surplus (exports exceed imports) or an "unfavourable" deficit (imports exceed exports). The official balance of trade is separated into the balance of merchandise trade for tangible goods and the balance of services. A balance of trade surplus is most favourable to domestic producers responsible for the exports. However, this is also likely to be unfavourable to domestic consumers of the exports who pay higher prices. Alternatively, a balance of trade deficit is most unfavourable to domestic producers in competition with the imports, but it can also be favourable to domestic consumers of the exports who pay lower prices.

It is important for a nation to keep BOP at least neutral if not surplus because a deficit may be harmful for business prosperity.

9. FDI is defined as the net inflows of investment (inflow minus outflow) to acquire a lasting management interest (10 percent or more of voting stock) in an enterprise operating in an economy other than that of the investor. FDI is the sum of equity capital, other long-term capital, and short-term capital as shown the balance of payments. FDI usually involves participation in management, joint-venture, transfer of technology and expertise. There are two types of FDI: inward and outward, resulting in a net FDI inflow (positive or negative) and "stock of foreign direct investment", which is the cumulative number for a given period. Direct investment excludes investment through purchase of shares.

   Importance of FDI should be explained by examinee in terms of its potential to support and provide momentum to industries where it occurs. The importance to nation and society also needs to be explained such as employment opportunities, better price, Products, superior services etc.