SATHYABAMA
INSTITUTE OF SCIENCE AND TECHNOLOGY
(DEEMED TO BE UNIVERSITY)
Accredited "A" Grade by NAAC | 12B Status by UGC | Approved by AICTE
www.sathyabama.ac.in

SCHOOL OF MANAGEMENT STUDIES

UNIT – I – Business Environment – SBAX1025

BUSINESS ENVIRONMENT

The concept of Business Environment – its nature and significance – Brief overview of political – cultural – legal – economic and social environment and their impact on business and strategic decisions.

Concept of Business Environment

Understanding the environment within which the business has to operate is very important for running a business unit successfully at any place. Because, the environmental factors influence almost every aspect of business, be it its nature, its location, the prices of products, the distribution system, or the personnel policies. Hence it is important to learn about the various components of the business environment, which consists of the economic aspect, the socio-cultural aspects, the political framework, the legal aspects and the technological aspects etc.

The term 'business environment' connotes external forces, factors and institutions that are beyond the control of the business and they affect the functioning of a business enterprise. These include customers, competitors, suppliers, government, and the social, political, legal and technological factors etc. While some of these factors or forces may have direct influence over the business firm, others may operate indirectly. Thus, business environment may be defined as the total surroundings, which have a direct or indirect bearing on the functioning of business. It may also be defined as the set of external factors, such as economic factors, social factors, political and legal factors, demographic factors, and technical factors etc., which are uncontrollable in nature and affects the business decisions of a firm.

Nature of Business Environment

- Business environment is the sum total of all factors external to the business firm and that greatly influences 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, which 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. Political conditions in India differ from those in Pakistan. Taste and values cherished by people in India and China vary considerably.

Significance of Business Environment

- **Determining Opportunities and Threats:** The interaction between the business and its environment would identify opportunities for and threats to the business. It helps the business enterprises for meeting the challenges successfully.
- **Giving Direction for Growth:** The interaction with the environment leads to opening up new frontiers of growth for the business firms. It enables the business to identify the areas for growth and expansion of their activities.
- **Continuous Learning:** Environmental analysis makes the task of managers easier in dealing with business challenges. The managers are motivated to continuously update their knowledge, understanding and skills to meet the predicted changes in realm of business.
- **Image Building:** Environmental understanding helps the business organisations in improving their image by showing their sensitivity to the environment within which they are working. For example, in view of the shortage of power, many companies have set up Captive Power Plants (CPP) in their factories to meet their own requirement of power.
- **Meeting Competition:** It helps the firms to analyse the competitors' strategies and formulate their own strategies accordingly.
- **Identifying Firm's Strength and Weakness:** Business environment helps to identify the individual strengths and weaknesses in view of the technological and global developments.

Brief overview of Environments and their impact on Business Decision

Social Environment

The social environment of business includes social factors like customs, traditions, values, beliefs, poverty, literacy, life expectancy rate etc. The social structure and the values that a society cherishes have a considerable influence on the functioning of business firms. For example, during festive seasons there is an increase in the demand for new clothes, sweets, fruits, flower, etc. Due to increase in literacy rate the consumers are becoming more conscious of the quality of the products. Due to change in family composition, more nuclear families with single child concepts have come up. This increases the demand for the different types of household goods. It may be noted that the consumption patterns, the dressing and living styles of people belonging to different social structures and culture vary significantly.

Political Environment

This includes the political system, the government policies and attitude towards the business community and the unionism. All these aspects have a bearing on the strategies adopted by the business firms. The stability of the government also influences business and related activities to a great extent. It sends a signal of strength, confidence to various interest groups and investors. Further, ideology of the political party also influences the business organization and its operations. You may be aware that Coca-Cola, a cold drink widely used even now, had to wind up operations in India in late seventies. Again the trade union activities also influence the operation of business enterprises. Most of the labor unions in India are affiliated to various political parties. Strikes, lockouts and labour disputes etc. Also adversely affect the business operations. However, with the competitive business environment, trade unions are now showing great maturity and started contributing positively to the success of the business organization and its operations through workers participation in management.

Legal Environment

This refers to set of laws, regulations, which influence the business organizations and their operations. Every business organization has to obey, and work within the framework of the law. The important legislations that concern the business enterprises include:

(i) Companies Act, 1956

(ii) Foreign Exchange Management Act, 1999

(iii) The Factories Act, 1948

(iv) Industrial Disputes Act, 1972

(v) Payment of Gratuity Act, 1972

(vi) Industries (Development and Regulation) Act, 1951

(vii) Prevention of Food Adulteration Act, 1954

(viii) Essential Commodities Act, 2002

(ix) The Standards of Weights and Measures Act, 1956

(x) Monopolies and Restrictive Trade Practices Act, 1969

(xi) Trade Marks Act, 1999

(xii) Bureau of Indian Standards Act, 1986

(xiii) Consumer Protection Act, 1986

(xiv) Environment Protection Act

(xv) Competition Act, 2002

Besides, the above legislations, the following are also form part of the legal environment of business.

Provisions of the Constitution: The provisions of the Articles of the Indian Constitution, particularly directive principles, rights and duties of citizens, legislative powers of the central and state government also influence the operation of business enterprises.

Judicial Decisions: The judiciary has to ensure that the legislature and the government function in the interest of the public and act within the boundaries of the constitution.
The various judgments given by the court in different matters relating to trade and industry also influence the business activities.

Economic Environment

The survival and success of each and every business enterprise depend fully on its economic environment. The main factors that affect the economic environment are:

- **Economic Conditions:** The economic conditions of a nation refer to a set of economic factors that have great influence on business organisations and their operations. These include gross domestic product, per capita income, markets for goods and services, availability of capital, foreign exchange reserve, growth of foreign trade, strength of capital market etc. All these help in improving the pace of economic growth.
- **Economic Policies:** All business activities and operations are directly influenced by the economic policies framed by the government from time to time. Some of the important economic policies are:
  Industrial policy, Fiscal policy, monetary policy, foreign investment policy, Export – Import policy (Exim policy)
  The government keeps on changing these policies from time to time in view of the developments taking place in the economic scenario, political expediency and the changing requirement. Every business firm has to function strictly within the policy framework and respond to the changes therein.
- **Economic System:** The world economy is primarily governed by three types of economic systems, viz., (i) Capitalist economy; (ii) Socialist economy; and (iii) Mixed economy. India has adopted the mixed economy system which implies co- existence of public sector and private sector.

QUESTIONS

PART – A

1. Define the term ‘Business Environment’.
2. What is Internal Environment?
3. What is External Environment?
4. What is meant by Micro Environment?
5. What do you understand by Macro Environment?
6. Distinguish between internal and external environment of business?
7. What is meant by political-legal environment?
8. How does economic environment influence business?
9. What is the nature of business environment?
10. What is the significance of business environment?
11. List the factors of micro environment?
12. List down the factors of macro environment?
13. What is socio-cultural environment?

PART – B

1. What do you understand by ‘Environment of Business’? Explain the variouscomponents of business environment.
2. Enumerate on the need to study business environment and the micro environmental factors that affect business.
3. Explain with suitable examples, the impact of business environment on business and strategic decisions.

4. Discuss various techniques that business organisations can use to cope with changes in their environment.
5. Discuss in detail the external challenges faced by businessmen.

References :

1. C.B.Gupta, Business environment, Sultan Chand & Sons, New Delhi, 2008
2. Francis Cherunilam, Business Environment, Himalaya Publishing house, Mumbai, 2007
3. S.Sankaran, Business Environment, Margham Publication, Chennai, 2005.

SATHYABAMA
INSTITUTE OF SCIENCE AND TECHNOLOGY
(DEEMED TO BE UNIVERSITY)
Accredited "A" Grade by NAAC | 12B Status by UGC | Approved by AICTE
www.sathyabama.ac.in

SCHOOL OF MANAGEMENT STUDIES

UNIT – II – Business Environment – SBAX1025

POLITICAL ENVIRONMENT

Meaning – Government and Business Relationship in India – Provisions of Indian Constitution Pertaining to Business.

Defining the Political Environment

The political environment is one of the less predictable elements in an organisation's business environment. The fact that democratic governments have to seek re-election every few years has contributed towards a cyclical political environment.

The political environment in its widest sense includes the effects of pressure groups who seek to change government policies.

Inter-linkages occur in many ways, for example:

- Political decisions inevitably affect the economic environment.
- Political decisions also influence the social and cultural environment of a country.
- Politicians can influence the pace at which new technologies appear and are adopted.

The importance of monitoring the political environment

It is important for organizations to monitor their political environment, because change in this environment can impact on business strategy and operations in a number of ways:

- The stability of the political system affects the attractiveness of a particular national market.
- Governments pass legislation that directly affects the relationship between the firm and its customers, its suppliers and other firms.
- Governments see business organisation as an important vehicle for social reform.
- The government is additionally responsible for protecting the public interest at large.
- The economic environment is influenced by the actions of government.
- Government is itself a major consumer of goods and services.
- Government policies can influence the dominant social and cultural values of a country.

Government is a very powerful institution which can create a favorable business environment. We can study its role under the following heads:

Role of Government in the Economy

1. Government: Regulator of Business:

The entire regulatory legislations and policies stand covered under this segment. On the one hand, there is a very large indirect area of government control over the functioning of private sector business through budgetary and monetary policies. But against this there is also a fast expanding area of direct administrative or physical controls through which the government seeks to ensure that private investment and production in industry and the use of scarce resources conform to government's basic socio-economic objectives. They have become necessary tools in a system which seeks to avoid total nationalization of resources.

Government's regulatory functions with regard to trade, business and industry aim at laying down the limits for the private enterprise. The regulatory functions of the Government include (i) restraints on private activities, (ii) control of monopoly and big business, (iii) development of public enterprises as an alternative to private enterprises to ensure competitive dualism, (iv)maintenance of a proper socioeconomic infrastructure.

2. Government: Promoter of Business:

The promotional role of the government in relation to industries can be seen as providing finance to industry, in granting various incentives and in creating infrastructure facilities for industrial growth and investment.

For example, our government has identified certain backward areas as 'No Industry Districts'. To promote development of such areas, Government provides subsidies and tax holiday to attract investment in backward areas. In this way the government will help the process of balanced development and thereby remove regional disparities. The government is assisting the development of small scale industries. The District Industrial Centers are assisting the development of small industries. The government is actively helping the industrial development of the country by providing finance to them through the development banks.

3. Government as an Entrepreneur:

The impressive growth of the public sector in India from a small beginning bears testimony to the role of the government as an entrepreneur. Private investors are solely guided by private profit motive and hence they are not interested in developing products of common public use and social services which yield relatively lower returns. But as a "social entrepreneur" the government does not hesitate to take them up.

4. Government as the Planner:

In its role as a planner, the government indicates various priorities in the Five Year Plans and also the sectoral allocation of resources. Mixed economies are democratically planned economies. The government tries to manage the economy and its business activities through the exercise of planning. Planning is the most important activity in a modern mixed economy.

Planning operation involves a number of steps. The first stage in planning is the formulation of socio-economic objectives of the plan and their definition in quantitative terms. Such objectives include growth, justice, eradication of poverty, price stability etc. In the second stage, the plan lays down the physical and financial targets. The third stage is concerned with execution.

The Planning Commission is only an advisory body and it has no power to execute the plan. The various government departments take necessary measures to execute the plan. Executing a plan is more difficult than making it. The execution of our Five Year Plans is not satisfactory. Prof. Lewis has observed that Indians are better planners than doers. Thegap between promise and performance has got to be narrowed down.

Provisions of the Indian Constitution that are applicable to the business :

The Constitution is a comprehensive one consisting of various provisions that affect every citizen of India. Certain provisions of the Indian Constitution are applicable to the business which ware summarized under the following headings:

I. Preamble of Constitution and Business:

The Indian Constitution starts with a preamble, which outlines the main objectives of the Constitution. It may be noted that though the preamble is not a part of the Constitution and is not justifiable, yet its significance cannot be denied. It serves as a key to the Constitution. Whenever the judiciary is in doubt about any particular provision of the Constitution it refers to the preamble to find out the real intentions of the framers of the Constitution. The preamble reads:

"We, The People of India, have solemnly resolved to constitute India into a Sovereign, Socialist, and Secular Democratic Republic and to secure to all its citizens: Justice, Social, economic and political; Liberty of thought, expression, belief, faith and worship; Equality of status and of opportunity; and to promote among them all Fraternity assuring the dignity of the individual and the unity and integrity of the nation; In our Constituent Assembly this Twenty-Sixth day of November 1949, we do hereby Adopt, Enact and Give to ourselves this Constitution."

A perusal of the preamble shows that it intends India to be a Sovereign, Socialist, Secular, and Democratic Republic. It means that like other states India is a sovereign state and is free to conduct its internal as well as external relations as it deems desirable. The terms 'Socialist' and 'Secular' were added by the Forty Second Amendment and assert that the government must adopt socialistic policies to ensure decent life for all Indian citizens. The inclusion of word 'Secular' likewise emphasises that the state must abstain from giving preferential treatment to any religion. Democratic government implies the Government is to be carried on by the elected representatives of the people, and the

Government stays in office as long as it enjoys the confidence of their elected representatives. Republic implies that the highest executive authority in India shall vest in a person directly elected by the people. In other words, there is no place for monarchical or feudal system in India.

Economic Importance:

The preamble of the Indian Constitution guarantees to its every citizen:

(i) Economic Justice:

The Indian Constitution laid down social, economic and political justice to every citizen in the country. It is, therefore, the duly of the business organizations to provide social, economic and political justice to every citizen.

(ii) Liberty of Thought, Expression, Belief, Faith and Worship:

This has been accepted in our constitution that every citizen has liberty of thought, expression, belief, faith and worship. According to this concept every business, organization should have liberty of thought, expression etc., with everyone.

(iii) Equality of Status and of Opportunity:

According to this concept every businessman should believe and give equal opportunity to others. This can be achieved through eradication of poverty. This does not mean winning gap between the poor and rich.

II. Fundamental Rights and Business:

The Indian Constitution incorporates a list of Fundamental Rights and guarantees their inviolability by executive and legislative authorities. Part III (Articles 12-35) deals with the Fundamental Rights granted to individuals. These rights were finalized by the committee of the Constituent Assembly headed by Sardar Vallabhai Patel.

The fundamental rights are superior to ordinary laws; they can be altered only through constitutional amendments. Originally, the fundamental Rights were seven but in 1978, through the 44th amendment of the constitution, the right to property was removed from the list of fundamental rights.

The six types of fundamental rights of the constitution are as follows:

(1) Right to Equality (Articles 14 to 18):

Articles 14 to 18 deal with right to equality. The Constitution clearly provides that the state shall not deny to any person equality before law or the equal protection of law within the territory of India. It cannot discriminate against any citizen on grounds of religion, race, caste, sex, and place of birth or any of them.

It means that every citizen has access to shops, public restaurants, hotels, places of public entertainment etc., and is free to use wells, tanks, roads and places of public resort maintained at state funds.

In the employment aspects, the appointment to offices under the state also equal opportunity shall be provided to all the citizens, and no person shall be denied employmenton grounds of religion, race, caste, sex, descent, and place of birth, residence or any of them.

Again, to make the right to equality a reality; untouchability has been abolished and its practice in any form has been made an offence punishable in accordance with law. According to this articles the business should provide equality before law, social equality and economic equality.

(2) Right to Freedom (Articles 19 to 22):

Articles 19 to 22 enumerates certain positive rights conferred by the Constitution in order to promote the ideal of liberty promised in the preamble. Six fundamental rights in the nature of ‘freedom’ are guaranteed to the citizens in the article (originally there were seven, but now right to property is deleted).

The six Freedoms are as follows:

(i) Freedom of speech and expression.

(ii) Freedom of peaceful assembly without arms.

(iii) Freedom of association.

(iv) Freedom of movement throughout the territory of India.

(v) Freedom to reside or settle any part of the territory.

(vi) Freedom to practise any profession, or to carry on any occupation, trade or business.

The right to freedom is also applied equally in business. The businessmen can express their problems freely to the government and can get a solution to it. Similarly, every citizen has the right to choose any business or profession and can form unions, and conduct meetings.

(3) Right against Exploitation (Articles 23 to 24):

Articles 23 to 24 deal with the right against exploitation and seek to prevent exploitation of weaker sections of society by unscrupulous persons as well as the state. Article 23 prohibits traffic in human beings, involuntary work without payment and other forms of forced labour. Article 24 prohibits the employment of children below 14 years of age in factories and hazardous occupations, employing women employees in night shifts in factories etc.

Economic Importance:

The economic importance of right against exploitation is

(i) The government takes necessary steps to remove bonded labour.

(ii) The Factories Act help to prevent exploitation of women and children employees.

(iii) The owner of the factories are guided to make provision for safety and welfare of the workers and they compulsorily appoint a labour welfare officer, it in the factory 500 01 more workers are employed.

(4) Right to Freedom of Religion (Articles 25 to 28):

Articles 25 to 28 deal with the right to freedom of religion. Subject to public order, morality, health etc., the citizens enjoy freedom of conscience and are free to profess, practise and propagate any religion. However, the state can regulate or restrict the economic, financial, political or other secular activities associated with religious practices. No citizen can be compelled to pay any taxes the proceeds of which are to be spent for the promotion or maintenance of any particular religion or religious domination.

Economic Importance:

The Economic importance of the right to freedom of religion is

(i) The government cannot spend tax money for the development of any religion.

(ii) Nobody can be compelled to pay tax for the welfare of any specific religion.

(iii) No one shall be forced to transfer of property or any agreement of a business nature in the name of a particular religion.

(5) Cultural and Educational Rights (Articles 29 to 30):

Article 29 stipulates that the State shall not impose upon it any culture other than the community s own culture. A minority community has the right to preserve its culture and religious interests. Article 30 confers upon a minority community the right to establish and administer educational institutions of its choice.

A notable feature of the educational and cultural right is that unlike other fundamental rights, it is not subject to any restriction, except that the State can make special provisions for the advancement of any socially and educationally backward classes of citizens.

Economic Importance:

The economic importance of cultural and educational rights are:

(i) The state does not discriminate to give economic assistance to the minority institutions.

(ii) The aided institution cannot refuse admission to any of the citizens on the ground that he belongs to a particular caste, religion, language or region.

(6) Right to Constitutional Remedies (Article 32):

This right has been described by Dr. Ambedkar as the ‘heart and soul of the Constitution. In tact the mere declaration of fundamental rights is useless unless effective remedies are available for their enforcement. This has been ensured under Article 32 which grants the right to move the Supreme Court by appropriate proceedings for the enforcement of the rights conferred by the Constitution.

Clause (2) of Article 32 confers power on the supreme court to issue appropriate directions or orders to writs, including writs in the name of habeas corpus, mandamus, prohibition, quo- warrant and certiorari for the enforcement of any of the rights conferred by Part III of the constitution.

Thus, the fundamental rights enumerated in the constitution guarantee a number of economic and social lights to the citizens. At the same time the state has the power to impose reasonable restrictions on such rights in the interest of the people.

III. Directive Principles of State Policy:

The Directive Principles of State Policy which have been enshrined in Part IV of the Constitution aim at realizing the high ideals of justice, liberty, equality and fraternity as outlined in the preamble to the constitution. There are ideas which are to inspire the state to work for the common good of the people and establish social and economic democracy in the country.

The phrase 'Directive Principles of State Policy' means the principles which the states should keep in mind while framing the laws and formulating policy. Articles 39 to
51 contain the various directive principles. These principles are amalgamation of socialistic, Gandhian and liberal principles.

Economic Importance:

The economic importance of Directive Principles of State Policy is:

(i) To provide adequate means of livelihood for all the citizens.

(ii) To secure equal pay for work to both men and women.

(iii) To protect the workers, especially children.

(iv) To regulate the economic system of the country that it does not lead to concentration of wealth and means of production.

(v) To make provision for securing right to work, to education and to public assistance incases of unemployment, old age, sickness and similar other cases.

(vi) To ensure a decent standard of living and facilities of leisure for all workers.

The main objective of the above noted directive principles is to enable the individual to lead a good and satisfying life. All the provisions of directive principles of state policy guide the government policies towards the business and other economic and social activities.

The government also so far enacted a number of acts and laws, policies and rules keeping in view the directive principles, which are directly related with the business operations. The various Acts like FERA, Factories Act. MRTP Act, Minimum Wages Act, Industrial(Development and Regulation) Act, Industrial policy, etc., are based on the Directive Principles of the Constitution.

The government, through these acts and regulations, protects the interests of working men, women and children, prevents concentration of economic power, and promotes and protects the interest of small and cottage industries.

IV. Constitutional Provisions Regarding Trade, Commerce and Intercourse within the Territory of India:

Articles 301 to 307 of Constitution of India deals with the constitutional provisions regarding Trade and Commerce. The framers of the Indian Constitution were fully conscious of the importance of maintaining the economic unity of the Union of India.

Free movement and exchange of goods throughout the territory of India was essential for the Economic Unity of the country which alone could sustain the progress of the country.

Prior to the integration of India and enforcement the new constitution there were in existence a large number of Indian states which in exercise of their sovereign powers, had created customs barriers between themselves and the rest of India, thus hindering at several points which constituted the boundaries of those Indian states, the free flow of commerce.

Thus the main object of Article 301 was obviously to encouraging the free-flow of stream of trade and commerce throughout the territory of India. The word ‘trade’ means ‘buying’ or ‘selling’ of goods while the term ‘commerce includes all forms of transportation such as by land, air or water.

The term ‘intercourse’ means movement of goods from one place to another. Thus, the words ‘trade commerce and intercourse’ covers all kinds of activities which are likely tocome under the nature of commerce.

Article 302 of Indian Constitution explains the power of parliament to impose restrictions on trade, commerce and intercourse. The Parliament may by law impose it. Such restrictions on the freedom of trade, commerce or intercourse between one state and another or within any part of the territory of India, as may be required in the public interest.

Article 303 deals with the restrictions on the legislative powers of the Union and of the states with regard to trade and commerce. It provides that parliament shall not have power to make any law giving any preference to any one state over another by virtue of any entry relating to trade and commerce in any one of the list in the VII Schedule.

But under Clause (2) of this article the parliament may however, discriminate among states. Ifit is declared by a law that it is necessary to do so for the purpose of dealing with the situation arising from scarcity of goods in any part of the Territory of India. The question whether there is a scarcity of goods in any part of India is for the parliament to decide.

Article 304 explains State’s power to regulate trade and commerce. The details, (a) impose on goods imported from other states (or the Union Territories) any tax to which similar goods manufactured or produced in that state are subject. So, however as not to discriminate between goods so imported and goods so manufactured or produced; and (b) impose such reasonable restrictions on the freedom of trade, commerce or Intercourse with or within that state as my be required in the public interest.

Article 305 saves existing laws and laws providing for state monopolies insofar as the president may by order otherwise direct. Article 307 empowers parliament to appoint such authority as it considers appropriate for carrying out purposes of Articles 301, 302, 303 and
304. It can confer on such authorities such powers and duties as it thinks necessary.

QUESTIONS:

PART – A

1. What is political environment?
2. List the promotional role of the government.
3. Political instability affects business policy – Explain.
4. What is the entrepreneurial role played by the government in the economy
5. Explain the promotional role of the government in the economy.
6. What is planning role played by the government?
7. What are the provisions of Indian constitution pertaining to business?
8. What are the economic responsibilities bestowed on the state government by the constitution?
9. Explain how the state affects business?
10. Name any five laws relating to business in India.
11. What are the features of Indian Constitution?

PART – B

1. "Relationship between government and business is mutual and reciprocator." Explain
2. What is the impact of political environment on business?
3. Discuss the role of government in the economy.

4. Discuss government business relationship in India.
5. Discuss the regulatory role played by the government in the development of

economy.

6. Indian industries are affected by multiplicities of political parties. Comment.
7. Discuss in detail the four roles played by government in the economy.
8. Explain the need for government intervention in business and the positive consequences of such interventions.
9. Discuss the role of state in the light of changing business and economic environment.

References :

1. C.B.Gupta, Business environment, Sultan Chand & Sons, New Delhi, 2008
2. Francis Cherunilam, Business Environment, Himalaya Publishing house, Mumbai, 2007
3. S.Sankaran, Business Environment, Margham Publication, Chennai, 2005.

SATHYABAMA
INSTITUTE OF SCIENCE AND TECHNOLOGY
(DEEMED TO BE UNIVERSITY)
Accredited "A" Grade by NAAC | 12B Status by UGC | Approved by AICTE
www.sathyabama.ac.in

SCHOOL OF MANAGEMENT STUDIES

UNIT – III – Business Environment – SBAX1025

SOCIAL ENVIRONMENT

Cultural Heritage – social attitude – impact of foreign culture – caste and communities – joint family systems – linguistics and religious groups – types of social organizations – social responsibilities in business.

Social Environment

Business is an integral part of social system. The social system influences business which in turn is affected by the business. In type of product to be manufactured and marketed the way the business should be organized and governed the values and norms etc... are all influenced by the culture of the society.

The social system is influenced by the way business functions, the innovations, transmission of innovations and new ideas affect the society.

Cultural heritage:

Heritage means that which is inherited, condition of one's birth or anything that is transmitted from ancestors.

Cultural heritage includes customers and traditions including festival, ways of celebrating different auspicious events, art and literature, ancient places of worship, temple, monuments & buildings and so on

A very import character of culture is transmission. Cultural transmission takes place by means of symbolic communication. The great importance of language in cultural transmission is very clear. Literature, films, television, social institution, advertisement, marketing techniques and other electronic gadgets play a very important role in cultural transmission

Nature and process of cultural transmission and diffusion is very important to business decision making. Businesses including foreign firms contribute significantly to the preservation and promotion of cultural heritage.

Eg: Converting traditional building into heritage hotels, promoting are you pay the tourism, ethnic food festival etc…

Impact of foreign culture:

The business environment in many countries has been significantly influence by the invasion of foreign culture. The English education has been a significant advantage to India. The British bureaucratic system which India inherited has its merits and demerits. Japanese for an investment and management practices have a great impact on the Indian working culture there is formed a large cross cultured transmission, Techniques and practices like total quality management [TQM], re-engineering, quality circle and quality just in time[JIT].

Influence of foreign culture has been parsing changes in social attitudes. The cultural heritage is significantly influenced by foreign culture.

The technological revolution relating to information technology has been tremendously influencing culture across the world

Globalization is not confined to the international flow of trade and capital. But the international spread off culture that has been as important as the spread of economic process.

Social attitude:

Social attitude is the general outlook of people of a particular society in respect of any specific factor. The social attitude is very important for business environment the general attitudes of people vary related to business. They are favorable, unfavorable and neutral attitudes towards business.

The differences in the social attitudes and behavior makes cross cultural management vary challenging the ways of meeting and greeting people, expression of appreciation, methods of showing respect, ways of conducting meetings & functions, table manners etc…vary widely between cultures.

Non-verbal communications create even more difficult problems body language has different interpretations in different cultures as same symbols and gestures may mean different things in different countries

The social attitude and behavior that varies among people across the world are:

- Way of meeting and greeting people
- Laughter
- Hand shake Non-

verbal communication:

- Body language
- Gifting people
- Nature and location of use of product
- Values and believes associative and colors
- Differences regarding values associated with numbers

Caste and community:

The caste & community structure and its dynamics of society have very significant influences on the occupational pattern, entrepreneurship, economic and business development, work culture, government policies etc… some examples are

- The occupational pattern is traditionally linked to caste and community
- Reservation of certain percentage of job for backward caste and communities
- They have commendable contribution to development of social sectors like education and public
- Caste and community are important forces to reckon with politics presuming government in policy formulation
- Different caste & community have different demand pattern

Linguistic and religious group:

Closely related to caste and community are linguistic and religious group. The influence of religion race & language and politics & business has been on increase globally. Number of politically independent nations has been increasing as a result of splitting a single entry into several one

Different people have their own religious convictions, beliefs, sentiments, customs, rituals, festivals etc…The cost of ignoring certain religious aspects could be off very high positive or negative impact in international business.

Many business decision in India and other several countries based on astrological advices these include decisions regarding the time of launch, location of company, name of the firm brand name etc… the custom of marriage, naming ceremony of child festivals etc…vary significantly between religions. These have implification on various businesses

India has numerous languages and their dialects decides the 18th officially recognize

Joint family system:

Broadly there are two types of family

1. Joint family
2. Nuclear family

Joint family is also known as “individual family system with several generation living together”

Characteristic of joint family:

1. Several generations
2. Single household
3. Common property and income
4. Common version
5. Centralization

Joint family system in India has undergone various changes. They are not able to keep away from social change, education, employment, economic independence and dissatisfaction of members within the system or affected joint family system. Most of the joint family system have undergone significant changes and have become smaller inside.

Social organization:

Social organization is grouping of people bound by certain values, policies, guidelines, formed by serving certain social purposes are achieving common objectives.

Spectrums of social organization are very diverse in nature. They include

1. NGO (Non Government Organization)
2. Trade union
3. Association of Industry
4. Political parties

5. Religious and communal organization
6. Recreation club
7. Association of residence or neighborhood

Characteristics of social organizations:

1. Objectives
2. Common bondage
3. Structure
4. Roles, responsibilities and rights
5. Leadership
6. Norms Types of social organization
    - Formal & Informal
    - Closed & opened
    - NGO's
    - Social activities
    - Beneficially sponsors

1. Formal & informal:

Formal organization is one which as well defined structure regulation and objectives

Informal: there are large number of organization which does not have clear rules, regulations, objectives and structure.

2. Closed & Open:

Memberships in certain organization are available only to certain specified group or organization. Such organization recognized as closed organization. Eg: community

There are many social organization were membership are widely open. Eg: political parties

3. Non-Gov organization:

NGO is also known as voluntary organization. They have been very successful in exposing many issues and they have become a force to be reckoned with by the government business and big organization like WHO, World Bank, IMF etc…

4. Social activities:

Most NGO are social activists and they work for social rather than benefits. The matter often taken up by the social activists are environmental issues consumer interests and national interests. They are lot of NGO's which are some of with interest, taking projects funded by governments.

5. Beneficially sponsor:

Most social organization have been formed to protest the interest of the member of the organization unlike the social activists.

Eg: workers, industrialist

SOCIAL RESPONSIBILITY OF BUSINESS

Every business enterprise is an integral part of the society. It uses the scarce resources of the society to continue and grow. Hence, it is important that no activity of business is injurious to the long run interests of the society. However, it is observed that, in practice, there are a few socially undesirable aspects of business such as, polluting the environment, non-payment of taxes, manufacturing and selling adulterated products, giving misleading advertisement and so on. This has resulted in the development of the concept of social responsibility of business where by the owners and managers of business are made conscious about the responsibilities of their business towards the community andits customers, workers etc.

Meaning :

Social responsibility of business refers to the obligation of business enterprises to adopt policies and plans of actions that are desirable in terms of the expectation, values and interest of the society. It ensures that the interests of different groups of the public arenot adversely affected by the decisions and policies of the business.

Reasonable approaches to social responsibilities are

- Business in an economic entity and cannot push it profitability meetingits social needs
- Each business must taken into account much situation in which itmeans the need of the "state holder"
- Social responsibility related to the size of a company and the industry
- Business must assume their share in the social burden and willing toobserve reasonable social cost.

Social Responsibilities towards Different Groups:

It needs to be noted that the responsibilities of those who manage the business cannot be limited to the owners. They have to take into account the expectations of other stakeholders like the workers, the consumers, the government and the community and public at large.

(a) **Responsibility towards the shareholders or owners:** The shareholders or owners are those who invest their money in the business. They should be provided with a fair return on their investment. You know that in case of companies it takes the form dividends. It has to been sured that the rate of dividend is commensurable with the risk involved and the earnings made. Besides dividends, the shareholders also expect an appreciation in the value of shares. This is governed primarily by company's performance.

(b) **Responsibility towards the Employees:** A business enterprise must ensure a fair wage or salary to the workers based on the nature of work involved and the prevailing rates in the market. The working conditions must be good in respect of safety, medical facilities, canteen, housing, leave and retirement benefits etc. They should also be paid reasonable amount of bonus based on the business earnings. Preferably, there should also be a provision for their participation in management.

(c) **Responsibility towards the Consumers:** A business enterprise must supply quality goods and services to the consumers at reasonable prices. It should avoid adulteration, poor packaging, misleading and dishonest advertising, and ensure proper arrangement for attending to customer complaints and grievances.

(d) **Responsibility towards the Government:** A business enterprise must follow the guidelines of the government while setting up the business. It should conduct the business in lawful manner, pay the taxes honestly and on time. It should not indulge in any corrupt practices or unlawful activities.

(e) **Responsibility towards the Community:** Every business is a part and parcel of our community. So it should contribute towards the general welfare of the community. It should preserve and promote social and cultural values, generate employment opportunity and contribute towards the upliftment of weaker sections of the society. It must take every step to protect the physical and ecological environment of the society. It should contribute to the community development programmes like public health care, sports, cultural programmes.

Looking at the importance of the social responsibilities of business towards various groups, it would have been better if the companies act provided for the reporting of the social activity in the annual report of the companies. However, a few large companies have been voluntarily reporting their social performances in their Annual Reports regularly. The prominent among them are Cement Corporation of India, Indian Oil Corporation, Tata Iron and Steel Company, Asian paints and ITC. These reports reveal that companies are becoming eco-friendly and conscious of their role in community development.

Areas of Social Responsibility

The following is the list of areas of social responsibility of business, given by Keith and Blom storm

(a) Environmental Quality

i. Cleaning up of existing pollution

ii. Design of processes to prevent pollution

iii. Noise Control

iv. Control of land use

(b) Consumerism

i. Truth in lending, in advertising and in all business activities

ii. Product warranty and after sales services

iii. Control of harmful products

(c) Need for Society

i. Use of business expertise and community problems

ii. Aid with health-care facilities

iii. Aid with urban renewal

(d) Government Policy

i. Restrictions on lobbying

ii. Extensive new regulation of business

iii. Restrictions on international operations

(e) Business Prospects

i. Financial support for various activities

ii. Gifts to education

(f) Labour Welfare

i. Improvement of occupational health and safety

ii. Provision of day-care for children of working mothers

iii. Expansion of employee rights

(g) Shareholder Betterment

i. Improvement of financial decisions

ii. Disclosure of activities affecting the environment and social issues

(h) Economic activities

i. Control of agglomerates

ii. Break-up of giant industries

Benefits of Corporate Social Responsibility in India

- Improved financial performance
- Reduced costs
- Enhanced brand image and reputation
- Increased sales
- Increased customer loyalty and satisfaction
- Increase productivity and quality
- Increased ability to attract and retain employees
- Reduced regulatory oversight
- Brand visibility, recognition and awareness
- Increased market-share
- Effective positioning
- Competitive advantage
- More engaged investors
- Environmental sustainability

PART – A

1. What is Joint family system?
2. What is the impact of social environment on business?
3. What is cultural heritage?
4. What is the impact of foreign culture?
5. How social organisations can be beneficial to business?

6. What are NGO's?
7. What are linguistic and religious groups?
8. What are the features of Joint family system?
9. What are the implications of case system for business?
10. What is Social responsibility?
11. What are the types of Social organisations?
12. What are social attitudes? How do they affect business?
13. Discuss the impact of culture on business.
14. What is the impact of social groups on business?
15. What are the responsibilities of business to government?

PART – B

1. What are non-government organisations (NGO's)? What is their significance for business?
2. Discuss on the responsibilities of business to the various constituents of the society.
3. Enumerate on the emerging global culture and its implications for business.
4. What are social organisations? Discuss in detail the different types of social organisation.
5. Explain the role of religion in shaping society. How it affects business?
6. What are the important characteristics of social organisation? How do they affect business?

References :

1. C.B.Gupta, Business environment, Sultan Chand & Sons, New Delhi, 2008
2. Francis Cherunilam, Business Environment, Himalaya Publishing house, Mumbai, 2007
3. S.Sankaran, Business Environment, Margham Publication, Chennai, 2005.

SATHYABAMA
INSTITUTE OF SCIENCE AND TECHNOLOGY
(DEEMED TO BE UNIVERSITY)
Accredited "A" Grade by NAAC | 12B Status by UGC | Approved by AICTE
www.sathyabama.ac.in

SCHOOL OF MANAGEMENT STUDIES

UNIT – IV – Business Environment – SBAX1025

ECONOMIC ENVIRONMENT

Economic systems and their impact of business – Macroeconomic parameters like GDP –growth-population-urbanization-Fiscal deficit- plan investment-per capita income andtheir impact on business decisions – Five year plan.

ECONOMIC SYSTEM

An economic system is designed by nation to utilize the resources for the purpose of satisfying the needs and wants of people. An economic system consists of those institutions which a nation as accepted has a means through which the resources are utilize for the satisfaction of human wants.

Basic units of economic system:

1. Household
2. Firm
3. Industry
4. Government

Characteristics of economic system:

1. National entity
2. Institutional
3. Interdependence
4. Need satisfaction
5. Dynamic
6. Scarcity of source

Types of economic system

1. Capitalism
2. Socialism
3. Mixed economy

1. Capitalism:

In this type of economic system all exchange and consumption are based upon price mechanism. The factor of production (land, labour, capital) are privately owned. People have freedom of choice concerning occupation savings and investment. This kind of economic system is found in United States of japan

2. Socialism:

Under this system, the state owns and controls all means of production. The states dictate the consumption pattern. This economic system prevails in china, Russia, Czechoslovakia, Hungary, and Poland.

3. Mixed economy:

In a mixed economy like India, both public and private sector co-exists. Some resources and enterprises are owned and controlled by the state. Other economic activity are self to private initiatives. They are allowed to work for profit motive under certain regulations decided by the government.

MACROECONOMIC PARAMETER:

1. Gross domestic product [GDP]
2. Per-capita income
3. Nature and structure of company
4. Population
5. Urbanization
6. Fiscal deficit
7. Rate of deflection
8. Plan investment

1. Gross domestic product:

GDP means a gross value of all final goods and services produced in a year. It is a measure of the total flow of goods and services produced by the economy and annually. This estimated by multiplied the quantity of goods and services produced by market price per unit.

While computing GDP all intermediate goods are excluded and goods used for final consumption are included.

The word domestic means income arising from investment and possession owned abroad or not included no reduction is made from the expenditure on capital good for replacement purpose hence the word "Gross".

This level and growth of GDP and per capita income have significant implication on business. They influence the nature and size of demand and governmentpolicies related to its low per capita income means low purchasing power and low demand for product.

2. Per capita income:

Per capita income means the average annual income per person. It is calculated by dividing the national income with total population per capita income is used as a way for classifying economy.

- Low income economy Per capita income is 755$
- Middle income economy are 755 to 2900$
- High income economy above 2900$

Low income and middle income economies are referred as "developing nations" whereas high income economy is called "developed nations".

3. Nature and structure of economy:

India is a mixed economy where complete public and private sector co-exists to structure of an economy can be judged by analyzing the composition of national income in terms of different sector

- Primary
- Secondary
- Tertiary

Primary sector includes agriculture, fishery, and forestry

The secondary sector includes industry mining, construction, electricity, gas and water supply

The tertiary sector includes trade, transport, banking, real estate, insurance, Storage and communication services.

4. Population:

There has been a population explosion in the world. Population of under developed countries has grown faster than the developed nations by 2045 the population of India is

expected. Thus India is a largest second market in terms of number of consumer. Too much of population reduces the economic and social development in the following ways:

a) Uses the per capita income
b) Use of stand of anything
c) Mass unemployment
d) Low rate of populated formulation
e) Increase pressure on land reducing agricultural development

5. Urbanization:

Defined as all places with municipality, corporation, cantonment board and all places that satisfied the following criteria:

- Minimum population is 5000
- 75% of male working population. Engaged in non-agriculture
- Density of population of at least 400 people per sq. Meter

Urbanization means proposition of a nation population living in urban areas. Urbanization occurs when the urban population increase at a higher rate of total population.

Impact of urbanization:

- Increase in per capita income so that standard of living will improve
- Reduction in the rate of unemployment
- Decline in population, below the poverty line
- Urbanization ceases several economic, social and other changes. It activate the forces of growth. Defines attitude and believes breaks barrierto economic and social growth.

6. Fiscal deficit:

The term deficit financing is refers to the excess of government expenditure over public revenue

The deficit so incurred the government budget to public borrowing or issue of new currency in India. Deficit financing is interpreted by fresh currency by the government to meet the budget deficit

According to the planning commission of India “the term deficit financing is used to denote a direct addition to the gross national expenditure to budget deficit. The essence of such policy lies in government spending in excess is receives in the shape of taxes, loans, from public, earnings of state enterprises, deposits & funds and other miscellaneous sources”.

FIVE YEAR PLANNING

The scope of different business is affected by economic policies and development policy. The five year plan determine the development the development of objectives, strategies and sex targets for different sectors & sub sectors. The plan also indicates the rate of public and private sectors and priorities of development

Planning commission:

Planning commission was setup in March 1950 by resolution of government if India.

The function of planning commission are

a. To formulate the plan for the most effective and balanced utilization of the country resources

b. To make an assessment of the materials, capital, human resources of the country

The planning commission will pay an integrative role and help in the development holistic approach to the policy formulation in critical areas of development. It will pay a mediatory role for managing the change and creating a culture of high productivity and efficiency in the government.

NATIONAL DEVELOPMENT COUNCIL:

The no of committees and commission are associated with the planning commission. One of the most important among them is NDC. It is presided over by theprime minister is composed of union cabinet minister. Chief Minister of state and union territory

The secretary of planning commission act as the secretary of

NDC. The main function of NDC are

1. Prescribe guidelines for the formulation national plan
2. To considered social and economic policy affecting national development
3. To review the working of plan

Formulation on plan:

The preparation of 5yrs plan is usually spread over a period of 2-3yrs. The first stage is consideration of the general approach to the formulation, appraisal of past month production and rate of growth in long term view of economy in future. The documents prepared by the planning commission outlines the objectives, politics and programs of the plan. It is against submitted to the cabinet and the national development council and the NDC presented to parliament to final improvement.

PART – A

1. What is urbanisation?
2. What is fiscal deficit?
3. What is a mixed economy?
4. Define per capita income.
5. Define GNP and GDP.
6. How economic policies affect business?
7. What is Capitalism?
8. What is Socialism?
9. What is Marxism?
10. What are macroeconomic parameters?
11. What is Per Capita Income?
12. What is the population trend in India?
13. What are Economic reforms?
14. Give an outline of Five year plan of India.
15. What is the role of the planning commission?

PART –B

1. Explain the impact of macroeconomic parameters on business decisions?
2. Critically evaluate our economic growth through various five year plans?
3. Explain the significance of urbanisation to business.
4. Give a brief account of the importance of economic environment to business.
5. Provide a general outline on the features of Capitalism, Socialism, Marxism and Mixed Economy.
6. Discuss the significance of falling birth rate for business.

References :

1. C.B.Gupta, Business environment, Sultan Chand & Sons, New Delhi, 2008
2. Francis Cherunilam, Business Environment, Himalaya Publishing house, Mumbai, 2007
3. S. Sankaran, Business Environment, Margham Publication, Chennai, 2005.

SATHYABAMA
INSTITUTE OF SCIENCE AND TECHNOLOGY
(DEEMED TO BE UNIVERSITY)
Accredited "A" Grade by NAAC | 12B Status by UGC | Approved by AICTE
www.sathyabama.ac.in

SCHOOL OF MANAGEMENT STUDIES

UNIT – V – Business Environment – SBAX1025

FINANCIAL ENVIRONMENT

Meaning – Financial system – Commercial Banks – Financial Institutions – RBI Stock Exchange – Non Banking Financial Companies NBFCs.

Meaning–Financial System

Economic growth and development of any country depends upon a well-knit financial system. Financial System comprises, a set of sub-systems of financial institutions financial markets, financial instruments and services which help in the formation of capital. It provides a mechanism by which savings are transformed into investments. Thus, a financial system can be said to play a significant role in the economic growth of a country by mobilizing the surplus funds and utilizing them effectively for productive purposes.

The financial system is characterized by the presence of an integrated, organized and regulated financial markets, and institutions that meet the short terms and long terms financial need of both the household and corporate sector. Both financial markets and financial institutions play an important role in the financial system by rendering various financial services to the community. They operate in close combination with each other.

The following are the four major components that comprise the Indian Financial System:

1. Financial Institutions
2. Financial Markets
3. Financial Instruments/Assets/Securities

Financial Institutions

Financial institutions are the intermediaries who facilitate smooth functioning of the financial system by making investors and borrowers meet. They mobilize savings of the surplus units and allocate them in productive activities promising a better rate of return. Financial institutions also provide services to entities (individual, business, government) seeking advice on various issues ranging from restricting to diversification plans. They provide whole range of services to the entities who want to raise funds from the markets or elsewhere. Financial Institutions are also termed as financial intermediaries because they act as middlemen between the savers (by accumulating funds from them) and borrowers (by lending these funds). Banks also act as intermediaries because they accept deposits from a set of customers (savers) and lend these funds to another set of customers (borrowers).

Financial Markets

Finance is the pre-requisite for modern business and financial institutions play a vital role in the economic system. It is through financial markets and institutions that the financial system of an economy works. Financial markets refer to the institutional arrangements for dealing in financial assets and credit instruments of different types such as currency, cheques, bank deposits, bills, bonds, etc. Financial markets may be broadly classified as negotiated loan markets and open markets. The negotiated loan market is a market in which the lender and the borrower personally negotiate the terms of the loan agreement, e.g. a businessman borrowing from a bank or from a small loan company. On the other hand, the open market is an impersonal market in which standardized securities are treated in large volumes. The stock market is an example of an open market. The financial markets, in a nutshell, are the credit markets catering to the various credit needs of the individuals, firms and institutions. Credit is supplied both on a short as well as a long term basis.

Functions

The main functions of the financial markets are :

(i) To facilitate creation and allocation of credit and liquidity;
(ii) To serve as intermediaries for mobilization of savings;
(iii) To assist the process of balanced economic growth;
iv) To provide financial convenience; and
(v) To cater to the various credits needs of the business houses.

Types of Financial Market

On the basis of credit requirement for short-term and long term purposes, financial markets are divided into two categories:

1. Money Market
2. Capital Market

Money Market

It refers to the institutional arrangements facilitating borrowing and lending of short-term funds. The money market brings together the lenders who have surplus short term investible funds and the borrowers who are in need of short-term funds. In a money market, funds can be borrowed for a short period varying from a day, a week, a month, or 3 to 6 months and against different types of instruments, such as bill of exchange, banker's acceptances, bonds, etc., called 'near money'. Thus money market has been defined by Crowther as, "the collective name given to the various firms and institutions that deal in the various grades of near money".

The Reserve Bank of India describes the money market as, "the center for dealings, mainly of a short-term character, in monetary assets, it meets the short-term requirements of borrowers and provides liquidity or cash to the lenders". The borrowers in the money market are generally merchants, traders, manufacturers, business concerns, brokers and even government institutions. The lenders in the money market, on the other hand, include the Central Bank of the country, the commercial banks, insurance companies and financial concerns. The organization of the money market is formed. There is no definite place or location where money is borrowed and lent by the parties concerned, it is not necessary for the borrowers and the lenders to have a personal contact with each other. Negotiations between the parties may be carried through telephone, telegraph or mail. Thus, money market is simply an arrangement that brings about a direct or indirect contact between the lender and the borrower.

Functions of the Money Market

The money market performs the following functions :

1. The basic function of money market is to facilitate adjustment of liquidity position of commercial banks, business corporations and other non-bank financial institutions.
2. It provides outlets to commercial banks, business corporations, non-bank financial concerns and other investors for their short-term surplus funds.
3. It provides short-term funds to the various borrowers such as businessmen, industrialists, traders etc.
4. Money market provides short-term funds even to the government institutions.
5. The money market constitutes a highly efficient mechanism for credit control. It serves as a medium through which the Central Bank of the country exercises control on the creation of credit.
6. It enables businessmen to invest their temporary surplus for a short-period.
7. It plays a vital role in the flow of funds to the most important uses.

Capital Market

Capital Market is generally understood as the market for long-term funds. This market supplies funds for financing the fixed capital requirement of trade and commerce as well as the long-term requirements of the Government. The long-term funds are made available through various instruments such as debentures, preference shares, and common shares. The capital market can be local, regional, national, or international. The capital market is classified into two categories, namely, (i) primary market or new issue market, and (ii) secondary market or stock exchange.

Importance of Capital Market

Capital markets are markets where productive capital is raised and made available for industrial purposes. It provides an avenue for investors and household sector to invest in financial assets which are more productive than physical assets. A developed capital market can solve the problem of paucity of funds. It facilitates increase in production and productivity in the economy and hence enhances the economic welfare of the society. Indian capital market acts as an intermediary to mobilize savings and to channelize the same for productive use consistent with national priorities. The industrial securities issued through the primary market are traded in the secondary market which provides liquidity and short-term as well as long-term yields. An efficient primary market prepares base for effective and cost efficient mobilization of resources by bringing together the users and investors of funds. Thus, both the primary and secondary markets helps each other and make the capital market efficient, healthy, and strong.

Distinction Between Capital Market and Money Market

The capital market should be distinguished from money market. The capital market is the market for long-term funds. On the other hand money market is primarily the market for short-term funds. However, the two markets are closely related as the same institution many a times deals in both types of funds, i.e. short-term as well as long-term.

Capital Market	Money Market
1. It provides finance/money capital for long-term investment.	1. It provides finance/money for short-Term investment.
2. The finance provided by the capital market may be used both for fixed and Working capital.	2. The finance provided by money market is utilized, usually for working capital.

3. Mobilisation of resources and effective utilization of resources through lending are its main functions.	3. Lending and borrowing are its principal functions to facilitate adjustment of liquidity position.
4. It's one of the constituents, Stock Exchange acts as an investment market for buyers and sellers of securities.	4. It does not provide such facilities. The main components include call loan market, collateral loan market, and bill market and acceptance houses.
5. It acts as a middleman between the investor and the entrepreneur.	5. It acts as a link between the depositor And the borrower.
6. UnderwritingIs one of its primary activities.	6. Underwriting is a secondary function.
7. Its investment institutions raise capital from public and invest in selected securities so as to give the highest possible return with the lowest risk.	7. It provides outlets to commercial banks, business corporations, non-bank financial concerns and other for their short-term surplus funds.
8. It provides long-term funds to Central and State Governments, public and local bodies for development purposes.	8. It provides short-term funds to Government by purchasing treasury bills and to others by discounting bills of exchange etc.

Financial Instruments

The following are some of the new innovative financial instruments devised for raising funds

Euro convertible bond: Euro convertible bond is an unsecured security which can be converted into depository receipts or local shares. It offers the investors an option to convert the bond into equity at a fixed price after a minimum lock-in-period. Thus call option allows the company to force conversion if the market price exceeds the particular percentage of the conversion price. Indian companies prefer to issue GDRs whereas foreign investors favour convertible bonds.

Fully convertible cumulative preference shares (Equipref): Equipper is a very recent introduction in the market. The shares have to be listed on one or more stock exchanges in the country. It has two parts. The first part is convertible into equity shares automatically and second part is converted into equity shares after a lock-in-period at the request of the investors. Conversion into equity shares after the lock-in-period takes place at a price which is 30% lower than the average market price. The dividend on fully convertible cumulative preference shares is fixed and shall be given only for the portion that represents second part shares. Only a few companies have tried this instrument. Equiprefs are presently being offered largely to the financial institutions like the UTI. Uniworth International Ltd. (UIL)was the first company to issue these shares and succeeded in mopping up to Rs. 16 crores. UIL's equipref shares were a combination of equity and preference shares.

Triple option convertible debentures: Every debenture holder has an opportunity to acquire two equity shares at par for each debenture. As regards the non-convertible portion which had warrants attached to them, investors were given three options. They can retain the nonconvertible portion and sell the warrants and get equity shares in return or retain non- convertible portion, surrounding the warrants and apply for equity shares.

Warrants : A warrant is an option, issued by a company, granting the buyer the right to purchase a number of shares of its equity share capital at a given exercise price during a given period. An equity warrant increases the marketability of debentures and reduces the need for the efforts of brokers/sub-brokers by way of private placement. Thus, it provides an effective tool for lesser dependence on financial institution and mutual funds for subscribing to the security.

Secured premium notes (SPNs): SPN is issued along with a detachable warrant, and is redeemable after a notified period with features of medium to long-term notes. Each SPN has a warrant attached to it which gives the holder the right to apply for, or seek allotment of one equity share, provided the SPN is fully paid. The conversion of detachable warrant into equity shares is done within the time limit notified by the company. There is a lock-in-period for SPN during which no interest ispaid for the invested amount. This instrument has a low borrowing cost and is beneficial for capital intensive projects.

Zero interest convertibles: Also known as zero coupon bonds, the zero interest convertibles refer to those convertibles which are sold at discount from their eventual maturing value and have zero interest rate. One advantage from the investors' point of view is that it eliminates reinvestment risk. From the companies' point of view, it is attractive to issue these convertibles as there is no immediate interest commitment.

Deep discount bonds (DDB): Deep discount bonds pay a coupon rate which is substantially lower than the market rate at the time of issue. One of the advantages of DDB is the elimination of investment risk. It helps the companies which take time to stabilize their operations and which have initial small cash flow rising steadily to a high level to take care of the redemption. The investors also gain the benefit of capitalgains taxation.

Floating rate bonds (FRB): Floating rate bonds made their first appearance in the Indian capital market in 1993 when State Bank of India adopted a reference rate of the highest rate of interest on fixed deposit receipt of the bank, providing floor rate for minimum interest payable at 12% p.a. and call option to the bank after 5 years to redeem the bonds earlier than the maturity period of 10 years at certain premium. The floating rates are set equal to the treasury bill rate plus a predetermined spread.

Securitization: Securitization is a synthetic technique of conversion of assets into securities, securities into liquidity and subsequently into assets, on an ongoing basis. This increases the turnover of business and profit while providing for flexibility in yield, pricing pattern, issue, risk and marketability of instruments used to the advantage of both borrowers and lenders.

In securitization, generally a financial institution holds a pool of individual loans and receivables, creates securities against them, get them rated and sell them to investors at large. The most suitable assets for securitization for the banks are housing loans, auto loans, lease rentals, corporates trade receivables etc. Indian financial market is still at an infancy stage. So securitization is emerging to be a very innovative technique enabling finance companies to retail market their liabilities in order to lower their cost of funds besides increasing the liquidity. The initial headway has already been made by Citi Bank in association with ICICI.

Layered premium issue: The layered premium issue was introduced by Merchant Bankers to overcome the inherent dangers of fixing premia for issues. A floor rate is fixed with the consensus of the shareholders. The underwriters will also be given the option of underwriting from the highest premia to the lowest. The issue is then auctioned to the investors. This innovation will provide tremendous flexibility to the issue.

Repurchase of shares : Repurchase of shares by companies is a part of the capitalization process. The company repurchases the shares to reduce the share capital by two methods. As per the first method, the shares are purchased from the floor of the stock exchanges. The second method asks for purchasing the shares directly from the shareholders. Repurchase of shares is an alternative to cash dividend.

Derivatives: Financial intermediaries abroad have created new varieties of instruments and transaction called derivatives and to create risk managements tools such as options, futures and swaps are used to transform one or more properties of an asset or liability. Financial liberalization has brought inherent risk, and as a result, corporate and institutional investors are looking towards derivatives for hedging the risks. Since the volume of international trade and capital flows are rising, more and more banks are exposed to various currencies and the emerging derivatives in foreigncountries are increasingly used by banks to bring variations in the sensitivity of their funds and also the underlying portfolio. So it is high time for the For ex dealers in India to familiarize with the complexity of the instruments and acquire skills to handlethem.

Options: Options are basically derivatives in the nature of legal contracts. They are derived from underlying assets which could be stocks, bonds, or currencies. An option contract gives the holder the right to buy or sell the underlying stock at a price on a future date. This price is referred to as the strike price. Depending on whether the holder is a buyer or a seller, the options are termed put and call. A call option conveys the right of the holder to buy a specified quantity of the stock while a put option conveys the right of the holder to sell. The buyer or the holder gets the right as laid down in the option, while the writer is the one who has the obligation to honour the terms when the option is exercised. Option trading has a good market in India since there is enough scope for speculation.

Futures: A future contract is essentially a series of forward contracts. Thee are two types of people who deal in futures—speculators and hedgers. Speculators buy and sell futures for the sole purpose of marketing a profit by selling them at a price that is higher than their buying price. Such people neither produce nor use the asset in the ordinary course of business. In contrast, hedgers buy and sell futures to offset an otherwise risky position in the spot market. In the ordinary course of business, they either produce or use the asset. In a forward contract, the trader who promises to buy is said to be in 'Long position' and the one who promises to sell is said to be in 'Short position' in future. The long position in a future contract is the agreement to take delivery and short position in a future contract is the legally binding agreement to deliver.

Swaps : A swap deal is a transaction in which the bank buys and sells the specified foreign currency simultaneously for different maturity dates which would help banks to eliminate exposure risk. It can also be used as a tool to enter arbitrary operations that led the economy to be fully opened up.

Non-voting shares: Non-voting shares enable a company to raise capital without diluting the promoter's holding. The finance ministry guidelines say that non-voting shares should not exceed 25% of the total paid-up capital of the company. Shareholders buying these shares gain through a dividend which is 20% higher than on voting shares. A major indicator of the level of development of an economy is the sophistication of its capital market. Since liberalization has begun, the response measures for handling the capital market have been enormous. It is visible with the creation of SEBI, NSE, and regulated BSE, floating of mutual funds, financing institutions, and credit rating system.

Commercial Banks

On the basis of functions: The banks can be classified on the basis of functions in the following categories : (i) Commercial Banks (ii) Industrial Banks (iii) Agricultural Banks (iv)Exchange Banks and (v) Central Bank.

Commercial Banks: Commercial Banks are those banks which perform all kinds of banking business and functions like accepting deposits, advancing loans, credit creation, and agency functions for their customers. Since their major portion of the deposits are for the short period, they advance only short term and medium term loans for business, trade and commerce. Majority of the commercial banks are in the public sector.

Functions of Commercial Banks

The Commercial Banks perform a variety of functions which can be divided in the following three categories namely (a) Basic Functions (b) Agency Functions and (c) General Utility Functions

1. Basic Functions: The basic functions of bank are those functions without performing which an institution cannot be called a banking institution at all. That is why these functions are also called primary or acid test function of a bank. The basic/primary/acid test functions of a bank are Accepting Deposits, Advancing of Loans and Credit Creation.

a) Accepting Deposits:

- Saving Deposit Account

- Fixed Deposit Account
- Current Deposit Account
- Recurring Deposit Account
- Home Loan Account

b) Advancing of Loans:

- Call Money Advances
- Cash Credits
- Overdrafts
- Discounting Bills of Exchange
- Term Loan

c) Credit Creation:

2. Agency Functions : The commercial banks also perform certain agency functions for and on behalf of their customers. The bank acts as the agent of the customer while performing these functions. Such services of the banks are called agency services. Some of the important agency services are as under

i) Remittance of funds: Commercial banks provide a safe remittance of funds of their customers from one place to another through cheques, bank drafts, telephone transfers etc.

ii) Collection and Payment of Credit Instruments : The commercial banks used to collect and pay various negotiable instruments like cheques, bills of exchange, promissory notes, hundis, etc.

iii) Execution of Standing Orders : The commercial banks also execute the standing orders and instruments of their customers for making various periodic payments like subscriptions, rents, insurance premiums and fees on behalf of the customers out of the accounts of their customers.

iv) Purchase and Sale of Securities : The commercial banks also undertake the sale and purchase of securities like shares, stocks, bonds, debentures etc., on behalf of their customers performing the function as a broker agent.

v) Collection of dividends on shares and interest on debentures : Commercial banks also make collection of dividends announces by the companies of which the customer of the bank is a shareholder, and also collects the interest on the debentures which becomes due on particular dates generally half yearly or annually.

vi) **Trustees and Executors of wills:** The commercial banks preserves the wills of their customers as their trustees and execute the wills after the death of the customer as per the willas the executors.

vii) **Representation and Correspondence :** The commercial banks also act as the representative and correspondents of their customers and get passports, traveler's tickets, book vehicles and plots for their customers on the directions of the customers.

3. **General Utility Functions :** In addition to basic functions and agency functions the commercial banks also provide general utility services for their customers which are needed in the various walks of life and the commercial banks provide a helping hand in solving the general problems of the customers, like safety from loss or theft and so many other facilities some them are locker facility, traveler's cheque facility, gift cheque facility, letter of credit, underwriting contract, provides statistical data, foreign exchange facilities, merchant banking services and acting as referee.

Financial Institutions:

Financial institutions are the intermediaries who facilitate smooth functioning of the financial system by making investors and borrowers meet. They mobilize saving of the surplus units and allocate them in productive activities promising a better rate of return. Financial institutions also provide services to entities (individual, business, government) seeking advice on various issues ranging from restructing to diversification plans. They provide whole range of services to the entities who want toraise funds from the markets or elsewhere.

Types of Financial Institutions

Financial institutions can be classified into two categories:

I. Banking Institutions

II. Non-Banking Financial Institutions

I. Banking Institutions

Indian banking industry is subject to the control of the Central Bank (i.e. Reserve Bank of India). The RBI as the apex institution organizes runs, supervises, regulates and develops the monetary system and the financial system of the country. The main legislation governing commercial banks in India is the Banking Regulation Act, 1949. The Indian banking institutions can be broadly classified into two categories:

- **Organized Sector:** The organized banking sector consists of commercial banks, cooperative banks and the regional rural banks.
- **Unorganized Sector:** In the unorganized banking sector are the indigenous bankers, money lenders, seths, sahukars carrying out the function of banking.

II. Non-Banking Institutions

The non-banking institutions may be categorized broadly into two groups:
(a) Organized Financial Institutions.
(b) Unorganized Financial Institutions.

(a) **Organized Financial Institutions:** The organized non-banking financial institutions include:

1. **Development Finance Institutions:** These include:

(a) The institutions like IDBI, ICICI, IFCI, IIBI, and IRDC, at all India level. (b) State Finance Corporation (SFCs), State Industrial Development Corporation (SIDCs) at the state level. (c) Agriculture Development Finance Institutions as NABARD, Land Development Banks etc.

Development banks provide medium and long term finance to the corporate and industrial sector and also take up promotional activities for economic development ofthe country.

2. **Investment Institutions:** It includes those financial institutions which mobilize savings of the public at large through various schemes and invest these funds

in corporate and government securities. These include LIC, GIC, UTI, and mutual funds.

(b) **Unorganized Financial Institutions:** The unorganized non-banking financial institutions include number of non-banking financial companies (NBFCs) providing whole range of financial service. These include hire-purchase and consumer finance companies, leasing companies, housing finance companies, factoring companies, credit rating agencies, merchant banking companies etc. NBFCs mobilize public funds and provide loanable funds. There has been remarkable increase in the number of such companies since 1990's.

Reserve Bank of India (RBI):

Reserve Bank of India (RBI) The Indian Banking structure has a wide and comprehensive form. Apex Institutions in the form of banking institutions are playing important role in the country. The chief regulator of banking system in our country is the Reserve Bank of India. The Reserve Bank of India (RBI) was established in April 1935 with a share Apex Banking Institutions RBI EXIM BINK IDBI NABARD SIDBI NHB IRBI 13 capital of Rs. 5 Crores on the basis of the recommendations of the Hilton Young Commission. The share capital was divided into shares of Rs. 100 each fully paid which was entirely owned by private shareholders in the beginning. The Government held shares of nominal value of Rs. 2,20,000. The Reserve Bank of India was set up as a private shareholder bank under the Reserve Bank of India Act, 1934 and it started functioning as the central bank since 1st April 1935.

Objectives of RBI:

The following were the objectives of RBI when it was set up:

To manage adequate money and credit in the country

- To maintain the stability of rupee internally and externally
- Balanced and well managed banking development in the country
- To develop well organized money market

- To provide adequate agriculture credit
- Ti manage public debt
- To seek international monetary co-operation
- Centralization of cash reserves of commercial banks
- To set up Government banks
- To set up Government banks
- Publication ofdata

Functions of RBI:

RBI is an apex banking institution of the country. It carries on several functions as a central bank. According to RBI Act, 1934, “the principal function of RBI is to issue notes and maintain reserves, currency and credit to maintain monetary stability in the general interest of the nation.” As a central banking authority RBI carries on thefollowing functions:

1. RBI regulates issue of bank notes above one rupee denomination
2. Undertakes distribution of all currency notes and coins on behalf of the government
3. Acts as the banker to the Government of India and the State governments, Commercial and Cooperative banks
4. Formulates and administers the monetary policy
5. Maintain exchange value of rupee
6. Represent India at the International Monetary Fund (IMF)
7. RBI acts as a banker for all the commercial banks. All scheduled banks come under the direct control of RBI. All commercial as well as schedule bank has to keep a minimum reserve with the RBI. They have to submit weekly reports to RBI about their transactions. By performing 3 functions, the RBI helps the member banks significantly.

   They are given below such as:

   - It acts as the lender of the last resort.
   - It is the custodian of cash reserves of commercial banks.
   - It clears, transfers the transaction. It acts as the central clearing house.

8. Regulation of Banking system

9. Credit Control

Industrial Development Bank of India (IDBI)

This is an apex institution providing long-term finance to industrial sector. It was set us as a subsidiary of the RBI in 1964. In February, 1976 it was segregated from the RBI. At present its whole of the share capital is owned by the Government of India. IDBI provides financial assistance to industrial concerns by way of variety of products and services which include project finance, equipment finance, asset credit, equipment lease, technology up gradation fund scheme, refinance for medium scale industries and bill finance. It provides as well as for expansion, diversification and modernization of existing industrial enterprises. In response to the changing financial needs of industries, IDBI has also designed other products to meet the short term funding, core working capital and other short term requirements of industrial units. It also offers fee-based services in the area of merchant banking, corporate advisory services, foreign exchange services etc. IDBI has also set up subsidiaries and associates to offer banking products & services, capital market and trusteeship services, as also registrar and transfer services structured to meet customized client requirements. For meeting fund requirements thereof as well as towards its various other business operations, IDBI raises resources directly from the market (at market-related interest rates) from retail as well as institutional investors – both within India and abroad, through a variety of investor-friendly instruments. IDBI's resources raising efforts have brought it closer to all sections of society.

STOCK MARKET:

The market for long term securities like bonds, equity stocks and preferred stocks is divided into primary market and secondary market. The primary market deals with the new issues of securities. Outstanding securities are traded in the secondary market, which is commonly known as stock market predominantly deals in the equity shares. Debt instruments like bonds and debentures are also traded in the stock market. Well regulated and active stock market promotes capital formation.

Growth of the primary market depends on the secondary market. The health of the economy is reflected by the growth of the stock market.

Functions of Stock Exchange

1. **Maintains Active Trading**

   Shares are traded on the stock exchanges, enabling the investors to buy and sell securities. The prices may vary from transaction to transaction. A continuous trading increases the liquidity or marketability of the shares traded on the stock exchanges.

   Fixation of Prices

   Price is determined by the transactions that flow from investors' demand and supplier's preferences. Usually the traded prices are made known to the public. This helps the investors to make better decisions.

2. **Ensures Safe and Fair Dealing**

   The rules, regulations and by-laws of the stock exchanges' provide a measure of safety to the investors. Transactions are conducted under competitive conditions enabling the investors to get a fair deal.

3. **Aids in Financing the Industry**

   A continuous market for shares provides a favorable climate for raising capital. The negotiability and transferability of the securities helps the companies to raise long- term funds. When it is easy to trade the securities, investors are willing to subscribe to the initial public offerings. This stimulatesthe capital formation.

4. **Dissemination of Information**

   Stock exchanges provide information through their various publications. The publish the share prices traded on daily basis along with the volume traded. Directory of Corporate information is useful for the investors' assessment regarding the corporate. Handouts, handbooks and pamphlets provide information regarding the functioning ofthe stock exchanges.

5. **Performance Inducer**

   The prices of stock reflect the performance of the traded companies. This makes the corporate more concerned with its public image and tries to maintain good performance.

6. **Self-regulating Organization**

The stock exchanges monitor the integrity of the members, brokers, listed companies and clients. Continuous internal audit safeguards the investors against unfair trade practices. It settles the disputes between member brokers, investors and brokers.

Securities & Exchange Board of India (SEBI)

The Government has set up the Securities & Exchange Board of India (SEBI) in April, 1988. For more than three years, it has no statutory powers. Its interim functions during the period were (i) To collect information and advice the Government on matters relating to Stock and Capital Markets (ii) Licensing and regulation of merchant banks, mutual funds etc. (iii) To prepare the legal drafts for regulatory and development role of SEBI and (iv) To perform any other functions as may be entrusted to it by the Government.

The SEBI has been entrusted with both the regulatory and developmental functions. The objectives of SEBI are as follows:

a. Investor protection, so that there is a steady flow of savings into the Capital Market.
b. Ensuring the fair practices by the issuers of securities, namely, companies so that they can raise resources at least cost.
c. Promotion of efficient services by brokers, merchant bankers and other intermediaries so that they become competitive and professional.

SEBI Reforms on Stock Exchanges

The SEBI regulation of stock exchanges and their members had started as early as February1992 and the reforms later introduced have been on a continuous basis. It was started with the licensing and registration of brokers and sub-brokers in the recognized stock exchanges. This was later extended to underwriters, portfolio managers and other categories of players in the stock market including foreign securities firms, FFIs, OCBs, FFIs, Debenture Trustees, Collecting bankers, etc

The other reforms are briefly summarized below :

1. Compulsory audit and inspection of stock exchanges and their member brokers and their accounts.
2. Transparency in the prices and brokerage charged by brokers by showing them in their contract notes.
3. Broker accounts and client accounts are to be kept separate abd clients' money are to be separately maintained in bank's accounts and the same to be reported to the stock exchanges.
4. Board of Directors of stock exchanges has to be reconstituted so as to include non-brokers, public representative, and Govt. representatives to he extent of 50% of the total number of members.
5. Capital adequacy norms have been laid down for members of various stock exchanges separately and depending on their turnover of trade and other factors.
6. Guidelines have been laid down for dealings of FFIs and Foreign broker firms in the Indian stock exchanges through Indian brokers.
7. carry forward business which was banned on major exchanges early in 1995 was reintroduced in October 1996 and renewal business was also subject to close scrutiny, for cash shares.
8. New guidelines for corporate members have been laid down with limited liability of directors and opening up of their membership to more than one stock of directors and opening up of their membership to more than one stock exchange without the limiting requirement of experience of five years in one exchange, as imposed earlier.

Commercial Banks

In the organized sector of the money market, commercial banks and cooperative banks have been in existence for the past several decades. A commercial bank which is run for the benefit of a group of members of the cooperative body, e.g., housing cooperative society. Thecommercial banks are spread across the length and breadth of the country, and cater to the short term needs of industry, trade and commerce and agriculture unlike the developmental banks which focus on long term needs. These days the commercial banks also look after other needs of their customers including long term credit requirements.

The banking sector has been undergoing drastic metamorphosis. The rapid progress witnessed in the realm of banking services has been engineered by the trends in globalization, liberalization and privatization. The technological revolution and demographic changes havealso helped to change the face of banking in India. More banks are switching over virtual banking for the brick and mortar banks, and are providing a vast array of products through very innovative channels and at highly competitive prices. Banks are now free to quote their own interest rates in loan/advances and term deposits. They now have to manage their investments and loans portfolios based on the international norms and practices of risk management including asset liability management. Commercial banks operating in India maybe categorized into public sector, private sector, and Indian or foreign banks depending upon the ownership, management and control. They may also be differentiated as scheduled or non-scheduled, licensed or unlicensed.

Non Banking Financial Companies (NBFCs)

NBFCs constitute an important segment of the financial system. NBFCs are financial intermediaries engaged primarily in the business of accepting deposits and delivering credit. They play an important role in channelizing the scarce financial resources to capital formation. NBFCs supplement the role of the banking sector in meeting the increasing financial needs of the corporate sector, delivering credit to the unorganised sector and to small local borrowers. NBFCs have a more flexible structure than banks. As compared to banks, they can take quick decisions; assume greater risks, and tailor-make their services and Charges according to the needs of the clients. Their flexible structure helps in broadening the market by providing the saverand investor a bundle of services on a competitive basis.

NBFCs are financial intermediaries engaged primarily in the business of accepting depositsdelivering credit. They play an important role in channelizing the scarce financial resources to capital formation. NBFCs supplement the role of banking sector in meeting the increasing financial needs of the corporate sector, delivering credit to the unorganised sector & to small local borrowers. All NBFCs are under direct control of RBI in India. A Non-Banking Financial Company (NBFC) isa company incorporated under the Companies Act, 1956 and conducting financial business as its principal business. In contrast, companies incorporated under the same Act but conducting other than Financial business as their principal business is known as non-banking non-financial Companies. NBFCs are different from banks in that an NBFC cannot accept demand deposits, issue checks to customers, or insure deposits through the Deposit Insurance and Credit Guarantee Corporation (DICGC). In India, the non-banking financial sector comprises a multiplicity of institutions, which are define d under Section 45I (a) of the Reserve Bank of India Act, 1934. These are equipment- leasing companies (EL), hire purchase companies (HP), investment companies, loan companies (LCs), mutual benefit financial

According to the Reserve Bank of India Amendment Act 1997 the Non Banking Finance company was defined as under:-

⇒A financial institution which is a company,

⇒A non banking institution which is a company and whose principal business is to receiving of deposits under any scheme/arrangement/in any other manner or lending inany manner and

⇒Other non banking institutions/class of institutions as the RBI may specify.

NBFCs provide a range of services such as hire purchase finance, equipment lease finance, loans, and investments. Due to the rapid growth of NBFCs and a wide variety of services provided by them, there has been a gradual blurring of distinction between banks and NBFCs except that commercial banks have the exclusive privilege in the issuance of cheques . NBFCs have raised large amount of resources through deposits from public, shareholders, directors, and other companies and borrowings byissue of non-convertible debentures, and so on. In the year 1998, a new concept of

public deposits meaning deposits received from public, including shareholders in the case of public limited companies and unsecured debentures/bonds other than those issued to companies, banks, and financial institutions, wasintroduced for the purpose of focused supervision of NBFCs accepting such deposits.

Types of NBFCs

NBFCs can be classified into different segments depending on the type of activities they undertake: (i) Hire Purchase Finance Company; (ii) Investment Company including primary dealers; (iii) Loan Company; (iv) Mutual Benefit Financial Company; (v) Equipment Leasing Company; (vi) Chit Fund Company; and (vii) Miscellaneous non-banking company.

Role of NBFCs

The Reserve Bank of India expert committees identified the need of non bankingfinancial companies in the following areas:

• Development of sectors like transport and infrastructure
• Substantial employment generation
• Help and increase wealth creation
• Broad base economic development
• Irreplaceable supplement to bank credit in rural segments
• Major thrust on semi-urban, rural Areas and first time buyers/users
• To finance economically weaker sections.
• Huge contribution to the state exchequer.

PART – A

1. What is meant by financial system?
2. Name any three industrial financial institutions in India.
3. Write a short note on UTI?

4. Why RBI is called the bankers' bank?
5. What is a Stock Exchange?
6. What are the functions of RBI?
7. What are Non-banking financial companies (NBFCs)?
8. What are OTCEI and NSE?
9. Discuss the role of commercial banks in economic development.
10. Write a short note on NSE.
11. Define a Commercial Bank
12. What is a Odd lot market?
13. What is IDBI?
14. What is SEBI?
15. What are the functions of Commercial Banks?

PART – B

1. Explain various types of financial markets.
2. Describe different types of Banking Institution.
3. Explain NBFC's and their role in the financial system of a country.
4. Explain the role of IDBI in the field of institutional finance in India.
5. Explain the objectives and working of the Unit Trust of India(UTI)
6. Discuss the role of SEBI in regulating the working of stock exchanges in our country.

References :

1. C.B.Gupta, Business environment, Sultan Chand & Sons, New Delhi, 2008
2. Francis Cherunilam, Business Environment, Himalaya Publishing house, Mumbai, 2007
3. S.Sankaran, Business Environment, Margham Publication, Chennai, 2005.