Rajasthan Institute of Engineering & Technology, Jaipur

University Roll No. \_\_\_\_\_\_\_\_\_\_\_\_\_\_

1st Year MBA 1stSemester II Mid-Term Examination, October – 2018

Subject: -Business Environment SET- A

Time: - 2 Hrs. [Maximum Marks: -20]

[Min. Passing Marks: 08]

Instructions to the Candidates:

Attempt any 4 questions from Section A and Section B is Compulsory.

Section A

1.Explain the concept and nature of business environment. (3)

Concept of Business Environment

All living creatures including human beings live within an environment. Apart from the natural environment, environment of humans include family, friends peers and neighbors. It also includes man-made structures such as buildings, furniture, roads and other physical infrastructure. The individuals do not live in a vacuum. They continuously interact with their environment to live their lives.

Just like human beings, business also does not function in an isolated vacuum. Businesses function within a whole gambit of relevant environment and have to negotiate their way through it. The extent to which the business thrives depends on the manner in which it interacts with its environment. A business, which continually remains passive to the relevant changes in the environment, is destined to gradually fade-away in oblivion. To be successful business has  not only recognize different elements of the environment but also respect, adapt to or have to manage and influence them. The business must continuously monitor and adapt to the environment if it is to survive and prosper. Disturbances in the environment may spell extreme threats or open up new opportunities for the firm. A successful business has to identify, appraise, and respond to the various opportunities and threats in its environment.

#### Nature of Business Environment:

The nature of Business Environment is simply and better explained by the following approaches:

i) System Approach:

In original, business is a system by which it produces goods and services for the satisfaction of wants, by using several inputs, such as, raw material, capital, labour etc. from the environment.

(ii) Social Responsibility Approach:

In this approach business should fulfill its responsibility towards several categories of the society such as consumers, stockholders, employees, government etc.

(iii) Creative Approach:

As per this approach, business gives shape to the environment by facing the challenges and availing the opportunities in time. The business brings about changes in the society by giving attention to the needs of the people.

On the basis of the above discussion the features of business environment can be summarized as follows.

* Business environment is the sum total of all factors external to the business firm and that greatly influence their functioning.
* It covers factors and forces like customers, competitors, suppliers, government, and the social, cultural, political, technological and legal conditions.
* The business environment is dynamic in nature, that means, it keeps on changing.
* The changes in business environment are unpredictable. It is very difficult to predict the exact nature of future happenings and the changes in economic and social environment. .
* Business Environment differs from place to place, region to region and country to country.

2. Explain briefly macro environment of business.

### (A) Economic Environment of Business:

Economic environment of business has reference to the broad characteristics of the economic system in which the business firm operates. The present day economic environment of business is a mixture of national and international environments. The existing economic environment of business is highly complex and it is not easy to comprehend it. It is the reason the firms operating in the same economic environment often take different decisions

#### (i)National Environment:

The economic condition of a country, for example level of income, distribution of income and assets, economic resources, and stages of development are among the very important determinants of business strategies.

#### (ii)International Environment:

The environment consists of those factors which have an impact on foreign trade of a country. Those factors may be foreign policy, international treaties and foreign investment policy and various acts which are concerned with the dealings with other countries in trade matters. With the charges in government and their policies, there will be change in international environment.

### (B) Non-Economic Environment of Business:

The non-economic environment exercises a strong influence on the business. Normally the non­economic environmental factors are the key factors for all kinds of business activities in India. We will now discuss them one by one.

#### (1) Socio-Cultural Environment:

In India, the social environment of a business consists of the class structure and mobility, social roles, nature of the social organisation and development of social institution. Basically the class structure in the society depends upon the occupation of people and their income levels.

#### (2) Natural Environment:

The natural environment consists of Geographical environment and ecological environment.

#### (4) Physical and Technological Environment:

(a) Physical Environment:

Potential shortages of certain raw materials e.g., oil, coal, minerals, unstable cost of energy; increased levels of pollution; changing role of government in environment protection are a few of the dangers this world is facing on physical environment forces.

(b) Technological Environment:

Technological environment consists of those factors related to knowledge applied and the materials and machines used in the production of goods and services t at have an impact on the business of an organisation.

Q.3 What do you mean by environmental scanning? Explain its process.

## Definition: Environmental Scanning

## Environmental scanning is a part of SWOT Analysis. Environment scanning is a process in which the organization undertakes a study to identify the opportunities and threats in an industry. The information obtained through environmental scanning can be used by leaders to design new objectives and strategies or modify existing objectives and strategies. An organization must be agile in responding to environmental challenges while making most of the available opportunities.

### [Process of environmental scanning](http://businessofaccouting.blogspot.com/2010/03/process-of-environmental-scanning.html)

Environmental scanning is a useful managerial tool for assessing the environmental trend. The following process is adopted for environmental scanning.

Study the forces and Nature of the Environment

In the first step of environmental scanning, the forces of the environment that have got significant bearing in the growth and development of the business should be identified.

Determine the sources of Information

After studying the process and nature of the environment, the sources of collecting information from the environment should be determined.

#### Determine the Approach of Environmental scanning:

After determining the sources of information the approach of environmental analysis should be determined. There are mainly three approaches to environmental scanning. They are:

*Systematic approach:*

Under this approach, a systematic method is adopted for environmental scanning

*Ad-hoc Approach:*

Under this, specific environmental components are only analyzed through survey and study.

*Processed form approach:*

Under this, the information collected from internal and external sources are used after processing them.

#### Scan and Assess the Trend:

This is the final step of environmental scanning process. It involves a detailed and micro study of the environment to identify the early signals of potential changes in the environment.

Q.4 What do you mean by privatization? Explain the need and advantages of privatization

The transfer of ownership, property or business from the government to the private sector is termed privatization. The government ceases to be the owner of the entity or business.  
  
The process in which a publicly-traded company is taken over by a few people is also called privatization.

The advantages of transferring government-owned assets to the private sector are increased efficiency and profits, largely because competition incentivizes innovation and improvement. The disadvantages of privatization are decreased regulation and government revenue. Institutions not owned by the government do not directly deliver the government revenue, and these institutions also have more freedom to pursue their own interests, which may negatively affect consumers, without government control.

Q.5 What is impact of LPG on FMCG sector? Explain.

Highlights of the LPG Policy  
Given below are the salient highlights of the Liberalisation, Privatisation and Globalisation Policy in India:

* Foreign Technology Agreements
* Foreign Investment
* MRTP Act, 1969 (Amended)
* Industrial Licensing
* Deregulation
* Beginning of privatisation
* Opportunities for overseas trade
* Steps to regulate inflation
* Tax reforms
* Abolition of License -Permit Raj

The economy of India had undergone significant policy shifts in the beginning of the 1990s. This new model of economic reforms is commonly known as the LPG or Liberalisation, Privatisation and Globalisation model. The primary objective of this model was to make the economy of India the fastest developing economy in the globe with capabilities that help it match up with the biggest economies of the world.  
  
The chain of reforms that took place with regards to business, manufacturing, and financial services industries targeted at lifting the economy of the country to a more proficient level. These economic reforms had influenced the overall economic growth of the country in a significant manner.

Q.6 What is monetary policy? Briefly explain various instruments of monetary policy.

**Definition:** The **Monetary Policy** is a programme of action undertaken by the central banks and other regulatory bodies to control and regulate the money supply to the public and a flow of credit, so as to ensure the stability in price and trust in the currency by targeting the inflation rate and the interest rate.

Simply, the process by which the monetary authority, generally the Central Bank controls the money supply in the economy is called as the monetary policy.

# Instruments of Monetary Policy used by the RBI

**Direct regulation:**

**Cash Reserve Ratio (CRR)**:  Commercial Banks are required to hold a certain proportion of their deposits in the form of cash with RBI. CRR is the minimum amount of cash that commercial banks have to keep with the RBI at any given point in time. RBI uses CRR either to drain excess liquidity from the economy or to release additional funds needed for the growth of the economy.

**Statutory Liquidity Ratio (SLR)**: SLR is the amount that commercial banks are required to maintain in the form of gold or government approved securities before providing credit to the customers

**Indirect regulation:**

**Repo Rate**: The rate at which the RBI is willing to lend to commercial banks is called Repo Rate.

**Reverse Repo Rate**: The rate at which the RBI is willing to borrow from the commercial banks is called reverse repo rate.

Section- B

Q.1 What are internal and external factors of environment that effect business?

If there is anything that is steadfast and unchanging, it is change itself. Change is inevitable, and organizations that don't accept change and that make adjustments to their business model to keep up with changes are doomed to fail. There are events or situations that occur that affect the way a business operates, in a positive or negative way. These events or situations can have either a positive or a negative impact on a business and are called environmental factors.

There are two types of environmental factors: internal environmental factors and external environmental factors. Internal environmental factors are events that occur within an organization. Generally speaking, internal environmental factors are easier to control than external environmental factors. Some examples of internal environmental factors are:

* Management changes
* Employee morale
* Culture changes
* Financial changes and/or issues

External environmental factors are events that take place outside of the organization and are harder to predict and control. External environmental factors can be more dangerous for an organization given the fact they are unpredictable, hard to prepare for, and often bewildering. Some examples of external environmental factors are:

* Changes to the economy
* Threats from competition
* Political factors
* Government regulations
* The industry itself

Q.2 Explain Market Driven Economy. What are its Characteristics?

A market economy is an economic system in which economic decisions and the pricing of goods and services are guided solely by the aggregate interactions of a country's individual citizens and businesses. There is little government intervention or central planning.

### Six Characteristics of a Market Economy

The following six characteristics define a [market economy](http://www.auburn.edu/~johnspm/gloss/market_economy).

1. **Private Property**. Most goods and services are privately-owned. The owners can make [legally-binding contracts](https://www.thebalance.com/written-contract-961146) to buy, sell, or lease their property. In other words, their assets give them the right to [profit](https://www.thebalance.com/what-is-profit-and-how-does-it-work-3305878) from ownership. But U.S. law excludes some assets. Since 1865, you cannot legally buy and sell human beings. That includes you, your body, and your body parts.
2. **Freedom of Choice**. Owners are free to produce, sell, and purchase goods and services in a competitive market. They only have two constraints. First is the price at which they are willing to buy or sell. Second is the amount of [capital](https://www.thebalance.com/what-is-financial-capital-3305825) they have.
3. **Motive of Self-Interest**. Everyone sells their wares to the highest bidder while negotiating the lowest price for their purchases. Although the reason is selfish, it benefits the economy over the long run. This auction system sets prices for goods and services that reflect their market value. It gives an accurate picture of supply and demand at any given moment.
4. **Competition**. The force of competitive pressure keeps prices low. It also ensures that society provides goods and services most efficiently. As soon as demand increases for a particular item, prices rise thanks to the [law of demand](https://www.thebalance.com/law-of-demand-definition-explained-examples-3305707). Competitors see they can enhance their profit by producing it, adding to supply. That lowers prices to a level where only the [best competitors](https://www.thebalancesmb.com/what-s-your-competitive-edge-2890082) remain. This competitive pressure also applies to workers and consumers. Employees vie with each other for the highest-paying jobs. Buyers compete for the best product at the lowest price. There are [three strategies that work to maintain a competitive advantage](https://www.thebalance.com/what-is-competitive-advantage-3-strategies-that-work-3305828).
5. **System of Markets and Prices**. A market economy relies on an [efficient market](https://www.thebalance.com/the-efficient-market-hypothesis-in-simple-terms-2388640) in which to sell goods and services. That's where all buyers and sellers have equal access to the same information. Price changes are pure reflections of the laws of supply and demand. There are [five determinants of demand](https://www.thebalance.com/five-determinants-of-demand-with-examples-and-formula-3305706).
6. **Limited Government**. The role of government is to ensure that the markets are open and working. For example, it is in charge of [national defense](https://www.thebalance.com/u-s-military-budget-components-challenges-growth-3306320) to protect the markets. It also makes sure that everyone has equal access to the markets. The government penalizes [monopolies](https://www.thebalance.com/monopoly-4-reasons-it-s-bad-and-its-history-3305945) that restrict competition. It makes sure no one is manipulating the markets and that everyone has equal access to information.