

**CBSE Test Paper 02**  
**Chapter 03 Business Environment**

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1. Advertisement of alcoholic beverages is prohibited. This is an example of \_\_\_\_\_ (1)
  - a. None of these
  - b. Economic Environment
  - c. Political Environment
  - d. Legal Environment
2. For the protection of a consumer's right, there is \_\_\_\_\_ (1)
  - a. Consumer protection Act 1984
  - b. Consumer Protection Act, 1986
  - c. Consumer Protection Act, 1956
  - d. Consumer Protection Act, 1932
3. Changes in fashions and tastes of consumers will \_\_\_\_\_ (1)
  - a. Shift the market demand from existing product to new ones
  - b. Increase the Sale
  - c. Increase the profit
  - d. Increase the cost of production
4. Advertisements of cigarettes carry the statutory warning. This is because of \_\_\_\_\_ (1)
  - a. None of these
  - b. Legal Environment
  - c. Political Environment
  - d. Social Environment
5. What do you mean by Globalisation? (1)
6. Government of India is seriously thinking to allow oil marketing public sector undertaking to fix their own price for petrol and diesel. Which economic reform is the reason of this change in government's policy? (1)

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7. Give one measure taken by Indian Government to introduce liberalisation. **(1)**
  8. How can the firms cope up with changing technological environment? **(1)**
  9. What is meant by “Business Environment”? Explain “Dynamic Nature” and “Uncertainty” as features of business environment? **(3)**
  10. Explain the meaning of the term Privatisation? List any two reforms made under Privatisation. **(3)**
  11. Mr. Shrawan kashyap a father has a good business of Iron and Steel. His son wants to go to U.S.A. for his M.B.A, but his father wants that he should join the business. On the basis of emerging trends, do you think that Mr. Shrawan should send his son to U.S.A.? Give any three reasons in support of your answer. **(4)**
  12. Lately many companies have planned for significant investment in organised retailing 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 aspiration levels have increased. The government has also liberalised its economic policies in this regard and permitted even cent percent foreign direct investment in some sectors of retailing. **(4)**
    - i. Identify changes in business environment under different heads — economic, social, technological, political and legal that have facilitated the companies’ decisions to plan significant investments in organised retailing.
    - ii. What has been the impact of these changes with regard to globalisation and privatisation?
  13. Explain the features of demonetisation? **(5)**
  14. Discuss the economic reforms initiated by the Government of India since 1991. **(5)**
  15. What are the essential features of LPG i.e. **(6)**
    - a. Liberalisation,
    - b. Privatisation and
    - c. Globalisation?

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**Solution**

1. d. Legal Environment

**Explanation:**

Legal environment constitutes various laws and legislations passed by the parliament. Non compliance of laws can lead into legal problems. Thus this is an example of legal environment.

2. b. Consumer Protection Act, 1986

**Explanation:**

Consumer Protection Act, 1986 seeks to protect and promote the consumer's interest through speedy and inexpensive redressal of their grievances.

3. a. Shift the market demand from existing product to new ones

**Explanation:**

Social environment consists of customs and traditions of the society, standard of living, taste, preference and educational levels etc. of people living in the society where business exists.

When social environment will change, it will change the demand of existing product to new one.

4. b. Legal Environment

**Explanation:**

Legal environment consists of various laws and legislations passed in the parliament. These can not be overlooked. Statutory warnings come under legal environment.

5. When the various economies of the world integrate, it is known as Globalisation. In simple words, globalisation means the expansion of economic activities across the political boundaries of nation states.

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6. Government of India is seriously thinking to allow oil marketing public sector undertaking to fix their own price for petrol and diesel. In new economic reforms government has adopted the policy of “Liberalisation” which is concerned with the removal of all unnecessary controls and restrictions on business and industry.
  7. One of the measures taken by the Indian Government to introduce liberalization is to Abolish licensing requirements.
  8. They have to develop new ways like they have recognised that research and development alone can ensure organisational growth and stability.
  9. **Meaning of Business Environment:** The term “Business Environment” means the sum total of all external factors and other forces that are outside the control of a business enterprise but that may affect its performance. It is important to understand the business environment within which the business has to operate.

**Dynamic Nature:** Business environment is dynamic and perpetually evolving. It changes frequently due to various external forces i.e. economic, political, social, international, technological and demographic. Such dynamism in the environment brings continuous change in its character. Business enterprises have no alternative but to operate under such dynamic environment.

**Uncertainty:** Business environment is uncertain and complex because it is difficult to predict the future events and happenings. For example; it is difficult for a garment manufacturing company to predict the change in fashion, change in information technology i.e. windows 7, windows 8, MS Office 2007, MS Office 2010, MS Office 2013 etc.

10. 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.

Two reforms made under Privatisation:

- i. Loss making or sick public sector enterprises were either closed or handed over to Board of Industrial and Financial Reconstruction.
- ii. Disinvestment of public sector enterprises.

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11. Yes, Mr. Shrawan kashyap should send his son to U.S.A as it will provide the understanding of environmental content of a business which has the following benefits:

i. **It enables the firm to identify opportunities and getting the first mover advantage:**

- a. Opportunities refer to the positive external trends or changes that will help a firm to improve its performance.
- b. For example, Maruti Udyog became the leader in the small car market because it was the first to recognise the need for small cars in an environment of rising petroleum prices and a large middle class population in India.

ii. **It helps the firm to identify threats and early warning signals:**

- a. Threats refer to the external environment trends and changes that will hinder a firm's performance.
- b. Environmental awareness can help managers to identify various threats on time and serve as an early warning signal.
- c. For example, if an Indian firm finds that a foreign multinational is entering the Indian market with new substitutes, it should act as a warning signal.

iii. **It helps in tapping useful resources:**

- a. To engage in any type of activity, a business enterprise assembles various resources called inputs like finance, machines, raw materials, power and water, labour, etc., from its environment including financiers, government and suppliers.
- b. They decide to provide these resources with their own expectations to get something in return from the enterprise.
- c. For example, with the increase in demand of LED TV, the T.V.manufacturers started collecting resources of LED TV rather than LCD TV.

12. Identification of changes: The changes in business environment under different heads are:

i. **Economic change:** Economic Availability of more money because of employment opportunities increasing.

ii. **Social change:** Social Tastes of customers are changing. As he is getting more exposure to the outside world his tastes are changing.

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- iii. **Technological change:** Technological advancements have led to advanced ways of counting, checking, coding, billing, discounts which are convenient for the customer and also retailer.
  - iv. **Political change:** Political Government policies are encouraging developers to go for mass construction on real estate. As MNCs are coming to India, they have to be provided an internationally based infrastructure to operate from.
  - v. **Legal change:** Legal as the government is providing more rights to the consumers, an organised retailing outlet would be more particular in taking care as compared to a small retailer.

### **Impact of above change in context of Globalisation and Privatisation**

**Globalization:** Globalization means the integration of one economy with the world economy and entire world is treated as one market. In simple 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 globalization.

**Privatization:** Privatization is concerned with bringing most of the enterprises of the country under the control, management and ownership of the private sector. In new economic policy it was decided by the government to hand over the control of sick industrial units to private sector.

### **13. The following are the features of demonetization:**

- a. **As tax administrative measure:** People having cash falling under declared income deposited their cash in their banks immediately to be exchanged for new notes but those with black money had to pay taxes at a penalty rate.
- b. **As a shift on the part of the Government:** Demonetisation is considered as a strict measure by the government against tax evasion which will not be tolerated or accepted.
- c. **Channelizing savings into the formal financial system:** Though much of the cash deposited in the banking system is likely to be withdrawn but some of the new deposit schemes introduced by banks will be used as loans, at a lower rate of interest.
- d. **Creation of less cash or cash-lite economy:** Another feature of demonetization is to help in channelling more savings through the formal financial system and improving tax compliance.

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14. Following changes have been observed since 1991:

i. **New Industrial Policy:-** The main features of this policy are as follows:

- Government is disinvesting in public sector undertakings.
- There are new schemes to attract Foreign Direct Investment (FDI).
- There is a prompt clearance of foreign investment proposals.
- Tax concessions are given to units in Special Economic Zones (SEZs).
- There is a broadband facility in the telecom sector.

ii. **New Trade Policy:-** The main features of the New Trade policy are as under:

- There is liberalization of import policy.
- Deemed exporters are entitled to special import licenses.
- There are greater concessions to Export Oriented Units (EOU) and units in Export Promotion Zones (EPZ).
- Credit is now less expensive and many imports are duty-free.
- The procedures related to export promotion have been simplified.
- The export quotas have been removed & there is a reduction in import duties.

iii. **Fiscal Reforms:** The main fiscal reforms are as follows:

- Measures have been taken to bring down the fiscal deficit.
- Tax reforms have been initiated to increase the revenue and tax compliance.
- Direct and indirect taxes have been reduced.
- Subsidies have been decreased.

iv. **Monetary Reforms:** The Government pursued a restrictive monetary policy for reducing inflationary pressures and also for improving the balance of payment position.

- Monetary Reforms include Phased reduction of statutory liquidity ratio (SLR).
- Private sector banks have been allowed to set up new branches.
- Banks have now been allowed to access the capital market for raising capital.
- Permission has been given for disinvestment (up to 49% of total equity).

v. **Capital Market Reforms**

- Capital Market Reforms include Ceiling on the rate of interest on

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debentures and bonds abolished. FIIs can access capital markets.

- The private sector is allowed to set up mutual funds.
- Bonus issues have been made more liberal.
- SEBI (Security and Exchange Board) of India has been made a statutory body.

15. **Liberalization:** Liberalization means removal of all unnecessary controls and restrictions on business and industry. Liberalization (or liberalisation) is any process whereby a state lifts restrictions on some private individual activities. Liberalization occurs when something which used to be banned is no longer banned, or when government regulations are relaxed.

The main features of liberalization are:

- i. Government removed all unnecessary controls and requirement for obtaining licenses for most of the industries. Only a few industries were required to obtain license from the government. licenses would be given for steel, electrical power and communications. License owners built up huge powerful empires.
- ii. Rigid procedures of import and exports were removed by the government.
- iii. Increase in the investment limit of small industries
- iv. Freedom to import technology and capital goods.
- v. It was decided by the government to hand over the control of sick industrial units to private sector.
- vi. Freedom in fixing the prices of goods and services.
- vii. No restriction on expansion of industries.
- viii. Concession from MRTP (Monopolistic and Restrictive Trade Practice) Act.
- ix. Income Tax Department and Customs Department became efficient in checking tax evasion.

**Privatization:** Privatization means the transfer of ownership, property or business from the government to the private sector. 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 main features of privatization are:

- i. Private sector is encouraged to come forward for establishing industries and to



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take over the sick public industrial units.

- ii. Increasing the share of private sector investment.
- iii. The Board of Industrial and Financial Reconstruction was set up to review sick units in public sector.
- iv. Government adopted the policy of disinvestment. It means transferring the management and control of public sector to private sector for the growth and development of the country.
- v. The control and management of public sector was handed over to private sector. It is possible only where private sector acquires more than 51% share.

**Globalization:** Globalization means the integration of one economy with the world economy and entire world is treated as one market. Globalization is the free movement of goods, services and people across the world in a seamless and integrated manner. Globalization can be thought of to be the result of the opening up of the global economy and the concomitant increase in trade between nations. The main features of Globalization are:

- i. Increase in foreign trade.
- ii. Devaluation of Rupee.
- iii. Increase in foreign investment.
- iv. Abolition of export duty.
- v. Reduction of import duty.
- vi. FERA (Foreign Exchange Regulation Act) was replaced by FEMA (Foreign Exchange Management Act).
- vii. Encouragement to healthy and open competition.