Short questions for NCERT Business Studies Solutions Class 11 Chapter 11

1. Differentiate between International trade and International business.

Points of comparison	International trade	International business
Definition/Meaning	It is the exchange of capital, goods and services across international border.	It is the trade of goods, technology, services, knowledge and capital across national borders or on a global level between two or more countries.
Scope of applicability	Narrow	Relatively wide

2. Discuss any three advantages of international business.

Advantages of international business are:

1. International business acts as a source of earning foreign exchange reserve for the nations which can be utilized in importing technology, petroleum and capital goods.

2. International business helps the development of both importing and exporting countries.

3. It provides a platform for the countries and producers for selling their produce to a base of international consumers. In this way it increases employment opportunities for the people of those nations.

3. What is the major reason underlying trade between nations?

The following reasons encourage trade between nations:

1. Each country has been blessed with different type of natural resources which may not be available or very scarcely available in other nations. Trading helps in making such items available to all the nations.

2. Having abundance of a resource a country becomes specialised in that particular resource and one that can be produced locally with the available resources.

3. The cost of production and the productivity of labour will vary among countries, so it is easier to export goods that can be produced in surplus with the available expertise and import goods that a nation won't be able to produce.

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

Licensing is a comparatively easy way to expand globally due to following reasons:

1. The amount of investment that needs to be made from licensor is negligible hence it is a less expensive mode that can be adopted for entering international markets.

2. License is managed by the licensee and thus there is less risk of government intervention in conducting operations.

3. Licensee will be having good knowledge of the local market and hence will be helpful for licensor to conduct marketing successfully.

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

Basis of comparison	Contract manufacturing	Wholly owned production subsidiary
Meaning	In this system a firm hires a local manufacturer in a foreign country to produce goods on contractual basis according to its requirement.	In this system the firm buys 100% equity in a foreign company and acquires full authority over its operations.
Level of Control	Limited control	Full control over operations
Investment	Investment is negligible	Maximum investment as the firm buys the whole company

6. Discuss the formalities involved in getting an export licence.

The following formalities are required in order to get an export license:

1. Opening a bank account with any bank that is authorized by the Reserve Bank of India and get a registered account number.

2. Obtain an IEC (Import Export Code) from the DGFT (Directorate General for Foreign Trade) or from the regional authority dealing with import-export licensing.

3. Get registered with the appropriate export promotion council and obtain a membership cum registration certificate.

4. Get registered with the ECGC (Export Credit and Guarantee Corporation) to protect itself from any type of payment risk.

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

Registering a firm with export promotion council helps in following ways:

1. For obtaining registration cum membership certificate

2. To reap the benefits available to the export firms by the government

3. The export promotion council will carry out promotional activities to create demand for domestic products in the international market.

4. Get support for promoting its products.

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

Pre-shipment inspection is necessary due to following reasons:

1. It ensures that only the good quality items are exported.

2. Products get exported by a competent agency as chosen by government.

3. Government has made it mandatory to check for export goods based on the Export Quality control and Inspection Act, 1963 and designated some agencies to carry out the task.

4. It is necessary to obtain an inspection certificate from the Export Inspection Agency for goods that are exported.

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

A bill of lading differs from a bill of entry in its functionality, i.e. a bill of entry is a document that is supplied by customs and needs to be filled by importer as soon as the goods are received. Meanwhile, a bill of lading is provided by shipping company and it is required at the time of export transaction. A bill of entry contains details about the goods and destination where it is going.

10. Explain the meaning of mate's receipt

A receipt that is issued by the commanding officer of the ship at the time cargo is landed on board is called as mate's receipt. It contain the details about the vessel name, shipment date, package description, numbers and the condition of the cargo.

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

A letter of credit is issued by the importer's bank, it is a guarantee to honour payment of export bills to the bank of exporter up to a certain amount. It is important for the exporter to get this document as this ensures that the mode of payment is protected by the security and hence is a secure way to settle transactions that are international in nature.

12. Discuss the process involved in securing payment for exports.

The following steps are involved in securing payment for exports:

1. The exporter informs the importer about the shipment once it has been shipped.

2. Exporter sends important documents such as bill of lading, invoice copy, insurance policy, and letter of credit. These items are required by importer at the time of claiming for the goods on arrival and get clearance from customs.

3. These documents are sent through exporter's bank along with an instruction that these should be delivered to an importer only when the importer accepts the bill of exchange.

4. The exporter bank receives the payment through the importers bank and the amount is credited to exporters account.

5. Immediate payment can also be received if the exporter submits the documents signing a letter of indemnity.

6. Once payment is received for exports, the exporter needs to obtain a certificate of payment from the bank. It contains all necessary documents stating that export consignment has been presented to the import of payment and payment is received according to exchange control regulations.

Long Questions for NCERT Business Studies Solutions Class 11 Chapter 11

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

The following points will show how International business is more than international trade:

1. International business has a wider scope than international trade.

2. International trade consists of import and export of goods and is an important part of international business, while international business encompasses many other departments.

3. International business include services like travel, tourism, finance, banking, warehousing, insurance etc. It also consists of foreign investment and production of goods and services overseas.

4. International trade is done on the basis of exporting goods while international business is done by licensing, joint venture, wholly owned subsidiaries etc.

2. What benefits do firms derive by entering into international business?

Firms derive following benefits by entering international business:

1. Firms can earn high profits by selling a product to international markets that is having low price in domestic market than international market rates.

2. Better growth prospects for goods that are saturated in domestic market.

3. By expanding to international markets a firm can utilize its full capacity in producing goods and drive profits by taking advantage of economies of scale.

4. Business can beat high domestic competition by exploring international markets

5. Tap into long term growth by expanding into international markets.

3. In what ways is exporting a better way of entering into international markets than setting up wholly owned subsidiaries abroad.

Exporting is considered a better option than setting up subsidiaries because of the following reasons:

1. Managing an export business is relatively easy as compared to managing wholly-owned subsidiaries.

2. It needs less investment as compared to subsidiaries

3. Exporting is less risky as no equity investment is required whereas in case of subsidiaries 100% equity is beared by the company. Hence, it is responsible for all the losses in case of failure.

4. Exporting is having lower degree of political risk as compared to wholly owned subsidiaries.

4. 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.

Rekha Garments will have to following the procedure given below to execute the export order.

1. Rekha must inquire about importers creditworthiness. In this case Swift Imports Limited. She can also ask for a letter of credit to be provided by importers bank.

2. After conducting the check, she needs to register Rekha Garments to obtain an IEC so as to receive an export license.

3. Need to obtain the pre-shipment finance from importer's bank so as to get raw material for production and packaging.

4. Prepare garments as per specification of importer. Start working after receiving pre-shipment finance from the bank.

5. Obtain a certificate of inspection from export inspection agency or any similar authority

6. Obtain excise clearance from Excise commissioner. Issue of clearance subjected to satisfaction of excise commissioner.

7. Obtain certificate of origin which states the country where goods are produced.

8. Apply to a shipping company for getting shipping space. All essential details such as types of goods, port name and shipment date mentioned.

9. Goods get properly packed and labelled with all the essential information

10. Insure the goods against risks and obtain customs clearance.

11. Goods loaded into ship and issuing a mate's receipt.

12. Issuing of bill of lading on receipt of freight, as a token of acceptance

13. After shipping of goods, exporter prepare invoice which includes goods send and amount paid by importer.

14. Exporter sends a set of documents to the banker that needs to be given to importer on acceptance of bill of exchange. On receiving it, Swift Imports will instruct its bank to transfer money to exporter's bank account.

15. The exporter collects a bank certificate of payment producing the necessary documents and bill of exchange presented to importer for payment, and that the payment has been received according to exchange control regulations.

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

Importing textile machinery from Canada requires the following steps:

1. Importer should obtain IEC (Import Export Code) by applying to Regional import-export licensing authority. It is necessary to complete import procedure.

2. Importer needs to obtain RCMC or registration cum membership certificate which is issued by Import Promotional Council and Import Development authority

3. Importer needs to issue a letter of credit in favour of exporter from the bank, and instructs about documents need to be collected from exporter before making the payment.

4. Exporter ships goods as per the specifications communicated by importer, on reaching the importer country ship captain informs dock officer about imported goods and submit this to customs to obtain a customs clearance

5. Customs officer examines bill of entry and passes it to appraiser officer who verifies the details and the bill is returned to importer to collect custom duty.

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

The following organisations were setup to promote foreign trade:

1. Export Inspection Council: Established by Government of India under Section 3 of Export Quality Control and Inspection Act, 1963, its aim is to promote exports by quality control and pre-shipment inspection.

2. Indian Institute of Foreign Trade: It was setup under Societies Registration Act in 1963, it is an autonomous body which is responsible for managing country's foreign trade. It provides training in international trade.

3. Indian Institute of Packaging: Setup in 1966 by combined effort of Ministry of Commerce, Indian packaging industry and other allied industries. It serves the packaging needs of exporters and domestic manufacturers

4. Department of Commerce: It is the apex body of Ministry of Commerce that is dealing with formulation of policies related to foreign trade and import export policies.

5. Export Promotion Council: It is aimed at promoting exports of particular products and is registered under Companies Act.

6. Indian Trade Promotion Organisation: Formed in 1992 under Companies Act, 1956. It maintains close interactions among traders, government and industry. Organises trade fairs involving domestic and international goods.

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

IMF or International Monetary Fund was established in 1945, it is headquartered in Washington DC. The purpose of setting up IMF was to set up a system of orderly monetary system. Its aim is to facilitate system of international payments and checking adjustments in exchange rates for all currencies.

Objectives:

1. Promoting International monetary cooperation among member countries.

2. Promoting growth of employment and income and also promote balanced growth of international trade.

3. Promoting exchange stability so as to maintain orderly exchange arrangement among member countries.

4. Facilitating international payments among member countries.

Functions:

1. Providing short term credit to member countries.

2. To determine value of a country's currency and altering it to bring an orderly arrangement among member countries.

3. Maintain exchange rate stability

4. Become a lending institution of foreign currency.

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

WTO or World Trade Organisation was established in the year 1995. It was a successor to the GATT (General Agreement on Tariffs and Trade). Based in Geneva. It deals with trading of goods and service as well as Intellectual Property rights.

Features of WTO:

1. Trade of goods and services.

2. Decisions of WTO taken by member's nations based on consensus.

Objectives of WTO

1. Reducing tariff and non-tariff barriers imposed on the country.

2. Facilitates sustainable development by using optimum resources.

3. Improve standard of living for members of foreign countries

Functions of WTO:

1. Act as a dispute settlement body

2. Provides an environment where member countries are encouraged to discuss their grievances

3. Establishing common code of conduct to eliminate trade discriminations.