**Rajasthan Institute of Engineering & Technology, Jaipur**

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

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

Subject: -Business Environment SET- B

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. Define Business environment and explain its nature

Business Environment has been defined by Bayard O. Wheeler as “the total of all things external to firms and industries which affect their organization and operation”.

#### 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 significance of business environment

#### Significance of Business Environment:

Business Environment refers to the “Sum total of conditions which surround man at a given point in space and time. In the past, the environment of man consisted of only the physical aspects of the planet Earth (air, water and land) and the biotic communities. But in due course of time and advancement of society, man extended his environment through his social, economic and political function.”

In a globalised economy, the business environment plays an important role in almost all business enterprises. The significance of business environment is explained with the help of the following points:

**(i) Help to understand internal Environment:**

It is very much important for business enterprise to understand its internal environment, such as business policy, organisation structure etc. In such case an effective management information system will help to predict the business environmental changes.

**(ii) Help to Understand Economic System:**

The different kinds of economic systems influence the business in different ways. It is essential for a businessman and business firm to know about the role of capitalists, socialist and mixed economy.

**(iii) Help to Understand Economic Policy:**

Economic policy has its own importance in business environment and it has an important place in business. The business environment helps to understand government policies such as, export-import policy, price policy; monetary policy, foreign exchange policy, industrial policy etc. have much effect on business.

**(iv) Help to Understand Market Conditions:**

It is necessary for an enterprise to have the knowledge of market structure and changes taking place in it. The knowledge about increase and decrease in demand, supply, monopolistic practices, government participation in business etc., is necessary for an enterprise.

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.

4. Explain Globalization. Write down its features.

**Globalization:-**

Globalization implies integration of the economy of the country with the rest of the world economy and opening up of the economy for foreign direct investment by liberalizing the rules and regulations and by creating favorable socio-economic and political climate for global business.

**Features of Globalization**:-

* Opening and planning to expand business throughout the world. •
* Erasing the difference between domestic market and foreign market.
* Buying and selling goods and services from/to any countries in the world. •
* Locating the production and other physical facilities on a consideration of the global business dynamics ,irrespective of national consideration.
* Basing product development and production planning on the global market consideration.
* Global sourcing of factor of production i.e. raw-material, components ,machinery,technology,finance etc. are obtained from the best source anywhere in the world.
* Global orientation of organizational structure .and management culture
* Foreign market entry strategies
* Exporting
* Licensing/Franchising
* Contract manufacturing
* Management contract
* Assembly operations
* Fully owned manufacturing facilities
* Joint venturing
* Merger and acquisition
* Strategic alliance
* Countertrade

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

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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.

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.

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