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Content

BUSINESS ENVIRONMENT

Question Paper—June-2023 (Solved)	1-2
Question Paper—December-2022 (Solved).....	1
Question Paper—Exam Held in March-2022 (Solved)	1
Sample Question Paper—1 (Solved)	1
Sample Question Paper—2 (Solved)	1

<i>S.No.</i>	<i>Chapterwise Reference Book</i>	<i>Page</i>
--------------	-----------------------------------	-------------

BLOCK-1 : INTRODUCTION TO BUSINESS ENVIRONMENT

1. Introduction to Business and Environment	1
2. Economic Growth and Development	14
3. Socio-Cultural Politico-Legal Environment	26
4. Business Ethics and Corporate Social Responsibility	40

BLOCK-2 : OVERVIEW OF INDIAN ECONOMY

5. Indian Financial System	51
6. Industrial Policy Framework	62
7. Agri-Business Environment	76

BLOCK-3: STRUCTURAL REFORMS

8. New Economic Policy	88
9. Financial Sector and Fiscal Sector Reforms	99

BLOCK-4: INTERNATIONAL BUSINESS ENVIRONMENT

10. International Financial System	111
11. Balance of Payments (BoP)	124
12. Foreign Trade	135
13. Sources of Global Financing	148
14. Technological Environment	160



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

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QUESTION PAPER

June – 2023

(Solved)

BUSINESS ENVIRONMENT

M.M.P.C.-003

Time: 3 Hours]

[Maximum Marks: 100

Note: Attempt any five questions. All question carry equal marks.

Q. 1. Discuss in detail the different components of business environment and their influence on the organisations.

Ans. Ref.: See Chapter-1, Page No. 1, 'Business and Environment' and Page No. 3, 'Types of Business Environment'.

Q. 2. Discuss the key motivating factors which drive organisations to engage in CSR activities and highlight some of the CSR initiatives of Indian companies.

Ans. Ref.: See Chapter-4, Page No. 43, 'Drivers of CSR', 'CSR Initiatives in Indian Companies'.

Q. 3. Examine the state specific industrial policies and briefly discuss other important policies focusing on industrial promotion.

Ans. Ref.: See Chapter-6, Page No. 64, 'State Specific Industrial Policies' and Page No. 65, 'Other Important Policies Focusing on Industrial Promotion'.

Q. 4. Discuss the reforms in financial sector to strengthen and stabilise it.

Ans. Ref.: See Chapter-9, Page No. 100, 'Reforms in Financial Sector'.

Q. 5. What are the functions of International Monetary Fund (IMF)? Discuss IMF's policies over the years.

Ans. Ref.: See Chapter-10, Page No. 111, 'International Monetary Fund (IMF)'.

Q. 6. Define Balance of Payments (BoP) and discuss the factors affecting the BoP.

Ans. Ref.: See Chapter-11, Page No. 124, 'Introduction', 'Components of Balance of Payments (BoP) and Page No. 125, 'Factors Affecting the Balance of Payment (BoP)'.

Q. 7. Explain the types of foreign trade. Discuss the principal means of trade financing.

Ans. There are three different types of foreign trade, which are as follows:

Import trade: It is the purchase of goods and services by one country from another country. Here the flow of goods is from a foreign land to the home nation. Countries import goods and services when they need raw materials for producing goods or when they need a finished product for domestic consumption.

Export trade: It is the selling of goods and services to another country. Here the flow of goods is from the home nation to a foreign land. Countries export goods and services to another nation when they have that particular commodity in abundance.

Entrepot trade: This process is also called re-export. In this form of trade, a business purchases goods or services from one country, reprocesses those products, and then sells them to another country.

Also Ref.: See Chapter-13, Page No. 150, 'Trade Financing'.

Q. 8. Write short notes on the following:

(a) Impact of technological environment on international business.

Ans. Ref.: See Chapter-14, Page No. 163, 'Impact of Technological Environment on International Business'.

(b) National Food Security Act (NFSA), 2013

Ans. The National Food Security Act (NFSA) 2013, which was passed on July 5, 2013, represents a paradigm shift in the aspect of food security, moving away from a welfare-based approach to one based on rights. Up to 75% of the rural population, as well as 50% of the urban population, are legally entitled to receive subsidised foodgrains through the Targeted Public Distribution System, according to the Act. Therefore, the Act covers almost two-thirds of the population in order to provide them with heavily subsidised foodgrains. Beneficiaries under the National

Food Security Act fall into two categories: Priority Households (PHH) and Antyodaya Anna Yojana (AAY) households, each of which is entitled to 35 kg of food grains each month (5 kg per person per month). Wheat costs Rs. 2 per kg, rice costs Rs. 3 per kg and coarse grains cost Rs. 1 per kg. There has been no revision in the prices of the foodgrains in the Union Budget 2022.

(c) Companies Act, 2013

Ans. Ref.: See Chapter-4, Page No. 42, 'The Companies Act, 2013 and CSR'.

(d) Inflation

Ans. Ref.: See Chapter-2, Page No. 17, 'Inflation'.



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Sample Preview of The Chapter

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BUSINESS ENVIRONMENT

BLOCK-1 : INTRODUCTION TO BUSINESS ENVIRONMENT

Introduction to Business and Environment



INTRODUCTION

There are many factors that control the success of an individual and some of which are may not always be within your control. These factors are dependent on the work environment like job, your department, your organisation, your nation and the world around you. We all have to connect to the environment and hence take into consideration the limitations of the environment. Just think for a while and then answer. As a marketing manager or a finance manager or as a personnel manager or as a business manager, one has to evaluate and work in harmony with the related environment. In this chapter, we will study about the “environment” and classify your business environment on the basis of some criteria and identify some of the critical elements of environment of business and develop the nature of interaction between environment and business. The focus will be on the Indian environment of business and the Indian situation to understand its impact on our business.

CHAPTER AT A GLANCE

BUSINESS AND ENVIRONMENT

Environment can be defined as the totality of all the factors which are external to and beyond the control of individual business enterprises and their managements. The firms and the management function in a given business environment. There are many forms of the environmental factors which are either totally static or relatively static or very dynamic which keeps changing every now and then.

The environmental factors are different from one country to another. Some of the countries might have some common factors but the order and intensity of the environmental factors differ between nations. In fact,

it varies from one region within a country to another and over localities within a region. The environment also differs with time within a country. The economy is also dependent upon the past, present and future environment. The environment may also be classified into market environment and non-market environment which is dependent upon whether a business firm’s environment is influenced by market forces like demand, supply, number of other firms and the resulting price competition or non-price competition, etc., or by non-market forces like Government laws, social traditions, etc.

The environment is also classified a economic and non-economic in which the non- economic environment refers to social, political, legal educational and cultural factors that affect business operations and economic environment is dependent upon the factors like the fiscal policy, the monetary policy, the industrial policy resolution, physical limits on output, the price and income trends, the nature of the economic system at work, the tempo of economic envelopment, the national economic plan, etc.

Definition of Business Environment

The authors have defined the term ‘Business Environment’ differently as follows:

- **Keith Davis** defined the term as, “*The aggregate of all conditions, events and influences that surround and affect it*”.
- **Reinecke and Schoell**, defined it as “*The environment of a business consists of all those external things to which it is exposed and by which it may be influenced directly or indirectly*”.
- **Barry M. Richman and Melvyn Copen** defined the term business environment as “*Environment consists of factors that are largely*

if not totally, external and beyond the control of individual industrial enterprises and their management. These are mainly the 'givers' within which firms and their management must operate in a specific country and they vary, often greatly, from country to country".

- **William F. Glueck** defined it as *"The process by which strategists monitor the economic, governmental, market, supplier, technological, geographic, and social settings to determine opportunities and threats to their firms"*.

We can conclude from the definitions above that a business environment is a combination of dynamic, complex, and uncontrollable external factors within which a business is to be controlled. There is a direct relation between the business organisation and business environment and the business environment affects the scope and direction of business activity. Business can also be viewed as a specific activity like a retail business in which a company is utilizing internet and social media for marketing of their products and environment can be categorized as the market environment and non-market environment which is dependent upon whether a business firm's environment is affected by the market forces like demand, supply, number of other firms and the resulting price competition, or non-price competition, etc., or by non-market forces like Government laws, social traditions, etc.

BASIC PROPOSITIONS

The three basic propositions of the business environment in any economy are as follows:

1. Business is an economic activity.
2. A business firm is an economic unit.
3. Business decision-making is an economic process.

Business is an economic activity: In an economic activity, the means or the resources are adjusted to the ends or the targets and *vice-versa*. There are different forms included in an economic activity like consumption, production, distribution and exchange. There is a defined target to be achieved by each business and hence each business has some resources at its disposal. The main objective of the business is the optimal utilization of the economic activities.

A business firm is an economic unit: A business firm can be called as a transformation unit which helps in the conversion of the input into outputs of goods or services or a combination of both. The factors that decide the nature of input requirements and the type of output flows are size, structure, location and efficiency

of the business firm under consideration. There are different sizes and forms of the business firms and a business firm undertakes the transformational process to generate this "surplus value". The economic activities of the business firms include the entire process of creating, mobilisation and utilisation of the surplus.

Business decision-making is an economic process: Decision-making is an important part of the economic process and the question of choice and evaluation arises because of the scarcity of resources. The limitations of the resources lets a business firm consider seriously about the optimum allocation of resources in order to achieve a specific target. Decision making is an important variable in procurement or production, distribution or sale, input or output and hence it is an economic pursuit.

NATURE AND SCOPE OF BUSINESS ENVIRONMENT

The nature and scope of business environment is as follows:

Nature of Business Environment

1. **Dynamic:** The internal and external business environments are highly flexible in nature and keep on changing.
2. **Uncertain:** The factors related to the business environment are unpredictable in nature and continue to fluctuate very quickly.
3. **Complex:** There are many challenges associated with the business environment because of its complex nature. The challenges include technological disruptions, global competition, leadership change, shifting economic, social, and regulatory conditions etc.
4. **Relativity:** There are some societal norms and local conditions associated with business environments and hence it varies from country to country and region to region.
5. **Interrelation:** The various factors and forces of the business environment are interrelated to each other.

Scope of Business Environment

(a) Internal and External Environment: The internal environment includes the factors that are within an organisation and influence the strength or weakness of the business and the external environment means those factors which are out of the control of the business and are outside the organisation.

(b) Micro-environment and macro-environment: The micro-environment affects the working of a particular business and incorporates customers, suppliers, market intermediaries, competitors, etc. and

macro environment is the environment that affects the working of all businesses.

(c) Controllable and uncontrollable environment:

The factors which are governed by business falls under a controllable environment and the uncontrollable factors are external and are beyond the control of business namely global, technological, legal and natural changes.

(d) Specific and general environment: The external forces that are directly connected to the decisions of the business enterprises are the specific environment and general environment are the factors like economic, politico-legal, socio-cultural, technological, demographic and global conditions that influence organisations.

TYPES OF BUSINESS ENVIRONMENT

As discussed, business environment is of two types:

1. Internal environment
2. External environment

The internal environment factors influencing the strategic decisions are value system, ethical standards of an organisation, missions, goals, objectives of the companies, organisational structure the professionalism, commitments, morale of the employees, etc, financial factors and corporate image and brand equity. These factors help in bringing the strength and weakness of an organisation to the fore.

Further, the external environment is characterized by economic, demographic, legal, political, socio-cultural, natural and technological factors.

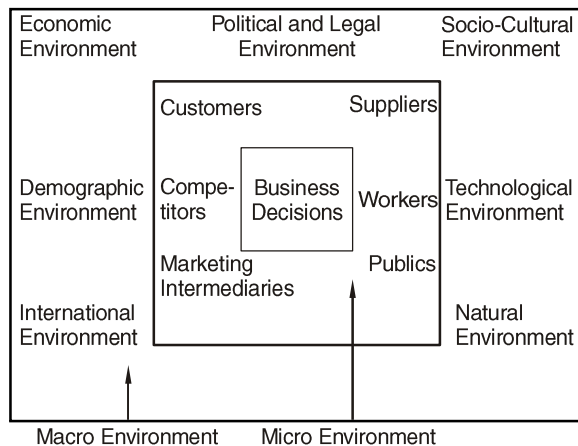


Fig. 1.1 : Environmental Forces

Internal Environment

- **Values:** The ethical beliefs that help in attaining the mission and objectives of an organization defines its values.

- **Mission and objectives:** The purpose of the existence of an organization is its mission or objective.
- **Organisation structure:** The hierarchy of an organisation that explains its roles, responsibilities and supervision is the organizational structure.
- **Culture:** The internal environment of an organisation is dependent upon its shared values and belief also known as corporate culture.
- **Human resources:** The quality of the personnel working in an organisation is also an important factor of internal environment.
- **Physical resources and financial capabilities:** The physical resources of an organisation includes the machinery, plant and equipment facilities and the financial capabilities of a firm helps in determining its competitive strength which helps in examining its efficiency and unit cost of production.

External Environment

The external environment are the factors or forces that exist outside an organisation and affects the performance of an organisation and are of two types- micro-environment and macro environment.

Micro Environment

Following are the constituents of micro environment:

1. **Customers:** For any business, customers are always key to success. The key categories of customers are households, individuals, business firms and other institutions that may be present at national or global level.
2. **Competitors:** Each business always faces competition in market and therefore, each organisation has to face a direct competition in market. Therefore, it is a must for an organisation to feel the pulse of the kind of competition it is facing in industry.
3. **Marketing Intermediaries:** These are channels helping organisations to bring their products to buyers. They constitute wholesalers, retailers, distributors, firms, agents, etc.
4. **Suppliers:** This is a class of people supplying raw materials, fabricated parts, etc. to the organisation.
5. **Workers and Unions:** The employee and employer relationship is also the key to the success of an organisation. If workers are not organised, management has the upper hand in formulating the policies and *vice-versa*.

6. Public: Public are groups that share an interest in business. They are environmentalists, media groups, consumer protection groups, etc.

Macro Environment

Its constituents are as follows:

1. Economic Environment: It is based on economic conditions such as nature of an economy, economic resources, income level, etc.

2. Political and Legal Environment: Political activities define the course of action an organisation may take with changing governments.

3. Socio-cultural Environment: The customs, values, beliefs, attitude, etc. make a sharp impact on the business activities.

4. Demographic Environment: The size and composition of population, life expectancy, age, income, education, etc. define the demographic environment. They differ from place to place in same country and also from country to country.

5. Technological Environment: The factors related to machines and processes used in production of goods and services define technological environment.

6. International Environment: The economic, political, technological and sociological changes in the international area define the international environment.

7. Natural Environment: Ecology of a place and the availability of raw materials for a particular industry define the natural environment.

IMPORTANCE OF BUSINESS ENVIRONMENT

The importance of business environment functioning of organisations is as follows:

- It helps in identifying the business opportunities and achieving first-mover advantage.
- It helps in analyzing the threats and early warning signals.
- It helps in accumulating the resources.
- It helps in adjusting and getting accustomed to the quick changes.
- It helps in the process of planning and making policies.
- It helps in performance improvement.

ENVIRONMENTAL ANALYSIS

Following are the steps involved in the environmental analysis of a business:

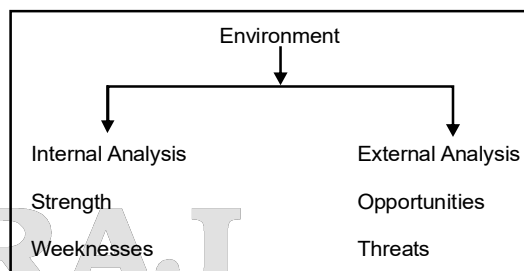
- Scanning the internal/external factors
- Grouping of the scanned factors
- Observation of internal factors
- Monitoring external factors

- Defining the variables for the analysis
- Identifying specific techniques for analysis
- Forecasting
- Strategy formulation
- Evaluation

We shall now study about SWOT analysis

SWOT Analysis

In SWOT, S represents Strengths and W represents Weaknesses and O represents available opportunities in the market and T represents the possible threats in the market.



(a) Strengths: The strengths are the core competencies or capabilities of an organisation for which it can gain the advantages over its competitors.

(b) Weaknesses: The weaknesses prevent the successful results within the organizations and hamper its growth.

(c) Opportunities: The opportunities are the favourable circumstances which help in enhancing the strengths of an organisation.

(d) Threats: This factor represents the exposing vulnerability to something which leads to adverse impact.

The SWOT analysis as a tool is very effective to explore both internal and external factors of an organisation.

BASICS OF MACROECONOMICS

Economic transactions are an integral part of the business as it is affected by the economic policies and economic structure prevailing in the country. We will now learn about the basics of macroeconomics. Macroeconomics can be defined as the study of the behaviour and performance of the economy in totality. Some of the important areas of the macroeconomic theories are income determination, price level determination, investment, employment, product and money market equilibrium, exchange rate, the balance of payments, etc. Macroeconomics also investigates the working and effects of major government policies like monetary and fiscal policies, on the economy.