

CBSE Test Paper - 03
Chapter - 3 Business Environment

1. Which of the following best indicates the importance of business environment? **(1)**
 - a. Improvement in performance
 - b. Identification
 - c. Coping with rapid changes
 - d. All of these
2. Advance understanding of business environment will help in _____ **(1)**
 - a. Developing new principles of management
 - b. Nothing
 - c. Privatisation
 - d. Planning and Policy Formulation
3. Increase or decrease in the value of Rupee is an example of _____ **(1)**
 - a. Political Environment
 - b. Social Environment
 - c. None of these
 - d. Economic Environment
4. Gross Domestic Product (GDP) is concerned with _____ **(1)**
 - a. Legal Environment
 - b. Social Environment
 - c. Economic Environment
 - d. Political Environment
5. Give a practical example from current scenario to prove that business environment helps the firm to identify threats and early warning signals. **(1)**
6. Business environment enables the firm to identify opportunities and getting the first mover advantage. Justify it with an example. **(1)**

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7. Why is it said that 'Business Environment is a 'Relative Concept'? **(1)**
 8. Business environment includes both specific and general forces. List any four specific forces. **(1)**
 9. List the various changes initiated by the Government of India since 1991. **(3)**
 10. Briefly explain the following:
 - i. Liberalisation
 - ii. Privatisation
 - iii. Globalisation **(3)**
 11. Explain the role of political environment in shaping the business. **(4)**
 12. What is meant by 'political environment' of business? **(4)**
 13. Explain any six negative impacts of liberalization and globalization. **(5)**
 14. What do you mean by business environment? Explain the key components of business environment. **(5)**
 15. Identify the Dimension of Business Environment relating to the statements given below:
 - i. The increasing interest of the urban people in health and fitness.
 - ii. With the increase in the income of the people the increase in their demand of certain commodities.
 - iii. Discrimination in the remunerations of men and women doing the similar type of work.
 - iv. Opposition of certain political parties to the Foreign Direct Investment in Organised Retailing.
 - v. The Adverse impact on the Cotton Cloth Industry with the coming up of the clothes made of synthetic thread in the market.
 - vi. Ban imposed by the Government on the sale of a product in vogue on account of the failure of its samples. **(6)**

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Answer

1. d. All of these

Explanation:

Business environment

- enables the firms to identify opportunities and getting first mover advantage
- helps to cope with rapid changes
- helps in improving performance

2. d. Planning and Policy Formulation

Explanation:

Business environment through environment Scanning helps in finding out the opportunities of the business and strategies can be made to grab these opportunities. The major planning and policy formulation are done keeping in mind the business environment.

3. d. Economic Environment

Explanation:

Economic environment consists of interest rates, inflation rates, stock market indices and increase and decrease in the value of rupee etc.

4. c. Economic Environment

Explanation:

Economic environment consists of Gross Domestic Product, Income level at national level and per capita level, profit earning rate, fiscal, monetary and industrial policy of govt etc.

5. • Recession started in 2008 and still going on resulting in a fall in purchasing power and share market and also the major fraud ever happened in Satyam Computers.
- Before Implementation of GST in 2017, the automobile companies allowed heavy discounts on cars and bikes to their customers.

6. Example;

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- Services provided by JustDial identified the needs of customers and firms and customised their services in accordance with them and today this service/concept is a huge success.
 - Before entry of different DTH service companies in Indian market, the only company that took the first mover advantage is TATA SKY.
7. Business Environment differs from company to company, country to country and even region to region. Thus it is called relative.
 8. The four specific forces of business environment are as follows
 - i. Customers
 - ii. Suppliers
 - iii. Competitors
 - iv. Investors
 9. Various changes initiated by the Government of India since 1991 are as follows:
 - i. New trade policy.
 - ii. New industrial policy.
 - iii. Capital market reforms.
 - iv. Fiscal policy.
 - v. Monetary policy.
 - vi. Phasing out of Subsidies and Price controls.
 - vii. Trade reform(import and export).
 10.
 - a. **Liberalisation:** Liberalization means removal of all unnecessary controls and restrictions on business and industry. It implies relaxation to Indian business and industry from all unnecessary controls and restrictions.
 - b. **Privatization:** Privatization is the process of transferring an enterprise or industry from the public sector to the private sector. The public sector is the part of the economic system that is run by government agencies. Privatization is considered to bring more efficiency and objectivity to the company.
 - c. **Globalization:** Globalization means the integration of one economy with the world economy and entire world is treated as one market. In other words, when economy of a country is linked with the economies of other countries for the purpose of trade and free mobility of capital and labour etc. it is known as Globalisation.
 11. **Business functions within the framework of political environment:** The political
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environment can impact business organizations in many ways. It could add a risk factor and lead to a major loss. You should understand that the political factors have the power to change results. It can also affect government policies at local to federal level. Companies should be ready to deal with the local and international outcomes of politics. Changes in the government policy make up the political factors. The change can be economic, legal or social. It could also be a mix of these factors. Generally, government's policies change with the change of guard in power. Business is required to understand and follow such changes and also respect the orders that judiciary gives from time to time. For example, after globalization, Government of India allowed many companies to enter the Indian market for giving boost to the different industries like food processing industry etc. That paved the way for entry of multinationals in India on a large scale.

12.
 - i. Political environment refers to the broad characteristics of political system in which the business enterprise operates.
 - ii. Political environment includes political conditions such as general stability and peace in the country and specific attitudes which the elected government hold towards business.
 - iii. Political stability, thus, builds up confidence among business people to invest in the long term projects for the growth of the economy. Political instability can shake that confidence.
 - iv. For example, even after opening up of our economy in 1991, foreign companies found it extremely difficult to cut through the bureaucratic red tape to get permits for doing business in India. Sometimes, it took months to process even their application for the purpose. As a result, these companies were discouraged from investing in our country. The situation has improved over time.
 - v. Due to recent demonetisation policy of government, the GDP of the country declined.
13. The negative effects of liberalization and globalization are as follows:
 - i. **Threats from multinational companies (MNCs):** With the arrival of multinationals it is becoming difficult for small and medium business units to even survive. The massive entry and consolidation to multinationals in the Indian markets is a challenge that has already forced some business enterprises to take the exit route.

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- ii. **Destabilization of protected environment:** With easier entry of multi-national companies, Indian business environment is fast losing its protective shield. The new entrepreneurial freedom is creating problems for the existing players. Even manufacturers of Maruti car could not retain their market share and had to remodel their products and announce heavily price reductions from time to time.
 - iii. **Decline in public sector:** Public sector is losing markets and their capacity utilization has declined, hampering thereby pace of country's technological and economic growth.
 - iv. **Fall in the value of rupee:** Indian rupee has been devaluing against DOLLAR, EURO and many other foreign currencies. This phenomenon has forced even some established exporters to encash their stake partly/fully.
 - v. **Increase in the consumption of products:** Activists have pointed out that globalization and liberalisation has led to an increase in the consumption of products, which has impacted the ecological cycle. Increased consumption leads to an increase in the production of goods, which in turn puts stress on the environment.
 - vi. **Rise in pollution level:** The amount of fuel that is consumed in transporting the products has led to an increase in the pollution levels in the environment. It has also led to several other environmental concerns such as noise pollution and landscape intrusion. Transportation has also put a strain on the non-renewable sources of energy, such as gasoline.
14. The business environment is the sum total of all external factors that influence the functioning of a business enterprise. The combination of internal and external factors that influence a company's operating situation. The business environment can include factors such as: clients and suppliers; its competition and owners; improvements in technology; laws and government activities; and market, social and economic trends. The key components of the business environment are:
- i. **Economic environment:** Economic environment consists of factors having economic dimensions such as fiscal policy, monetary policy, industrial policy etc. Impact: Banking sector reforms have led to attractive deposit avenues and easier credit policy. Likewise, reforms in leasing & financial institutions are also catalysing company's economic growth.
 - ii. **Social environment:** Social Environment consists of the customs and traditions of

the society in which business is existing. It includes the standard of living, taste, preferences and education level of the people living in the society where business exists.

Impact: Equal pay for equal work for both male and female workers, reservation of jobs for minorities etc.

- iii. Political environment: Political environment consists of the political forces responsible for the management of public affairs and their influence on business.
Impact: Government allowed Pepsi to enter Indian market again for giving a boost to the food processing industry.

- iv. Technological environment: Technological environment comprises of the various processes, techniques, approaches etc. by which an organization transforms inputs into output.

Impact: Digital watches have pushed out traditional watches.

- v. Legal Environment: Legal environment characterises various governmental rules, regulations and legislations etc. that all members of the business community must follow

Impact: Removal of control on foreign exchange and liberalization of foreign direct investments.

- 15. i. Economic Environment: Economic Environment consists of factors like inflation rates, interest rates, consumers' incomes, economic policies, market conditions etc. which affect the performance of a business firm. Economic Environment is fully regulated by RBI (Reserve Bank of India). RBI influences the interest rate in the country, has full control on the flow of money in the economy. It also regulates the working of all banks in India.
 - a. Interest Rates: Changes in the interest rates greatly affect the demand for goods and services. For example, low long term rates on home loans are beneficial for banks and consumers both.
 - b. Consumer Income: Increase in the incomes of the consumers leads to increase in their purchasing power. Hence, demand for goods and services rises.
 - c. Inflation Rate: High inflation rate increases the cost of production and hence puts constraints on firms.
- ii. Social Environment: Social environment implies traditions, literacy rates, educational levels, values, customs, lifestyle, demographic distribution and other

characteristics of the society in which the organization exists. Traditions mean customs or social practices that have passed on from one generation to another. Values mean standards that a society holds in high esteem e.g., freedom, social justice, equal opportunities etc. which are cherished by us all. Changes in social environment affect the demand for a product, supply of labour and capital. If a business fails to adapt to such changes, its survival becomes difficult. Cooperation between business and society can make business boom (WIN-WIN) whereas confrontation between them may lead to disaster (LOSS-LOSS).

- iii. Technological Environment: The forces related to scientific improvements and innovations for improving quality of goods and services and new techniques for operating the business, are all part of technological environment. It includes new approaches, new procedures and new equipments to transform inputs into outputs. It facilitates an organization's efficiency and effectiveness so that it can try to remain at par with the best in the world.
- iv. Political Environment: Political Environment consists of forces such as political stability and peace in the country and attitude of the ruling party and its representatives towards business. These forces significantly affect the functioning of business. Whenever there is political stability, it increases the confidence of businessmen whereas political instability, adversely affects the business. For example even after opening of our economy in 1991, many foreign companies found it very difficult to enter the Indian market because of 'Bureaucratic Red Tape'. As a result, many of these companies got discouraged from doing business in India.
- v. Legal Environment: Legal environment consists of rules and regulations, framed by the Parliament, under which business must operate. To exist and grow, business is required to follow all the rules and regulations that constitute this environment.