

CHAPTER

3

BUSINESS ENVIRONMENT

Syllabus

- *Business Environment—concept and importance*
- *Dimensions of Business Environment—Economic, Social, Technological, Political and Legal*
- *Demonetisation - concept and features*
- *Impact of Government policy changes on business with special reference to liberalisation, privatisation and globalisation in India*

Objectives :

After going through this unit, the student/learner would be able to :

- *Understand the concept of 'Business Environment'.*
- *Describe the importance of Business Environment.*
- *Describe the various dimensions of 'Business Environment'.*
- *Understand the concept of demonetization.*
- *Examine the impact of Government policy changes on business with special reference to liberalisation and globalisation since 1991.*
- *Discuss the managerial response to changes in business environment.*

Chapter Analysis

The analysis given here gives you an analytical picture of this chapter and will help you to identify the concepts of the chapter that are to be focussed more from exam point of view.

Average number of Questions asked in last 3 years

Exam	2016		2017		2018	
	Delhi	All India	Delhi	All India	Delhi	All India
V.S.A (1 mark)						
S.A.I (3 marks)						
S.A.II & L.A (4/5 marks)	1 Q	1 Q	1 Q	1 Q	1 Q	1 Q
E.T. (6 marks)						

In 2016, all the questions appearing in all the papers are based on dimensions of business environment.

In 2017, all questions appearing in all the papers are based on Impact of NEP on business and industry.

In 2018, all questions appearing in all the papers are based on importance of business environment.

On the basis of the above analysis, the following topics can be regarded as important :

- Maximum weightage is of Business Environment - Concept and Importance.
- Maximum SA II type questions were asked from Impact of Government Policy Change on Business with Special Reference to Liberalisation, Privatisation and Globalisation in India.
- No ET type questions have been asked from this chapter till now.



TOPIC-1

Business Environment—Concept and Importance

Quick Review

➤ Features of Business Environment

- **Totality of external forces** : It is aggregate of all things external to the business firms.
- **Specific and general forces** : Specific forces affect individual firm directly (customers, competitors, etc.), general forces affects indirectly (social, political, etc.).
- **Inter-relatedness** : Different elements of business environment are closely inter-related.
- **Dynamic nature** : It keeps on changing due to changes in its various components.
- **Uncertainty** : It is very difficult to predict future happenings in business environment with accuracy.
- **Complexity** : It is relatively easier to understand in parts but difficult to grasp in totality.
- **Relativity** : It differs from country to country and region to region.

➤ Importance of Business Environment

- Enables the firm to identify opportunities and getting the first mover advantage.
- Helps the firm to identify threats and early warning signals.
- Helps in tapping useful resources.
- Helps in coping with rapid changes.
- Helps in assisting in planning and policy formulation.
- Helps in improving performance.

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TOPIC - 2

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TOPIC - 4

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Very Short Answer Type Questions

(1 mark each)

Q. 1. What is meant by 'Business Environment' ?

[Outside Delhi Set I 2015]

Ans. Refer to Know the Terms. 1

Q. 2. Why it is said that business environment is uncertain? [All India Comptt. 2015]
[Outside Delhi Comptt. Set - I, II, III, 2014]

Ans. Business environment is largely uncertain as it is very difficult to predict future happenings

especially when environment changes are taking place too frequently as in the business of information technology. 1

Q. 3. Why is business environment called dynamic? [Delhi Comptt. 2014]

Ans. The business environment is called dynamic as it keeps on changing due to changes in its components. 1



Short Answer Type Questions-II

(4 marks each)

Q. 1. Explain any four characteristics of business environment. [Delhi Compt. Set I 2016-17]

Ans. Characteristics of Business Environment :

- (i) Totality of all external forces affecting a business.
- (ii) Includes both general and specific forces.
- (iii) Inter-relatedness.
- (iv) Dynamic nature.
- (v) Uncertainty.
- (vi) Complexity.
- (vii) Relativity.

(Any four) 1×4=4

[CBSE Marking Scheme, 2016]

Detailed Answer :

- (i) **Totality of all external forces affecting a business**: It is aggregate of all things external to the business firms.
- (ii) **Specific and general forces** : Specific forces affect individual firm directly, general forces affect indirectly.
- (iii) **Inter-relatedness** : Different elements of business environment are closely inter-related.
- (iv) **Dynamic nature** : It keeps on changing due to changes in its various components.
- (v) **Uncertainty** : It is very difficult to predict future happenings in business environment with accuracy.

- (vi) **Complexity** : It is relatively easier to understand in parts but difficult to grasp in totality.
- (vii) **Relativity** : It differs from country to country and region to region.

□ Q. 2. Explain, how does the understanding of business environment help the management in the following :

- (i) tapping useful resources; and
- (ii) coping with rapid changes.

[Delhi Comptt. Set I 2015]

Ans. (i) Understanding of business environment helps in tapping useful resources by designing the policies that allow it to get the resources it needs, so that, it can convert those resources into outputs that the environment desires.

- (ii) Understanding of business environment helps in coping with rapid changes by developing suitable courses of action to deal with changes taking place in the environment as well as with the pace of change. $2 + 2 = 4$

[CBSE Marking Scheme, 2015]

□ Q. 3. How does the understanding of business environment help the management in the following ?

- (i) Identification of threats and early warning signals,
- (ii) Improving performance.

[Outside Delhi Comptt. Set I 2015]

Ans. (i) Understanding of business environment help the management in identification of threats on time which serves as an early warning signal enabling the firms to prepare themselves to meet the threats.

- (ii) Understanding of business environment helps the management in improving performance as the firms can then adopt suitable business practices not only to improve present performance but to continue to succeed in the long run. $2 + 2 = 4$

[CBSE Marking Scheme, 2015]

□ Q. 4. What is meant by 'Business Environment' ? State any three points of its importance.

[Delhi Set I 2015]

OR

What do you understand by Business Environment ? (NCERT)

Ans. **Business Environment** : It means the sum total of all individuals, institutions and other forces that are outside the control of business enterprise but that may affect its performance.

Importance :

- (i) It helps to identify opportunities and getting the first mover advantage instead of losing them to the competitors.

- (ii) It helps to identify threats on time which serves as an early warning signal.
- (iii) It helps in tapping useful resources so that it can convert them into output that the environment desires.
- (iv) It helps in coping with rapid changes in an increasingly dynamic environment.
- (v) It helps in assisting in planning and policy formulation.
- (vi) It helps in improving performance by continuously monitoring the environment and adopting suitable practices. **(Any three)**
[CBSE Marking Scheme, 2015] $2 + 2 = 4$

Detailed Answer :

Business environment : It is the sum total of all individuals, institutions and other forces that are outside the control of business enterprise but may affect its performance.

Importance :

- (i) **It enables the firm to identify opportunities and getting the first mover advantage** : Analysis of business environment helps to identify opportunities *i.e.*, positive external changes to be exploited first instead of losing them to competitors.
- (ii) **It helps the firms to identify threats and early warning signals** : A study of business environment helps an enterprise to identify threats *i.e.*, negative signals that hinders business performance and take appropriate preventive measures on time.
- (iii) **It helps in tapping useful resources** : A business enterprise depends on environment as a source of input like raw materials, labour, etc. and as an outlet for output *i.e.*, goods, services, taxes, etc. Analysis helps to get resources that it needs to convert into outputs which an environment desires.
- (iv) **It helps in coping with rapid changes** : It helps management to become more sensitive to ever changing needs of the customers. As a result, they are able to respond to such changes effectively.
- (v) **It helps in assisting in planning and policy formulation** : Environmental scanning provides the basis for deciding future course of action (planning) and guidelines for decision making (policy).
- (vi) **It helps in improving performance** : The continuous monitoring of environment and adopting suitable business practices not only improve their present performance but also continue to succeed in the market for a longer period.

□ Q. 5. Why is the understanding of business environment important for managers ? Explain with the help of any four points.

[Delhi Set I 2014]

Ans. Refer to Q. No. 4 of Short Answer Type Questions-II. 4

- Ⓡ Q. 6. Define Business Environment. State any three of its features. [SQP 2015]
[Foreign and Outside Delhi Set I, II, III 2014]
[Delhi Comptt. Set II 2014]

Ans. **Business Environment** : Refer Know the Terms.
Characteristics of Business Environment : Refer
Q. 1. of Short Answer Type Questions-II. 4



Long Answer Type Questions

(5 marks each)

- Ⓡ Q. 1. Explain any five points of importance of Business environment? [Delhi Comptt. 2017]
[Outside Delhi Set-I, II]

Ans. Refer to Q. No. 4 of Short Answer Type Questions-II. 5

- Ⓡ Q. 2. State any five features of Business Environment. [Delhi Comptt. Set-I, 2017]
OR

Explain any five features of business environment.

[Delhi Set II, Outside Delhi Set III 2012]

[Delhi Comptt. Set I 2011]

[Outside Delhi Comptt. Set II 2011] [NCERT]

Ans. Refer to Q. No. 1 of Short Answer Type Questions- II 5



Essay Type Question

(6 marks)

- Ⓡ Q. 1. "A good understanding of environment by business managers enables them not only to identify and evaluate but also to react to the forces external to their firm." In the light of the above statement explain any four points

of importance of understanding business environment by a manager. [SQP 2016]

Ans. Refer to Q. No. 4 of Short Answer Type Questions-II. 6



TOPIC-2

Dimensions of Business Environment

Quick Review

➤ Dimensions of Business Environment

- **Social Environment** : It includes forces such as customs, traditions, social expectations, literacy rate, etc.
- **Economic Environment** : It includes factors such as inflation rates, interest rates, stock market indexes, etc.
- **Technological Environment** : It includes forces related to scientific improvements and innovations in the methods of production and techniques of operating a business.
- **Political Environment** : It includes political conditions such as general stability of the ruling party, government ideologies, values and practices of the ruling party, etc.
- **Legal Environment** : It includes various legislations passed by the Government, administrative orders, court judgments, etc.



Very Short Answer Type Questions

(1 mark each)

- Ⓡ Q. 1. What is included in 'Political Environment' of business? State. [Delhi Set I, II, III 2014]

Ans. Political Environment of business comprises of those elements that are related to political system and its working, that is government affairs, attitude of Government towards various industries, political interference in business operations, political stability in the country, etc. 1

- Ⓡ Q. 2. What is included in 'Legal Environment of Business'? State.
[Outside Delhi Set I, II, III 2014]

Ans. Legal Environment of business consists of various legislations passed by the government, administrative orders issued by the Government authorities, court judgements and decisions rendered by various commissions and agencies set up at every level of the government. 1

- Ⓡ Q. 3. What is included in 'Technological Environment' of business? State.
[Foreign Set I, II, III 2014]

Ans. Technological Environment of business includes forces relating to scientific improvement and innovations which provide new ways of

producing goods and services and new methods and techniques of operating a business. 1

- U Q. 4. Why is it said that Business Environment is complex ?

[Outside Delhi Comptt. Set I, II, III 2013]

Ans. Business Environment is complex because it is relatively easier to understand environment in parts but difficult to grasp in totality. 1

- U Q. 5. State, how business environment is dynamic in nature ? [Outside Delhi Comptt. Set III 2012]

Ans. It is dynamic in the sense that it keeps on changing be it in the terms of technological improvement, shift in consumer preferences or in terms of entry of new competitor in the market. 1



Short Answer Type Questions-II

(4 marks each)

- U Q. 1. It is heartening that the implementation of compliance requirements of the Companies Act, 2013 has progressed substantially with NIFTY 500 companies. Data shows a significant increase in women's participation in the top management of Indian Companies from 2% few years ago to 13% now. Even companies which are not in NIFTY 500 have undertaken drives to increase women's participation across different areas of work. The government had also announced that it would support such companies. Identify and explain the dimensions of business environment discussed above which brought about the change.

(SQP 2018)

Ans. The dimensions of business environment discussed above which brought about the above change are :

- Legal environment:** Legal environment includes various legislations passed by the Government, administrative orders issued by government authorities, court judgments, as well as the decisions rendered by various commissions and agencies at every level of government-Center, State, Local, Non-compliance of laws can land the business enterprises into legal problems.
- Political environment :** Political environment includes political conditions such as general stability and peace in the country and specific attitudes that elected government representatives hold towards business. Attitudes of the government officials may have either positive or negative impact upon business.

(½ marks for heading) $2 \times 2 = 4$

- A, U Q. 2. As per the directions issued by Supreme Court; the Government passed an order to ban the sale of tobacco products within the area of 200 metres of all educational institutions as :

- Its consumption is injurious to health.
- People are becoming more conscious about health and fitness.
- It is indicating the government's attitude towards the business.

Identify the 'Business Environment' under four different dimensions quoting the lines from the above para.

[Delhi Set Comptt. I, II, III 2013]

Ans. (i) As per the direction issued by Supreme Court the government passed an order to ban the sale of tobacco products : Legal Environment.

(ii) Its consumption is injurious to health : Social Environment.

(iii) People are becoming more conscious about health and fitness : Social Environment.

(iv) It is indicating government attitude towards business : Political Environment. 4

- U Q. 3. The Government encouraged foreign companies to invest in some sectors of retailing. The argument is :

(i) Customers can purchase the products of these companies as their income is rising.

(ii) It will increase innovations which will provide new ways of producing goods, this will ultimately improve the quality of life.

Identify and explain the 'Business Environment' under four different dimensions quoting the lines from the above description.

[Outside Delhi Comptt. Set I, II, III 2013]

Ans. (i) The Government encouraged foreign companies to invest in some sectors of retailing: Political environment consists political parties and their ideologies, stability of government, government policies towards business, etc. All these factors influence the stability, growth and profitability of the business.

(ii) Customers can purchase the products of these companies as their income is rising : Economic Environment refers to the nature of economy, economic policies of the government, economic institutions, economic indices, economic relations etc.

(iii) It will increase innovations : Technological Environment refers to innovation of what includes scientific research, development of new methods of production, distribution and marketing of goods & services, discovery and inventions of new products and markets.

(iv) This will ultimately improve the quality of life : Social environment includes the social values, lifestyles, traditions, customers, ethics and values, composition of family, occupational distribution, standard of living etc. $1 \times 4 = 4$

- Q. 4. How legal and political environment affect the functioning of Business organisation ? Explain with the help of an example. [SQP 2013]

Ans. Impact of legal environment : Many Acts are passed from time to time in order to control and regulate business activities. For example, by removing control on the capital market, the huge amount of capital was collected by using various new issues in the primary market. This has increased the availability of funds with the business houses and promoted large scale production, expansion and growth of business.

Impact of political environment : Its effect on the functioning of Business organisation is explained below through this example :

It was only because of the political interest that Hyderabad came to be known as Cyberabad. In

other words, it came to be known as Cyberabad because the IT companies were established there. $2 \times 2 = 4$

- Q. 5. Identify the type or dimension of environment to which the following are related :

- Banks are reducing interest rates on housing loans.
- An increasing number of working women.
- Booking of air tickets through internet.
- Alcohol beverages are prohibited to be advertised on 'Doordarshan'. [SQP 2011]

Ans. (i) Economic environment

(ii) Social environment

(iii) Technological environment

(iv) Legal environment. $1 \times 4 = 4$

Note : For explanation refer to Q. 1 of Long Answer Type Questions.

Long Answer Type Question

(5 marks)

- Q. 1. "Management of every enterprise can be benefitted from being aware of different dimensions of business environment." Explain any four such dimensions.

[Delhi Comptt. Set III 2010]

OR

What constitutes general environment of business ?

OR

Explain various dimensions of business environment with example. [NCERT]

Ans. Dimensions of Business Environment :

- Economic Environment :** It consists of gross national product, corporate profit, inflation rate, productivity, employment rate, balance of payment, interest rates, rate of taxes and consumer income, debt and spendings. Economic environment has stronger influence over organisation's policies and actions.
- Social Environment :** It describes characteristics of the society in which the organisation exists. Literacy rate, customs, beliefs, values, lifestyle,

demographic distribution and mobility of population are part of the social environment. It is important for managers to remember that although changes in the attributes of a society may come either slowly or quickly, changes will come inevitably.

- Political Environment :** It comprises those elements which are related to governmental affairs *e.g.*, attitude of government towards various industries, lobbying efforts by corporate groups.
- Legal Environment :** It consists of legislation that has been passed by parliament and state legislature. This component prescribes rules and regulations for all the members of the business community.
- Technological Environment :** Under this component, new approaches of producing goods and services, new procedures as well as new equipments are included. For example, computerisation of business and industries is a fashion today. $1 \times 5 = 5$



TOPIC-3 Demonetisation

Quick Review

- **Demonetisation :** It is the process of detaching a currency unit from its status as legal tender in the country.
- Demonetisation results in change in national currency.
- The present currency in circulation is pulled off and new currency is circulated.
- Types of Demonetisation
 - Total Demonetisation – in this the entire range of present currency is replaced by a new range of currency.

- Partial Demonetisation –in this some currency units are replaced some are continued.
- **Purposes sought by Demonetisation**
 - Combating corruption
 - Combating crime
 - Combating inflation
 - Combating counterfeit currency
 - Combating tax evasion
 - Encourage cashless economy
 - Facilitate trade (sometimes)
- **Demonetisation across the world**
 - In 1873, USA – silver coins demonetised resulted in 5 years economic depression. As a result, silver remonetised in 1878.
 - In 2002, Europe –German Marc, French Franc, and Italian Lira demonetised in favour of Euro issued by European Union to facilitate trade.
 - In 2015, Zimbabwe - Zimbabwean Dollar demonetised in favour of US Dollar, Botswana Pula and South African Rand.
- **History of Demonetisation in India.**
 - On 12/01/1946 – all notes of denominations of ₹500 and ₹1000 were demonetised with a time limit of 10 days to exchange demonetised notes. Its purpose was to catch tax evaders.
 - On 16/01/1978 – all notes of denominations of ₹1000, ₹5000 and ₹10000 were demonetised with a time limit of 3 days to exchange demonetised notes. Its purpose was to catch corrupt leaders and officials in predecessor governments.
 - On 08/11/2016 – all notes of denominations of ₹500 and ₹1000 were demonetised with a time limit of 50 days to exchange demonetised notes from banks and some essential service stores.
- **Demonetisation of 2016**
 - ₹500 and ₹1000 denomination notes were demonetised.
 - ₹500 (new series) and ₹2000 notes were introduced.
 - 50 days' time limit given for exchange of demonetised notes.
 - Limits were put on exchange per day and withdrawal per day (and week) during this time.
 - Public announcement made live by Prime Minister of India at 8.00 pm on 08/11/2016 that the demonetised currency can be used till 12 midnight the same day.
 - Mixed reaction by public but strongly criticized by opposition.
- **Effects of 2016 Demonetisation**
 - Estimated curb on black money
 - Estimated curb on Human Trafficking
 - Adverse effect on radical groups like Naxalists and Maoists.
 - Cash shortage among public
 - Deaths of people standing in bank queues reported.
 - Decline in stock market
 - Disruption in public transport system.
 - Rise in cashless transactions
 - Move towards digital economy
 - Growth in tax collection and number of assesses
 - Decline in GDP growth.
- **Attempts at evasion**
 - Rise in purchase of gold
 - Rise in donations at temples
 - Rise in initial booking and subsequent cancellation of railway tickets
 - Multiple bank transactions at different branches
 - Backdating of accounting records and entries



Very Short Answer Type Questions

(1 mark each)

Q. 1. Define Demonetisation.

Ans. Demonetisation is the process of detaching a currency unit from its status as legal tender in the country.

1

Q. 2. Name the two types of Demonetisation.

Ans. Total Demonetisation and Partial Demonetisation.

$\frac{1}{2} \times 2 = 1$

U Q. 3. List any two reasons for which a country sought Demonetisation?

Ans. The following are the reasons for Demonetisation :

- (i) Combating corruption
- (ii) Combating crime
- (iii) Combating inflation
- (iv) Combating counterfeit currency
- (v) Combating tax evasion
- (vi) Encourage cashless economy
- (vii) Facilitate trade (sometimes)

(Any two) $\frac{1}{2} \times 2 = 1$

A Q. 4. Give an instance of Demonetisation of currency outside India.

Ans. The following are the instances of Demonetisation of currency outside India :

- (i) In 1873, USA – silver coins demonetised
- (ii) In 2002, Europe – German Marc, French Franc, and Italian Lira demonetised
- (iii) In 2015, Zimbabwe – Zimbabwean Dollar demonetised

(Any one) 1

A Q. 5. Which two denomination currency notes were demonetised on Nov 8, 2016?

Ans. ₹500 and ₹1000 denomination currency notes were demonetised on Nov 8, 2016. $\frac{1}{2} \times 2 = 1$

A Q. 6. Which two denomination currency notes were introduced on Nov 8, 2016?

Ans. ₹500 (new series) and ₹2000 notes were introduced on Nov 8, 2016. $\frac{1}{2} \times 2 = 1$

U Q. 7. Name any two methods of evasion adapted by black money holders in Demonetisation move of 2016?

Ans. The following methods of evasion were adopted by black money holders in Demonetisation move of 2016 :

- (i) Purchasing of gold
- (ii) Donations given at temples
- (iii) Initial booking and subsequent cancellation of railway tickets
- (iv) Multiple bank transactions at different branches
- (v) Backdating of accounting records and entries

(Any two) $\frac{1}{2} \times 2 = 1$



Short Answer Type Questions

(3 marks each)

A Q. 1. List the three instances of Demonetisation of Indian currency?

Ans. The three instances of Demonetisation of Indian currency are:

- (i) **On 12 Jan, 1946** : All the notes of denominations of ₹500 and ₹1000 were demonetised. At that time, the time-limit of 10 days was given to exchange the demonetised notes. This step was taken to catch tax evaders. 1
- (ii) **On 16 Jan, 1978** : All the notes of denominations of ₹1000, ₹5000 and ₹10000 were demonetised. The time-limit of 3 days was given to exchange the demonetised notes. This step was taken to catch corrupt leaders and officials of the preceding governments. 1
- (iii) **On 08 Nov, 2016** : All the notes of denominations of ₹500 and ₹1000 were demonetised. This time, the time limit of 50 days was given to exchange demonetised notes from banks and some essential service stores like hospitals and petrol pumps and so on. 1

R Q. 2. Name and explain different types of Demonetisation of currency?

Ans. The two types of Demonetisation of currency are Total Demonetisation and Partial Demonetisation. 1

- (i) **Total Demonetisation** : In this type of Demonetisation, the entire range of present currency units are replaced by a complete new range of currency units. 1
- (ii) **Partial Demonetisation** : In this type of Demonetisation, only some or part of currency

units (only partial and not complete) are replaced by new currency units and rest other currency units are continued for the circulation. 1

U Q. 3. Which three currencies replaced Zimbabwean Dollar in 2015?

Ans. In 2015, the Zimbabwean Dollar was replaced by US Dollar, Botswana Pula and South African Rand currencies. $1 \times 3 = 3$

U Q. 4. Define Demonetisation. What are the purposes served by Demonetisation of currency?

Ans. Demonetisation is the process of detaching a currency unit from its status as legal tender in the country. This process results in total or partial change in the existing national currency where the present currency unit in circulation is pulled off and new currency unit is circulated. 1

The various purposes served by Demonetisation of currency include:

- (i) It helps to combat corruption, crime, inflation, counterfeit currency and tax evasion
- (ii) It encourage cashless economy
- (iii) It sometimes facilitate trade also (Any two) $1 \times 2 = 2$

A Q. 5. Give an instance when a currency has been demonetised to facilitate trade.

Ans. At the end of year 1993, the European Union of various European countries was formed. It removed the trading barriers among the united countries to facilitate trading among European countries. But the traders were feeling difficult to trade due to the difference in the currency types of different European countries. As a result, in the year 2002, European Union issued a new currency unit, named Euro, to be applicable

currency units like German Marc, French Franc, and Italian Lira were demonetised, in favour of Euro issued, to facilitate trade. 3

Q. 6. Write a brief note on Partial Demonetisation of Indian currency in 2016?

Ans. The Partial Demonetisation of Indian currency took place in Nov 2016. On the 8th day of November, a public announcement was made live by the Prime Minister of India, Mr. Narendra Modi at 8.00 pm that the ₹500 and ₹1000 denomination notes were demonetised

and can only be used till 12 midnight the same day. The new series of ₹500 and ₹2000 notes were introduced and the time limit of 50 days was given for the exchange of the demonetised notes. During this time, some limits were put on exchange of demonetised notes per day and withdrawal per day (and week). The opposition strongly criticized the step of Demonetisation whereas there was a mixed reaction among the people of India. It was appreciated by the people on one hand but also faced criticism by some. 3



Short Answer Type Questions-II

(4 marks each)

Q. 1. Give an instance of Demonetisation across the world

Ans. Refer Quick Review. 4

Q. 2. Most Indian currency been demonetised in past also? If yes, give instances of Demonetisation of Indian currency.

Ans. Yes, India has a history to pull select denominations of its currency from being circulated in the past also. At those three times,

most Indian currency had been demonetised. Those three instances of Demonetisation of Indian currency were:

Refer Q.1. of Short Answer Type Question - I for explanation of instances. 4

Q. 3. What have been the effects of Demonetisation of currency in 2016?

Ans. Refer Quick Review. 4



TOPIC-4 Economic Environment in India

Quick Review

➤ **Economic Environment in India**

The main aim of the New Industrial Policy was to create a more competitive spirit in the economy and the removal of barriers on entry and growth of firms.

As a part of economic reforms, the Indian government announced a "New Industrial Policy" in 1991. The focus of this policy was on liberalisation, privatisation and globalisation.

➤ **The broad features of this policy :**

- Delicensing
- Decrease in role of public sector
- Disinvestment
- Liberalisation of Foreign Capital
- Liberal policy for technical collaboration
- Setting up of Foreign Investment Promotion Board
- De-reservation under small-Scale industries.

➤ **The New Industrial Policy laid stress on replacing the license, Quota and Permit by:**

- Liberalisation • Privatisation • Globalisation

➤ **Impact of Government Policy Changes on Business and Industry**

- **Increasing Competition :** Indian firms are facing more competition due to entry of foreign firms.
- **More Demanding Customers :** Customers today are well informed about wider choices available in the market.
- **Rapidly Changing Technological Environment :** New technologies are used to improve machines, process, products and services.
- **Necessity for Change :** Market forces have become turbulent after 1991 necessitating modification in operations.
- **Development of Human Resource :** Firms need people with higher competence and greater commitment.
- **Market Orientation :** There is a shift from production orientation to market orientation.



Very Short Answer Type Questions

(1 mark each)

Q. 1. What is meant by 'Liberalisation'?

[Outside Delhi Set II 2015]

Ans. Liberalisation refers to removal of controls and restrictions by the government over business. 1

Q. 2. What is meant by Globalisation ?

[Outside Delhi Comptt. Set I 2012]

Ans. Interaction of domestic economy with the rest of the world economy. 1

Q. 3. State any two impacts of change in policy of the government on business and industry.

[SQP 2010]

Ans. (i) Increasing competition; (ii) More demanding customers. $\frac{1}{2} + \frac{1}{2} = 1$



Short Answer Type Question-I

(3 marks)

Q. 1. Give any two points, to explain the impact of change in policy of the government on Business and Industry. [Foreign Set I, III 2014]

OR

Explain any two points of impact of change in policy of the government on business and industry. [Delhi Comptt. Set III 2014, Outside Delhi Set I 2014]

OR

The Indian corporate sectors have come face-to-face with several challenges due to change in policy of the government in business and industry. Explain any two such changes.

[Outside Delhi Comptt. Set I 2014]

OR

State any two impacts of change in policy of the government on Business & industry.

[Outside Delhi Comptt. Set I 2012]

OR

Explain any two impacts of change in policy of the government on Business and Industry.

[Delhi Set I 2011]

Ans. Impact of change in policy of the government on business and industry :

(i) **Increase in competition** : As a result of changes in the rules of industrial licensing, entry of foreign firms have increased especially in service industries like telecommunications, airlines, banking, insurance, etc. which were reserved for PSU sector earlier.

(ii) **More Demanding Customers** : Customers today have become more demanding because they are well informed. Increasing competition in the market gives the

customers wider choice in purchasing better quality of goods and services at cheaper rates.

(iii) **Rapidly Changing Technological Environment** : Increasing competition forced the firms to develop new ways to survive and grow in the market. The rapidly changing technological environment creates tough challenges before smaller firms.

(iv) **Necessity for Change** : In a regulated environment of pre-1991 era, the firms could have relatively stable policies and practice. After 1991, the market forces have become turbulent, as a result of which, the enterprise have to continuously modify their operations.

(v) **Need for Development of Human Resource**: Indian enterprises lacked availability of trained technical personnel always. New market conditions require people with higher competence and greater commitment.

(vi) **Market Orientation** : Earlier firms used to decide production not the demand of products. In a fast changing world, there is a shift of market orientation as much as the firms have to study and analyse the market first and then produce goods accordingly.

(vii) **Loss of Budgetary Support to the Public Sector** : The central government's budgetary support for financing the public sector outlays has declined over the years. The public sector undertakings have realised that, in order to survive and grow, they will have to be more efficient and generate their own resources for survival.

(Any two) $1\frac{1}{2} \times 2 = 3$

[CBSE Marking Scheme, 2011]



Short Answer Type Questions-II

(4 marks each)

Q. 1. "The Indian Corporate Sector has come face-to-face with several challenges due to

government policy changes." Explain any four such challenges. [Delhi Set II 2010]

Ans. Challenges faced by the Indian corporate sector :

- (i) **Threat from MNC :** The massive entry and consolidation of multinationals in the Indian markets constitute another new challenge.
- (ii) **Competition :** Liberalisation of trade has led to more and more competition from multinationals and from imports. Competition has become global in nature. Local tailor is facing competition from PETER ENGLAND and HONEST SHIRT.
- (iii) **World Class Technology :** Competitive advantage and core competency rests largely on technological strengths. Investment in R & D (Research and Development) and innovation becomes inescapable for companies which enjoyed protection under the regulated regime. For example, Pharmaceutical industry made 2% investment in R & D in India.
- (iv) **Brand-Building :** Expenditures were enhanced by companies on branding & positioning of products. The expenditures on the launch of the Korean brands like, Hyundai, LG and Samsung companies are good examples.

[CBSE Marking Scheme, 2010] $1 \times 4 = 4$

- Q.2. A recent rate cut in the interest on loans announced by the Banks encouraged Amit, a science student of Progressive School, to take a loan from State Bank of India to experiment and develop cars to be powered by fuel produced from garbage. He developed such a car and exhibited it in the Science Fair organised by the Directorate of Education. He was awarded first prize for his invention.

Identify and explain the dimensions of business environment discussed in the above case.

[Delhi Set I 2016]

Ans. Dimensions of Business Environment :

- (i) **Economic environment :** Economic environment refers to factors and forces concerning means of production and distribution of wealth.

OR

Economic environment refers to factors like interest rates, inflation rates and changes in disposable income of people etc. which have an impact on business enterprise.

- (ii) **Technological environment :** Technological environment of business includes forces relating to scientific improvements and innovations which provide new ways of producing goods and services and new methods and techniques of operating a business. $2+2=4$

[CBSE Marking Scheme, 2016]

Detailed Answer :

Dimensions of Business Environment :

- (i) **Economic Environment :** Interest rates, inflation rates, changes in disposable income of people, stock market indices and the value of rupee are some of the economic factors that can affect management practices in a business enterprise. Short and long-

term interest rates significantly affect the demand for product and services.

- (ii) **Technological Environment :** Technological environment includes forces relating to scientific improvements and innovations which provide new ways of producing goods and services and new methods and techniques of operating a business. *For example*, recent technological advances in computers and electronics have modified the ways in which companies advertise their products.

Manufacturers have flexible manufacturing systems. Airline companies have Internet and World Wide Web pages where customers can look for flight times, destinations and fares and book their tickets online.

- Q.3. With change in the consumption habits of people, Neelesh, who was running a sweets shop shifted to chocolate business. On the eve of Diwali, he offered chocolates in attractive packages at reasonable prices. He anticipated huge demand and created a website chocolove.com for taking orders online. He got a lot of orders online and earned huge profit by selling chocolates.

Identify and explain the dimensions of business environment discussed in the above case.

[Outside Delhi Set I 2016]

- Ans. (i) Social Environment :** Social Environment includes social forces like custom and traditions, values, social trends and society's expectation from business.

- (ii) **Technological Environment :** Technological Environment of business includes forces relating to scientific improvements and innovations which provide new ways of producing goods and services and new methods and techniques of operating a business. $2+2=4$

[CBSE Marking Scheme, 2016]

Detailed Answer :

Dimensions of Business Environment :

- (i) **Social Environment :** The social environment of business include the social forces like customs, habits and traditions, values, social trends, society's expectations from business, etc. Traditions define social practices that have lasted for decades or even centuries. *For example*, the celebration of Diwali, Eid, Christmas, and Guru Parv in India provides significant financial opportunities for greetings card companies, sweets or confectionery manufacturers, tailoring outlets and many other related businesses.
- (ii) Refer to Q. No. 2.

- Q.4. Lately many companies have planned for significant investment in organized retail sector in India. Several factors have prompted their decisions in this regard customer income is rising. People have developed a taste for better quality products even though they may have to pay more. The government is also showing positive attitude towards rising retail sector. Law has permitted cent percent foreign direct investment in some sectors of retailing.

Identify the changes in business environment under different dimensions, quoting the lines from the above para.

Ans. Dimensions :

- (i) **Economic Environment** : "Customer income is rising."

- (ii) **Social Environment** : "People have developed have to pay more."

- (iii) **Political Environment** : "The govt. retail sector."

- (iv) **Legal Environment** : "Law has permitted retailing. $1 \times 4 = 4$



Long Answer Type Questions

(5 marks each)

- Q. 1. State any five points of impact of liberalisation on business and industry.

[Outside Delhi Set-I Comptt. 2017]

Ans. Impact of government policy changes on business and industry in India :

- Competition has increased for Indian firms due to the entry of foreign firms.
- Customers have become more demanding as they have a wider choice.
- Technological environment is rapidly changing creating thought challenges for small businesses.
- It has become necessary for enterprises to change and modify their operations to cope with the turbulent market forces.
- There is a need for developing human resource as the new market conditions require people with higher competence and greater commitment.
- Enterprises are forced to adopt a market orientation so that they could study the market and produce goods accordingly.
- There is loss of budgetary support to the public sector as the government felt that the public sector needs to be more efficient in order to survive and grow.

(If an examinee has given only the headings, $\frac{1}{2}$ mark for each heading should be awarded)

(Any Five) $1 \times 5 = 5$

[CBSE Marking Scheme, 2017]

- Q. 2. State any five impacts of change in policy of the government on Business and Industry.

[Delhi Set I 2012]

OR

Explain any five impacts of change in policy of the government on business and industry in India.

[Delhi Set I 2010]

OR

Briefly discuss the impact of Government policy changes on business and industry.

[NCERT]

Ans. Refer to Q. No. 1 of Short Answer Type Questions-I.

5

- Q. 3. Naman and Govind after finishing their graduation under vocational stream decided to start their own travel agency which will book Rail Tickets and Air Tickets on commission basis. They also thought of providing tickets within ten minutes through the use of internet. They discussed the idea with their professor Mr. Mehta who liked the idea and suggested them to first analyse the business environment which consists of investors, competitors and other forces like social, political, etc. that may affect their business directly or indirectly. He further told them about the technological improvements and shifts in consumer preferences that were taking place and hence they should be aware of the environmental trends and changes which may hinder their business performance. He emphasised on making plans keeping in mind the threat posed by the competitors, so that they can deal with the situation effectively. This alignment of business operations with the business environment will result in better performance.

- Identify and state the component of business environment highlighted in the above para.
- State any two features of business environment as discussed by Professor Mehta with Naman and Govind.
- Also state two points of importance of business environment as stated by Professor Mehta in the above situation. [SQP 2017]

Ans. (i) **Technological Environment** : It includes forces relating to scientific improvements and innovations which provide new ways of producing goods and services and new methods and techniques of operating a business.

- (ii) (a) Specific and general forces.

(b) Dynamic nature.

- (iii) (a) It helps the firm to identify threats and early warning signals.

(b) It helps in planning and policy formulation.

[CBSE Marking Scheme, 2017] 5



High Order Thinking Skills (HOTS) Questions

Q. 1. Govt. of India is seriously thinking to allow oil marketing public sector undertakings to fix their own price for petrol and diesel. Which economic reform is the reason of this change in government's policy ? [SQP 2011]

Ans. The reason for this change in the government's policy is 'Liberalisation' or De-Regulation. 1

Q. 2. "Due to enforcement of Euro-IV emission norms, an automobile company had to phase out one of its model." Identify the dimension of environment highlighted in the given statement.

Ans. Legal Environment. 1

Q. 3. "Increase in the use of mobile phones and i-pods instead of papers and radio" refers to an example of key component of general environment of business. Identify the component of business environment.

Ans. Technological Environment. 1

Q. 4. "The shift of demand from soft drinks to juices is an opportunity for juice companies and threat for soft drinks companies." Identify the feature of business environment.

Ans. Business Environment is a relative concept. 1

Q. 5. State the term or the process which shows reduction in government control and tax rates to promote growth of private sector.

Ans. Liberalisation. 1

Q. 6 Explain any three positive impacts of Globalisation on Indian economy.

Ans. The three impacts of Globalisation on Indian economy are as follows :

(i) **Cheaper and Faster Transportation** : Due to global trade relationships and advancement of technologies, the aircrafts, ships, etc. have facilitated the task of transporting goods to distant places in much less time.

(ii) **Removal of Capital Exchange Controls** : The control on movement of money from one country to another was lifted over during 1991. This allowed businesses to move from one country to another in search for better business opportunities. This policy has helped in attracting foreign investment into our country thus contributing to adequate foreign exchange reserves to make country's BOP favourable.

(iii) **Emerging markets in Developing Countries** : There is growth in income and improvement in standard of living of the people of developing countries through globalisation. There are foreign or imported goods market where better qualities goods are made available at competitive prices for the residents. (Any three) $1 \times 3 = 3$

Q. 7. Understanding of environment by business managers enables them not only to identify and

evaluate, but also to react to the forces external to their firms.' In light of the statement, explain any four important points of business environment.

[Outside Delhi Comptt. Set II 2014]

OR

Explain any four points of importance of business environment. [Delhi Comptt. Set I 2014]

OR

Why is the understanding of business environment important for managers ? Explain with the help of any four points. [Delhi Set I 2014]

Ans. Understanding of Business Environment is very important for managers. It is highlighted through the following points.

(i) **Identifying opportunities and getting first mover advantage** :

The businessmen, who are able to understand and scan the opportunities of business at early stage; can get maximum benefits or they can capture a big market before their competitors can grab these opportunities. For Example. Nerolac Goodlass company was the first company to understand the environment at an early stage to find out that there will be great demand of car painting in India and got all the car painting contract of Maruti company and today 90% of car paint work of Maruti is done by Nerolac Goodlass company.

(ii) **Identifying threats and early warning signals** :

Threats refers to the external environmental trends and changes that will hinder a firm's performance. Threats work as warning signals for organisation to take suitable actions. By identifying threats and early warning signals, the organisation may effectively overcome it by adopting counter strategy. Timely scanning of business environment acts as warning signals for a business to prepare itself to modify its working in advance and try to utilise the qualitative information it receives about the competitors.

(iii) **Helps in tapping useful resources** :

Businessmen have to supply the goods and services according to the demand and consumer needs. To supply and produce output, they need inputs like finance, power, machines, raw-material etc., keeping in mind their availability in environment and demand of output in the market. So the existence enterprise depends on the environment as a source of inputs.

(iv) **Improvement in performance** :

The study of environment acts as a major source of continuous learning on the part of managers. The enterprises that continuously monitor their environment and adopt suitable business practices at the right time are the ones which not only improve their present performance

but also continue to succeed in the market for a longer period.

(v) **Helps in assisting in planning and policy formulation** : Environmental factors help in making plans and formulating policies for future. Scanning, understanding and analysing the business environment provides the base for planning and policy formulation (guidelines for decision making).

(vi) **Helps in coping with rapid changes** : It enables managements to become more sensitive to cover changing needs of customers. As a result, they are able to respond to such changes effectively. (Any four) $1 \times 4 = 4$

[CBSE Marking Scheme, 2014]

Q. 8. "The managers have to respond suitably to cope up with the changing environment." Enlist any six managerial responses.

Ans. **Changes in business environment may expect following managerial responses :**

- (i) Restructuring the organisation and strategic planning.
- (ii) Identifying the strengths and opportunities and taking the first mover advantage.
- (iii) Advancing or hiring new technologies.
- (iv) May induce the business enterprise to expand through acquisition mergers, joint ventures etc., to strengthen their position.
- (v) Encouraging the enterprise to enter into the diversified areas.
- (vi) Outsourcing of core or non-core activities to captive or third parties.
- (vii) Becoming more consumer-friendly and socially responsible while operating the business.

(Any six) $1 \times 6 = 6$

Know the Terms

- **Business Environment** : It is the sum total of all individuals, institutions and other forces which are outside the control of business enterprise but that may affect its performance.
- **Liberalisation** : Abolishing licencing requirements, simplifying export-import procedure as well as attracts FDI to India.
- **Privatisation** : Giving greater role to the private sector in nation building process.
- **Globalisation** : Interaction of domestic economy with the rest of the world economy.
- **Opportunity** : Positive external trend that helps a firm to improve its performance.
- **Threat** : External environmental trends that hinders a firm's performance.
- **Traditions** : Social practices that have lasted for decades or even centuries.
- **Values** : Concepts that a society holds in higher esteem.
- **BIFR** : Board of Industrial and Financial Reconstruction.

Know the Links

- www.managementinnovations.wordpress.com
- www.slideshare.net
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