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**Concept based notes**

# **Business Environment**

(MBA-I Sem.)

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## **Preface**

I am glad to present this book, especially designed to serve the needs of the students. The book has been written keeping in mind the general weakness in understanding the fundamental concepts of the topics. The book is self-explanatory and adopts the “Teach Yourself” style. It is based on question-answer pattern. The language of book is quite easy and understandable based on scientific approach.

Any further improvement in the contents of the book by making corrections, omission and inclusion is keen to be achieved based on suggestions from the readers for which the author shall be obliged.

I acknowledge special thanks to Mr. Rajeev Biyani, *Chairman* & Dr. Sanjay Biyani, *Director (Acad.)* Biyani Group of Colleges, who are the backbones and main concept provider and also have been constant source of motivation throughout this Endeavour. They played an active role in coordinating the various stages of this Endeavour and spearheaded the publishing work.

I look forward to receiving valuable suggestions from professors of various educational institutions, other faculty members and students for improvement of the quality of the book. The reader may feel free to send in their comments and suggestions to the under mentioned address.

**Author**

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# Chapter 1

## Business Environment

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**Q 1. What is Business Environment?**

**Ans.** The term **Business Environment** is composed of two words '**Business**' and '**Environment**'. In simple terms, the state in which a person remains busy is known as Business. The word Business in its economic sense means human activities like production, extraction or purchase or sales of goods that are performed for earning profits.

**Q 2. Define Business Environment.**

**Ans.** The elements or factors outside a business organization which directly affect it, such as the supply of raw materials and product demand.

**Q3. What are the features of Business Environment?**

**Ans.** Following features of Business Environment

- 1. Totality of external forces:** Business environment is the sum total of all things external to business firms and, as such, is aggregative in nature.
- 2. Specific and general forces:** Business environment includes both specific and general forces. Specific forces (such as investors, customers, competitors and suppliers) affect individual enterprises directly and immediately in their day-to-day working. General forces (such as social, political, legal and technological conditions) have impact on all business enterprises and thus may affect an individual firm only indirectly.

3. **Dynamic nature:** Business environment is dynamic in that it keeps on changing whether in terms of technological improvement, shifts in consumer preferences or entry of new competition in the market.
4. **Uncertainty:** Business environment is largely uncertain as it is very difficult to predict future happenings, especially when environment changes are taking place too frequently as in the case of information technology or fashion industries.
5. **Relativity:** Business environment is a relative concept since it differs from country to country and even region to region. Political conditions in the USA, for instance, differ from those in China or Pakistan. Similarly, demand for sarees may be fairly high in India whereas it may be almost non-existent in France.

**Q 4. What is the Importance of Business Environment?**

**Ans. Following Importance of Business Environment:**

1. **Firm to identify opportunities and getting the first mover advantage:** Early identification of opportunities helps an enterprise to be the first to exploit them instead of losing them to competitors. For example, Maruti Udyog became the leader in the small car market because it was the first to recognize the need for small cars in India.

2. **Firm to identify threats and early warning signals:** If an Indian firm finds that a foreign multinational is entering the Indian market it should give a warning signal and Indian firms can meet the threat by adopting by improving the quality of the product, reducing cost of the production, engaging in aggressive advertising, and so on.
3. **Coping with rapid changes:** All sizes and all types of enterprises are facing increasingly dynamic environment. In order to effectively cope with these significant changes, managers must understand and examine the environment and develop suitable courses of action.
4. **Improving performance:** the enterprises that continuously monitor their environment and adopt suitable business practices are the ones which not only improve their present performance but also continue to succeed in the market for a longer period.

**Q5. What are the types of Business Environment?**

**Ans: Business Environment has two components:**

1. Internal Environment
  2. External Environment
1. **Internal Environment:** It includes 5 Ms i.e. man, material, money, machinery and management, usually within the control of business. Business can make changes in these factors according to the change in the functioning of enterprise.

2. **External Environment:** Those factors which are beyond the control of business enterprise are included in external environment. These factors are: Government and Legal factors, Geo-Physical Factors, Political Factors, Socio-Cultural Factors, Demo-Graphical factors etc. It is of two

**Types:**

1. Micro/Operating Environment
2. Macro/General Environment

**Q6. Define Micro and Macro Environment?**

**Ans: 1 Micro/Operating Environment:**

The environment which is close to business and affects its capacity to work is known as Micro or Operating Environment. It consists of Suppliers, Customers, Market Intermediaries, Competitors and Public.

**(1) Suppliers:** – They are the persons who supply raw material and required components to the company. They must be reliable and business must have multiple suppliers i.e. they should not depend upon only one supplier.

**(2) Customers:** - Customers are regarded as the king of the market. Success of every business depends upon the level of their customer's satisfaction.

Types of Customers:

- (i) Wholesalers
- (ii) Retailers
- (iii) Industries
- (iv) Government and Other Institutions



- (v) Foreigners

**3) Market Intermediaries:** - They work as a link between business and final consumers. Types:-

- (i) Middleman
- (ii) Marketing Agencies
- (iii) Financial Intermediaries
- (iv) Physical Intermediaries

**4) Competitors:** - Every move of the competitors affects the business. Business has to adjust itself according to the strategies of the Competitors.

**(5) Public:** - Any group who has actual interest in business enterprise is termed as public e.g. media and local public. They may be the users or non-users of the product.

2. **Macro/General Environment:** – It includes factors that create opportunities and threats to business units. Following are the elements of Macro Environment:

**(1) Economic Environment:** - It is very complex and dynamic in nature that keeps on changing with the change in policies or political situations. It has three elements:

- (i) Economic Conditions of Public
- (ii) Economic Policies of the country
- (iii) Economic System
- (iv) Other Economic Factors: – Infrastructural Facilities,

Banking, Insurance companies, money markets, capital markets etc.

**(2) Non-Economic Environment:** - Following are included in non-economic environment:-

**(i) Political Environment:** - It affects different business units extensively. Components:

- (a) Political Belief of Government
- (b) Political Strength of the Country
- (c) Relation with other countries
- (d) Defense and Military Policies
- (e) Centre State Relationship in the Country
- (f) Thinking Opposition Parties towards Business Unit

**(ii) Socio-Cultural Environment:** - Influence exercised by social and cultural factors, not within the control of business, is known as Socio-Cultural Environment. These factors include: attitude of people to work, family system, caste system, religion, education, marriage etc.

**(iii) Technological Environment:** - A systematic application of scientific knowledge to practical task is known as technology. Everyday there has been vast changes in products, services, lifestyles and living conditions, these changes must be analyzed by every business unit and should adapt these changes.

**(iv) Natural Environment:** - It includes natural resources, weather, climatic conditions, port facilities, topographical factors such as soil, sea, rivers, rainfall etc. Every business unit must look for these factors before choosing the location for their business.

**(v) Demographic Environment :-** It is a study of perspective of population i.e. its size, standard of living, growth rate, age-sex composition, family size, income level (upper level, middle level and lower level), education level etc. Every business unit must see these features of population and recognize their various need and produce accordingly.

**(vi) International Environment:** - It is particularly important for industries directly depending on import or exports. The factors that affect the business are: Globalization, Liberalization, foreign business policies, cultural exchange.

### Multiple Choice Question

1. In the PEST framework for environmental analysis what does the letter E stand for?
  - a) Ethical
  - b) Ecological
  - c) Educational
  - d) Economic

Ans d

- 2 . Analyzing processes of change in the business environment involves conceptualizing it as:
- a) Complex
  - b) Static
  - c) Dynamic
  - d) Diverse
- Ans c
- 3 . Profit may be defined as:
- a) The difference between total wage costs and total sales revenue
  - b) Total revenue from sales
  - c) The difference between total production costs and total sales revenue
  - d) The amount of money paid to shareholders as dividends
- Ans c
- 4 . What key word can be used to describe the basic economic problem that all societies face?
- a) Selfishness
  - b) Greed
  - c) Inequality
  - d) Scarcity
- Ans d
- 5 . In which year was the National Minimum Wage (NMW) introduced in the UK?
- a) 1997
  - b) 1999
  - c) 2001
  - d) 2005
- Ans b
- 6 . What is a PLC?
- a) Public licensed company
  - b) Private licensed company
  - c) Private limited company
  - d) Public limited company
- Ans d
- 7 . What does the term 'third sector' refer to?
- a) The high technology industries

- b) The service sector
  - c) The voluntary sector
  - d) Small and medium sized enterprises (SMEs)**
- Ans c



## Chapter 2

# External Environment

---

**Q 1. Define the Changing role of Government Structure of Indian economy?**

**Ans. ECONOMIC ROLES OF THE GOVERNMENT:**

1. Regulation
2. Promotion
3. Planning
4. Production

### **As regulator**

Government world over made a body of laws and policies to assure that competition is at least maintained if not enhanced. The antitrust laws passed in different countries commit the Government to preventing monopoly and maintaining competition. These laws are generally concerned with six specific areas: price discrimination, exclusive and tying contracts, interoperate stock holdings, interlocking directorates, mergers and trade practices that injure independent retailers and wholesalers.

### **As promoter**

Promotional role of the Government in a capitalist economy is determined by the limitations of the business. Since business firms are profit maximizers, they have

virtually no interest in making investments in sectors where return is either small, because of long gestation periods of projects, quite uncertain.

### **As planner**

The government plays an important role as a planner, especially in developing countries. During the post world war II period, many developing countries adopted economic planning for achieving higher growth rate and better standard of living.

### **As producer**

In most capitalistic countries, the bulk of production is done in the private sector. Small scale manufacturing, commerce and agriculture are mostly in private hands, while large scale manufacturing mining and finance are under the control of transnational, domestically owned corporate and public sector enterprises. In developing countries, state-owned utilities provide electricity, gas and water. Public enterprises also play a significant role in transport and communications. In contrast, pattern of ownership differs substantially in different countries in mining and manufacturing.

#### **Q 2. What are the types of International Business Environment?**

**Ans.** International business is different from domestic business because the environment changes when a firm crosses international borders. Typically, a firm understands its domestic environment quite well, but is less familiar with the environment in other countries and must invest more time and resources into understanding the new environment. The following considers some of the important aspects of the environment that change internationally.

The economic environment can be very different from one nation to another. Countries are often divided into three main categories: the more developed or industrialized, the less developed or third world, and the newly industrializing or emerging economies. Within each category there are major variations, but overall the more developed countries are the rich countries, the less developed the poor ones, and the newly industrializing (those moving from poorer to richer). These distinctions are usually made on the basis of gross domestic product per capita (GDP/capita). Better education, infrastructure, technology, health care, and so on are also often associated with higher levels of economic development.

In addition to level of economic development, countries can be classified as free-market, centrally planned, or mixed. Free-market economies are those where government intervenes minimally in business activities, and market forces of supply and demand are allowed to determine production and prices. Centrally planned economies are those where the government determines production and prices based on forecasts of demand and desired levels of supply. Mixed economies are those where some activities are left to market forces and some, for national and individual welfare reasons, are government controlled. In the late twentieth century there has been a substantial move to free-market economies, but the People's Republic of China, the world's most populous country, along with a few others, remained largely centrally planned economies, and most countries maintain some government control of business activities.

Clearly the level of economic activity combined with education, infrastructure, and so on, as well as the degree of government control of the economy, affect virtually all facets of doing business, and a firm needs to understand this environment if it is to operate successfully internationally.



The political environment refers to the type of government, the government relationship with business, and the political risk in a country. Doing business internationally thus implies dealing with different types of governments, relationships, and levels of risk.

There are many different types of political systems, for example, multi-party democracies, one-party states, constitutional monarchies, dictatorships (military and nonmilitary). Also, governments change in different ways, for example, by regular elections, occasional elections, death, coups, war. Government-business relationships also differ from country to country. Business may be viewed positively as the engine of growth, it may be viewed negatively as the exploiter of the workers, or somewhere in between as providing both benefits and drawbacks. Specific government-business relationships can also vary from positive to negative depending on the type of business operations involved and the relationship between the people of the host country and the people of the home country. To be effective in a foreign location an international firm relies on the goodwill of the foreign government and needs to have a good understanding of all of these aspects of the political environment.

A particular concern of international firms is the degree of political risk in a foreign location. Political risk refers to the likelihood of government activity that has unwanted consequences for the firm. These consequences can be dramatic as in forced divestment, where a government requires the firm give up its assets, or more moderate, as in unwelcome regulations or interference in operations. In any case the risk occurs because of uncertainty about the likelihood of government activity occurring. Generally, risk is associated with instability and a country is thus seen as more risky if the government is likely to change unexpectedly, if there is social unrest, if there are riots, revolutions, war, terrorism, and so on.

Firms naturally prefer countries that are stable and that present little political risk, but the returns need to be weighed against the risks, and firms often do business in countries where the risk is relatively high. In these situations, firms seek to manage the perceived risk through insurance, ownership and management choices, supply and market control, financing arrangements, and so on. In addition, the degree of political risk is not solely a function of the country, but depends on the company and its activities as well risky country for one company may be relatively safe for another.

The cultural environment is one of the critical components of the international business environment and one of the most difficult to understand. This is because the cultural environment is essentially unseen; it has been described as a shared, commonly held body of general beliefs and values that determine what is right for one group, National culture is described as the body of general beliefs and values that are shared by a nation. Beliefs and values are generally seen as formed by factors such as history, language, religion, geographic location, government, and education; thus firms begin a cultural analysis by seeking to understand these factors.

Firms want to understand what beliefs and values they may find in countries where they do business, and a number of models of cultural values have been proposed by scholars. The most well-known is that developed by Hofstede in 1980. This model proposes four dimensions of cultural values including individualism, uncertainty avoidance, power distance and masculinity. Individualism is the degree to which a nation values and encourages individual action and decision making. Uncertainty avoidance is the degree to which a nation is willing to accept and deal with uncertainty. Power distance is the degree to which a national accepts and sanctions differences in power. And masculinity is

the degree to which a nation accepts traditional male values or traditional female values. This model of cultural values has been used extensively because it provides data for a wide array of countries. Many academics and managers found this model helpful in exploring management approaches that would be appropriate in different cultures. For example, in a nation that is high on individualism one expects individual goals, individual tasks, and individual reward systems to be effective, whereas the reverse would be the case in a nation that is low on individualism. While this model is popular, there have been many attempts to develop more complex and inclusive models of culture.

The competitive environment can also change from country to country. This is partly because of the economic, political, and cultural environments; these environmental factors help determine the type and degree of competition that exists in a given country. Competition can come from a variety of sources. It can be public or private sector, come from large or small organizations, be domestic or global, and stem from traditional or new competitors. For the domestic firm the most likely sources of competition may be well understood. The same is not the case when one moves to compete in a new environment. For example, in the 1990s in the United States most business was privately owned and competition was among private sector companies, while in the People's Republic of China (PRC) businesses were owned by the state. Thus, a U.S. company in the PRC could find itself competing with organizations owned by state entities such as the PRC army. This could change the nature of competition dramatically.

The nature of competition can also change from place to place as the following illustrate: competition may be encouraged and accepted or discouraged in favor of cooperation; relations between buyers and sellers may be friendly or hostile; barriers to entry and exit may be low or high; regulations may permit or prohibit

certain activities. To be effective internationally, firms need to understand these competitive issues and assess their impact.

An important aspect of the competitive environment is the level, and acceptance, of technological innovation in different countries. The last decades of the twentieth century saw major advances in technology, and this is continuing in the twenty-first century. Technology often is seen as giving firms a competitive advantage; hence, firms compete for access to the newest in technology, and international firms transfer technology to be globally competitive. It is easier than ever for even small businesses to have a global presence thanks to the internet, which greatly expands their exposure, their market, and their potential customer base. For economic, political, and cultural reasons, some countries are more accepting of technological innovations, others less accepting.

### **Multiple Choice Question**

1. Which of the following is not part of the opportunity cost of a university education for a full time student?

- a) Any tuition fees payable
- b) Cost of food
- c) Income forgone from not working full time
- d) Cost of textbooks

Ans b

2. Which of the following perspectives tends to put more faith in the free operation of markets as a way of bringing about economic efficiency?

- a) The neo-classical view
- b) The interventionist or structuralist view
- c) The radical or Marxist view
- d) The Green or environmentalist view

Ans a

3 . The demand curve for a product will shift outwards to the right when:

- a) The price of a substitute good rises
- b) Consumers expect the price of the good to fall in the future
- c) Consumer incomes fall
- d) The price of the product itself falls

Ans a

4 If we observe a decrease in the price of good x the most certain explanation is:

- a) The demand for x has increased or the supply has decreased or both
- b) The demand for x has increased or the supply has increased or both
- c) The demand for x has decreased or the supply has increased or both
- d) The demand for x has decreased or the supply has decreased or both

Ans c

5 If the demand for a good is relatively price inelastic and its price rises the revenue will:

- a) Fall
- b) Remain constant
- c) Rise
- d) Depends on how supply responds

Ans c

6 . If a 10% rise in price causes a 5% fall in the quantity demanded...

- a) The price elasticity of demand is -5
- b) The price elasticity of demand is -2
- c) The price elasticity of demand is -0.5
- d) The price elasticity of demand is -0.2

Ans c

7 . Which of the following options is not an example of "market failure"?

- a) Failure of a firm to maximize its profits
- b) Failure to produce merit goods
- c) Failure to produce public goods
- d) Failure to account for externalities

Ans a

## Chapter 3

# Economic Environment

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**Q1. What is Economic Environment?**

**Ans.** The totality of economic factors, such as employment, income, inflation, interest rates, productivity, and wealth, that influence the buying behavior of consumers and institutions.

**Q2. Define Economic Environment in India?**

**Ans:** In order to solve economic problems of our country, the government took several steps including control by the State of certain industries, central planning and reduced importance of the private sector.

**The main objectives of India's development plans were:**

1. Initiate rapid economic growth to raise the standard of living, reduce unemployment and poverty;
2. Become self-reliant and set up a strong industrial base with emphasis on heavy and basic industries;
3. Reduce inequalities of income and wealth;
4. Adopt a socialist pattern of development — based on equality and prevent exploitation of man by man.

As a part of economic reforms, the Government of India announced a new industrial policy in July 1991.

The broad features of this policy were as follows:

1. The Government reduced the number of industries under compulsory licensing to six.
2. Disinvestment was carried out in case of many public sector industrial enterprises.
3. Policy towards foreign capital was liberalized. The share of foreign equity participation was increased and in many activities 100 per cent Foreign Direct Investment (FDI) was permitted.
4. Automatic permission was now granted for technology agreements with foreign companies.
5. Foreign Investment Promotion Board (FIPB) was set up to promote and canalize foreign investment in India.

**Q3. What is Liberalization?**

**Ans. Liberalization is:**

- The economic reforms that were introduced were aimed at liberalizing the Indian business and industry from all unnecessary controls and restrictions.
- They indicate the end of the licence-permit-quota raj.
- Liberalization of the Indian industry has taken place with respect to:
  1. Abolishing licensing requirement in most of the industries except a short list,
  2. Freedom in deciding the scale of business activities i.e., no restrictions on expansion or contraction of business activities,

3. Removal of restrictions on the movement of goods and services,
4. Freedom in fixing the prices of goods services,
5. Reduction in tax rates and lifting of unnecessary controls over the economy,
6. Simplifying procedures for imports and exports, and
7. Making it easier to attract foreign capital and technology to India.

**Q4. What is Privatization?**

**Ans** The new set of economic reforms aimed at giving greater role to the private sector in the nation building process and a reduced role to the public sector.

To achieve this, the government redefined the role of the public sector in the New Industrial Policy of 1991.

The purpose of the sale, according to the government, was mainly to improve financial discipline and facilitate modernization.

It was also observe that private capital and managerial capabilities could be effectively utilized to improve the performance of the PSUs.

The government has also made attempts to improve the efficiency of PSUs by giving them autonomy in taking managerial decisions.

**Q5. What is Globalization?**

**Ans:** Globalization is defined as follow:

Globalizations are the outcome of the policies of liberalization and privatization.



Globalization is generally understood to mean integration of the economy of the country with the world economy, it is a complex phenomenon. It is an outcome of the set of various policies that are aimed at transforming the world towards greater interdependence and integration. It involves creation of networks and activities transcending economic, social and geographical boundaries.

Globalization involves an increased level of interaction and interdependence among the various nations of the global economy.

Physical geographical gap or political boundaries no longer remain barriers for a business enterprise to serve a customer in a distant geographical market.

**Q6. What are the Impact of Government Policy Changes on Business and Industry?**

**Ans: The Impact of Government Policy Changes on Business and Industry are:**

- 1. Increasing competition:** As a result of changes in the rules of industrial licensing and entry of foreign firms, competition for Indian firms has increased especially in service industries like telecommunications, airlines, banking, insurance, etc. which were earlier in the public sector.
- 2. More demanding customers:** Customers today have become more demanding because they are well-informed. Increased competition in the market gives the customers wider choice in purchasing better quality of goods and services.
- 3. Rapidly changing technological environment:** Increased competition forces the firms to develop new ways to survive and grow in the market. New technologies make it possible to improve machines, process, products and services. The rapidly changing technological environment creates tough challenges before smaller firms.

4. **Necessity for change:** In a regulated environment of pre-1991 era, the firms could have relatively stable policies and practices. After 1991, the market forces have become turbulent as a result of which the enterprises have to continuously modify their operations.
  
5. **Threat from MNC** Massive entry of multi nationals in Indian market constitutes new challenge. The Indian subsidiaries of multi-nationals gained strategic advantage. Many of these companies could get limited support in technology from their foreign partners due to restrictions in ownerships. Once these restrictions have been limited to reasonable levels, there is increased technology transfer from the foreign partners.

**Q7. Role of Indian Business houses in the world?**

**Ans** As Indian-owned companies become global; they are doing so while sticking to keeping the companies within family control.

The concept of the business dynasty is not alien to the world. However, nowhere else is it as prevalent as it is in India. Virtually every major private-sector corporate group in India is family owned, and more importantly family-managed. In the early days of liberalization this was seen as a strong disadvantage in a world that swore by “professional management”. Companies like Nirma tried the professional management route, only to pull the reins back into the hands of the family. The Tatas, may appear the only exception, but remember that they too are a closely knit group (the Bombay Club?).

Essentially in the Indian context, the separation between ownership and management is smaller than anywhere else in the world. This is a good thing as long as the owners are good managers too, and increasingly the Ambanis, Mittals

and Tantis are proving to be so. Moreover they have strong succession planning, usually within the family. The heirs get the best management education in the world, and are carefully nurtured to take over the reins when the time comes. Sounds like business dynasties? And there are probably strong reasons why business dynasties failed in the West, but pertinent our discussion, they provide the continuity at the highest level, so the companies can take bold long-term investment decisions. On the other hand, they can keep pushing the Government for liberal hire-and-fire policies, which would give their companies every labor advantage that their Chinese or American counterparts currently enjoy.

### Conclusion

The Indian business dynasties are an interesting new phenomenon in the corporate world. Family-owned businesses around the world are not very unusual, but what is unusual is the strong owner involvement in management, with strong succession planning in the owner-cum-manager roles. This model probably combines the best of the continuity-flexibility conundrum and might trump the model of foreign corporate houses. On the other hand this might just be a passing phase in the management patterns in Corporate India, and if it is, then it is still significant enough to store away as a story for the grandchildren.

**Q8. What is Multinational Corporation?**

**Ans.** A **multinational corporation** (MNC) or **enterprise** (MNE) is a corporation or an enterprise that manages production or delivers services in more than one country. It can also be referred to as an *international corporation*. The International Labour Organization (ILO) has defined an MNC as a corporation that has its management headquarters in one country, known as the *home country*, and operates in several other countries, known as *host countries*.

The Dutch East India Company was the first multinational corporation in the world and the first company to issue stock. It was also arguably the world's first mega corporation, possessing quasi-governmental powers, including the ability to wage war, negotiate treaties, coin money, and establish colonies.

The first modern multinational corporation is generally thought to be the East India Company. Many corporations have offices, branches or manufacturing plants in different countries from where their original and main headquarters is located.

**Q9. Define the Features of Multinational Corporation.**

**Ans.** The Features of Multinational Corporation are:

- Market imperfections
- International power
  - Tax competition
  - Market withdrawal
  - Lobbying
  - Patents
- Culture
- Different methods of communication across different cultures
- Seven Methods of managing across cultures
- Advertisement in different countries
- Companies that adapted to foreign market successfully
- Companies that failed to adapt to foreign culture
- Transnational Corporations

- Micro-multinationals
- Criticism of multinationals
- References
- External links

**Q.10. What is Foreign Collaboration?**

**Ans** **Collaboration** is working together to achieve a goal, but in its negative sense it is working as a traitor. It is a recursive process where two or more people or organizations work together to realize shared goals, (this is more than the intersection of common goals seen in co-operative ventures, but a deep, collective, determination to reach an identical objective) — for example, an intriguing endeavor that is creative in nature—by sharing knowledge, learning and building consensus .

**Q11. What are types of Economic System?**

**Ans.** **Basic types of Economic systems are:**

- Market economy (the basis for several "hands off" systems, such as pure capitalism)
- Mixed economy (a compromising system that incorporates some aspects of the market approach as well as some aspects of the planned approach)
- Planned economy (the basis for several "hands on" systems, such as state socialism)
- Traditional economy (a generic term for older economic systems)
- Participatory economics (a system where the production and distribution of goods is guided by public participation)
- Gift economy (where an exchange is made without any explicit agreement for immediate or future rewards)

- Barter economy(where goods and services are directly exchanged for other goods or services)

## Multiple Choice Question

1. Macroeconomics is concerned with:

- a) The study of the behaviour of individual households and firms
- b) The determination of the relative prices of particular goods and services
- c) The knowledge and skills of workers in an economy
- d) The study of the behaviour and performance of the economy as a whole

Ans d

2 . The main objectives of macroeconomic policy are:

- a) A high and stable level of employment
- b) A low and stable rate of inflation
- c) A stable and satisfactory rate of economic growth
- d) All of the above**

Ans d

3 . Structural or mismatch unemployment arises:

- a) When people find themselves temporarily between jobs in the labour market
- b) Due to a deficiency of aggregate demand
- c) When inflation is accelerating
- d) When labour released from declining industries does not have the skills required to fill, or is not living in the location where there are, existing job vacancies**

Ans d

4. The full costs of increased unemployment entail:

- a) Loss of tax revenue for the authorities
- b) Financial hardship experienced by the unemployed and their families
- c) A range of potential social and political consequences
- d) All of the above**

Ans d

5. As inflation increases and becomes more volatile, resulting in greater uncertainty:

- a) The price system becomes less efficient as a coordinating mechanism**

- b) Investment by firms is likely to increase
- c) International competitiveness is likely to improve
- d) Consumption by households is likely to increase

Ans a

6 When outflows to the unemployment pool are greater than inflows, the level of unemployment will:

- a) Rise
- b) Fall
- c) Remain unchanged
- d) Rise initially and then fall

Ans b



## Chapter 4

# Political Environment

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**Q1. What is Political Environment?**

**Ans.** The political environment of the company includes national and international political factors which can affect its operations. These factors are called political as they principally emanate from the actions of governments which can be at a local or foreign level. This category also includes the methods of thinking, and beliefs of all natures which can influence the behavior of governments and citizens opposing the company without them emanating directly from a government (example: nationalism).

**Q2. What is a Political System and what are their types?**

**Ans:** A **political system** is a system of politics and government. It is usually compared to the legal system, economic system, cultural system, and other social systems. It is different from them, and can be generally defined on a spectrum from left, e.g. communism, to the right, e.g. fascism. However, this is a very simplified view of a much more complex system of categories involving the views: who should have authority, how religious questions should be handled, and what the government's influence on its people and economy should be.

**Basic forms of political systems are:**

The following are examples of political systems, some of which are typically mutually exclusive (e.g. Monarchy and Republic), while others may (or may not)



overlap in various combinations (e.g. Democracy and Westminster system, Democracy and Socialism).

- Anarchism (Rule by all/no one)
- Democracy (Rule by majority)
- Monarchy. (Rule by monarch) Monarchies are one of the oldest political systems known, developing from tribal structure with one person the absolute ruler.
- Communism (Rule by all citizens) Classless with common ownership and decision making
- Meritocracy (Rule by best)
- Technocracy (Rule by scientist/intellectuals)
- Republic. (Rule by law) The first recorded republic was in India in the 6th century BC (BCE).
- Sultanates. (Rule by Allah) an Islamic political structure combining aspects of Monarchy and Theocracy.
- Islamic Democracy. (Rule by majority in Islamic context) an Islamic and democratic political structure, which combines aspects of Theocracy (as the framework) and Democracy (as the decision making method under Islam's ethical system). Iran's constitution is based on such a system.
- Theocracy (Rule by representative of God)
- Westminster system (rule by republic and representative democracy through parliament)
- Feudalism (Rule by lord/king)

**Q 3. Explain Economic Development in political System.**

**Ans.** It is compared capitalist and socialist countries in measures of the physical quality of life (PQL), taking into account the level of economic development. The

World Bank was the principal source of statistical data for 123 countries (97 per cent of the world's population). PQL variables included: indicators of health, health services, and nutrition (infant mortality rate, child death rate, life expectancy, population per physician, population per nursing person, and daily per capita calorie supply); measures of education (adult literacy rate, enrollment in secondary education, and enrollment in higher education); and a composite PQL index. Capitalist countries fell across the entire range of economic development (measured by gross national product per capita), while the socialist countries appeared at the low-income, lower-middle-income, and upper-middle-income levels. All PQL measures improved as economic development increased. In 28 of 30 comparisons between countries at similar levels of economic development, socialist countries showed more favorable PQL outcomes.

## Multiple Choice Questions

1 Productivity is measured by:

- a) The growth in output of a firm
- b) The growth in profits of a firm
- c) Total output/total input
- d) Total amount of investment in capital goods

**Ans c**

2 What is meant by the term economies of scale?

- a) That big firms will always be more efficient than small ones
- b) That big firms can always invest more than small ones and so can spend more on resource and development
- c) That bigger economies will always perform better than smaller ones
- d) That as markets grow in size businesses can adapt production techniques to meet increased demand and in the process lower average costs

**Ans d**

3 Which of the following factors did Adam Smith feel were key to explaining economic growth?

- a) Accumulation of physical capital
- b) Technological progress
- c) Specialization and free trade
- d) All of the above

Ans d

4 The Division of Labor refers to:

- a) The differences in skill levels between workers
- b) That if production can be broken down into specific tasks with workers specializing in each task, then productivity can be increased as each worker can become more efficient in their particular task
- c) That there is a division between the workers in a business and its owners
- d) That for profits to be generated it is important that business owners are separate from the labour force

Ans b

5 What is human capital?

- a) The development of robots in industry
- b) The rise of Information technology
- c) The skills and abilities of humans to learn
- d) Technological ideas of people

Ans c

6 Which of the technologies below would most be associated with the development of genetically modified organisms?

- a) Bio-technology
- b) Nano-technology
- c) Information technology
- d) Appropriate Technology

Ans a

7 What are the implications of the precautionary principle?

- a) That firms should not invest in technology of the future returns are uncertain
- b) That if there is the risk that technology might harm the public then the burden of proof that it will not is on those that are trying to implement the new technology
- c) That since we live in such an uncertain world that businesses should also seek to minimize risk

d) That businesses should do all they can to eliminate competitive threats

Ans b



## Chapter 5

# Social Responsibility of Business

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**Q 1. Meaning of Social Responsibility of Business ?**

**Ans.** **Social responsibility** is an ethical ideology or theory that an entity, be it an organization or individual, has an obligation to act to benefit society at large. This responsibility can be passive, by avoiding engaging in socially harmful acts, or active, by performing activities that directly advance social goals.

**Q 2. Reasons of growing concern Social Responsibility ?**

**Ans .** There were times when business used to be run only as a sole ownership concern. But today while that institution (sole ownerships) still continues we are witnessing different types of business concerns (partnership firms public and private limited companies and even multinationals etc) thanks to the revolution in science and technology and tremendous progress in socio-economic and political fields. In keeping with the significant changes in other walks of life business also has been changing its patterns, priorities and perceptions in tune with the times. Maximization of profit used to be only motto of all business enterprises big or small in the past. This is no longer the case today. No business enterprise can thrive on the profit motive alone for long these days and if it has to succeed business must be conscious and alive to its social responsibility as well.

The once all powerful and all conquering profit motive has been slowly but surely yielding place to a broad based and more enlightened policy of commitment to

social welfare measures. The only reason for this turn around could be the instinct for survival . Besides there are certain other factors which have contributed to the growing concern of business for the welfare of society. These factors are:

### **Growing Awareness due to Education:**

With growing literacy rate, more and more people are becoming increasingly aware of their right to a decent and healthy life. They have started analyzing and comparing the goods and services available in the market in terms of quality purity and cost. Keeping in view the public demand, businessmen have started thinking more in terms of quality and cost of quality and cost effectiveness than in terms of profit alone. Spread of education has helped the business community also to understand their role and the changing patterns in society. They have therefore chosen willy-nilly to adopt the twin objectives of profit and social responsibility in the best interests of both business and society.

### **Newspapers and Consumer Organizations:**

The proliferation of language and dialect newspaper has made it easier and cheaper to reach out to the consumer even in far-flung areas. Besides, of late various consumer organizations have been coming up in urban areas to protect the interests of consumers and to expose the malpractices or bad elements of business with the sole object of enlightening or forewarning the consumers . Due to these developments and of the fear of adverse publicity businessmen have, by and large, learnt to live for the sake of society also in a purposeful and meaningful way, thus keeping a check on their profit motive.

### **Fear of Government's Interference**

In the event of any business enterprising persisting in its fraudulent or deceitful ways to quench its hunger for more profit, the enlightened public can, through the various means at its command compel the government to introduce legislation to check the malpractice of business . The threat of public opinion building up against it and the ever increasing fear of public regulation through legislative measures have left businesses with no other alternative except to fall in line with to demands of society. The avaricious businessmen have been forced to desist from resorting to dubious mean to augment profits,

### **Trade Union Movement:**

Well organized Trade unions have become omnipresent and omnipotent in almost all big business establishments these days. The bargaining power and strength of these Unions keep the Captains of Industry tenterhooks and ensure that they behave responsibly towards not only employees but also the public at large.

### **Public image:**

Building up a better public mage is essential for any business to survive and grow. Hence enlightened entrepreneurs or professional mangers of today are all locked up in a healthy competition to build up their public image, even if it means lesser and lesser profits.

### **Q 3. Argument against Social Responsibility.**

Ans . Below are some of the key arguments most often used against CSR

- Business are owned by their shareholders - money spent on CSR by managers is theft of the rightful property of the owners
- The leading companies who report on their social responsibility are basket cases - the most effective business leaders don't waste time with this stuff
- Our company is too busy surviving hard times to do this. We can't afford to take our eye off the ball - we have to focus on core business
- It's the responsibility of the politicians to deal with all this stuff. It's not our role to get involved
- I have no time for this. I've got to get out and sell more to make our profit line.
- Corporations don't really care - they're just out to screw the poor and the environment to make their obscene profits

**Q4. Where big corporations should be spending their CSR resources?**

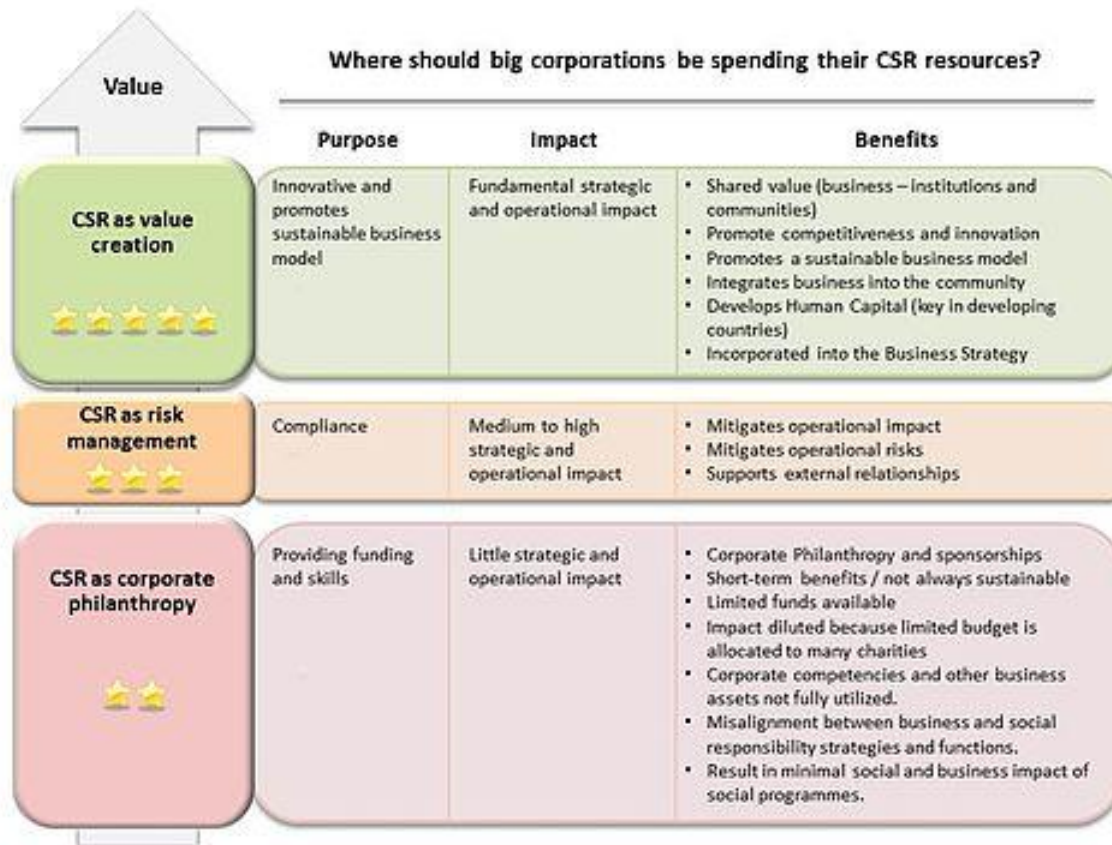
**Ans** Corporate Social responsibility (CSR) is a widely used term in business circle at present. Companies need to answer to two aspects of their operations; the quality of their management and quantity of their impact on society in the various areas (Baker, n.d). It is not necessary that all the better performing companies are equally contributing to the society.





A company which professionally managed, causing no harm to the environment and contributing something to the society in which it operates, can be regarded as a better company.

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Since the company is operating in a society, it cannot stay away from the social issues. The society provides both customers and resources to fulfill the business objectives of the corporate companies. An important aspect of CSR is how enterprises interact with their internal and external stakeholders; employees, customers, neighbors, nongovernmental organizations, public authorities, etc. Any problems occurred in the society can affect the organization as well and hence the wellbeing of the society is the responsibility of the organization also. Since the companies are utilizing immense resources of the society, they should take the responsibility of serving them as well.

**Q5. Give arguments in favour for Social Responsibility.**

Ans. FAVOUR OF CSR-

## 1 Potential business benefits

The scale and nature of the benefits of CSR for an organization can vary depending on the nature of the enterprise, and are difficult to quantify, though there is a large body of literature exhorting business to adopt measures beyond financial ones. Orlitzky, Schmidt, and Rynes found a correlation between social/environmental performance and financial performance. However, businesses may not be looking at short-run financial returns when developing their CSR strategy.

The definition of CSR used within an organization can vary from the strict "stakeholder impacts" definition used by many CSR advocates and will often include charitable efforts and volunteering. CSR may be based within the human resources, business development or public relations departments of an organization, or may be given a separate unit reporting to the CEO or in some cases directly to the board. Some companies may implement CSR-type values without a clearly defined team or programmer.

The business case for CSR within a company will likely rest on one or more of these arguments:

## 2 Human resources

A CSR programmer can be an aid to recruitment and retention, particularly within the competitive graduate student market. Potential recruits often ask about a firm's CSR policy during an interview, and having a comprehensive policy can give an advantage. CSR can also help improve the perception of a company among its staff, particularly when staff can become involved through payroll giving, fundraising activities or community volunteering. See also Corporate Social

Entrepreneurship, whereby CSR can also be driven by employees' personal values, in addition to the more obvious economic and governmental drivers.

### **3 Risk management**

Managing risk is a central part of many corporate strategies. Reputations that take decades to build up can be ruined in hours through incidents such as corruption scandals or environmental accidents. These can also draw unwanted attention from regulators, courts, governments and media. Building a genuine culture of 'doing the right thing' within a corporation can offset these risks.

### **4 Brand differentiation**

In crowded marketplaces, companies strive for a unique selling proposition that can separate them from the competition in the minds of consumers. CSR can play a role in building customer loyalty based on distinctive ethical values. Several major brands, such as The Co-operative Group, The Body Shop and American Apparel are built on ethical values. Business service organizations can benefit too from building a reputation for integrity and best practice.

### **5 License to operate**

Corporations are keen to avoid interference in their business through taxation or regulations. By taking substantive voluntary steps, they can persuade governments and the wider public that they are taking issues such as health and safety, diversity, or the environment seriously as good corporate citizens with respect to labour standards and impacts on the environment.

**Q 6. What is Business Ethics?**

**Ans.** Business ethics is the behavior that a business adheres to in its daily dealings with the world. The ethics of a particular business can be diverse. They apply not only to how the business interacts with the world at large, but also to their one-on-one dealing with a single customer

**Q7. What are the sources of Ethical Standards?**

**Ans. Five Sources of Ethical Standards**

**1 . The Utilitarian Approach**

Some ethicists emphasize that the ethical action is the one that provides the most good or does the least harm, or, to put it another way, produces the greatest balance of good over harm. The ethical corporate action, then, is the one that produces the greatest good and does the least harm for all who are affected -- customers, employees, shareholders, the community, and the environment. Ethical warfare balances the good achieved intending terrorism with the harm done to all parties through death, injuries, and destruction. The utilitarian approach deals with consequences; it tries both to increase the good done and to reduce the harm done.

**2 . The Rights Approach**

Other philosophers and ethicists suggest that the ethical action is the one that best protects and respects the moral rights of those affected. This approach starts from the belief that humans have a dignity based on their human nature per se or on their ability to choose freely what they do with their lives. On the basis of such dignity, they have a right to be treated as ends and not merely as means to other ends. The list of moral rights, including the rights to make one's own choices about what kind of life to lead, to be told the truth, not to be injured,

to a degree of privacy, and so on, is widely debated; some now argue that nonhumans have rights too. Also, it is often said that rights imply duties -- in particular, the duty to respect others' rights.

### **3. The Fairness or Justice Approach**

Aristotle and other Greek philosophers have contributed the idea that all equals should be treated equally. Today we use this idea to say that ethical actions treat all human beings equally -- or if unequally, then fairly, based on some standard that is defensible. We pay people more based on their harder work or the greater amount that they contribute to an organization, and say that is fair. But there is a debate over CEO salaries that are hundreds of times larger than the pay of others; many ask whether the huge disparity is based on a defensible standard or whether it is the result of an imbalance of power and hence is unfair.

### **4 . The Common Good Approach**

The Greek philosophers have also contributed the notion that life in community is a good in itself and our actions should contribute to that life. This approach suggests that the interlocking relationships of society are the basis of ethical reasoning and that respect and compassion for all others -- especially the vulnerable -- are requirements of such reasoning. This approach also calls attention to the common conditions that are important to the welfare of everyone. This may be a system of laws, effective police and fire departments, health care, a public educational system, or even public recreation areas.

### **5 . The Virtue Approach**

A very ancient approach to ethics is that ethical actions ought to be consistent with certain ideal virtues that provide for the full development of our humanity. These virtues are dispositions and habits that enable us to act according to the highest potential of our character and on behalf of values like truth and beauty.

Honesty, courage, compassion, generosity, tolerance, love, fidelity, integrity, fairness, self-control, and prudence are all examples of virtues. Virtue ethics asks of any action, "What kind of person will I become if I do this?" or "Is this action consistent with my acting at my best?"

**Q 8. What are the factors governing Business Ethics?**

Ans . Major factors are:

- Identification of stakeholders of the business and their rights and responsibilities. The stakeholder generally include customers, employees, shareholder or owners, suppliers, other business partners, government and other statutory organizations, and general public.
- Importance of profit and other similar motives of the business and its managers in relation to the importance of morality, honesty and other similar values.
- The extent of responsibility of business for specific areas of responsibility to community in general. Among others it includes environmental protection, equality and fairness in dealing with people among all stake holder groups, product quality and reliability, and abetting corruption.
- Personal value system and belief of the managers and owners of the business.
- Impact of ethical behavior on short term and long term business performance and prospects.

**Q.9 what is Value?**

Ans. An amount, as of goods, services, or money, considered to be a fair and suitable equivalent for something else; a fair price or return. A principle, standard, or quality considered worthwhile or desirable: "The speech was a summons back to the patrician values of restraint and responsibility".

**Q10 . Explain work ethics in Indian Perspective.**

Ans . The Hindu paradigm of dharma—of doing one's duty, whatever it may be—is a powerful force in keeping the individual focused on a super ordinate goal. It does not make one fatalistic; on the contrary, if one's dharma is to be a trader, to amass wealth, then there is scriptural authorization to do so.

Hindus have been castigated for being clannish and unwilling to mix with others. This, however, has another side to it: that the Hindu, much like the Japanese, the Chinese, or the Jew, believes that he has a duty to a unit, be it the extended family or to the community (as he defines it—often a caste grouping or a language grouping). Far from being a negative, this “tribal” consciousness is an extremely important asset in a rapidly shrinking world, where connections count for a lot. In addition, on a more personal level, the existence of support mechanisms from the immediate and extended family is a significant benefit. Perhaps the most serious problems facing American society is the poor quality of its human resources—education is valued little here. On the other hand, Indians have always revered education. In the new information era, educated and skilled people will be the greatest asset a nation could have; thus, India is well positioned for the future.

Hindu scientists and mathematicians were among the most advanced in the ancient world; to this day, the mathematical precision required by Sanskrit lives on in the racial skill set. Thus Hindus' notable predilection for science and technology: and this flies in the face of the western prejudice of Hindus as superstitious and primitive. To manipulate complex financial and technical information, Indian brainpower will be in much demand in the future.



Indians have tremendous entrepreneurial skills; even in India, with liberalization, a large number of people have started their own small businesses. The ambition and perseverance needed to succeed in these will serve the country well, just as Germany's small businesses have been the engine of the economy there.

## Multiple Choice Questions

### Question 1

Which of the following is an example of a primary form of business activity?

- a) Hairdressing
- b) Automobile Production
- c) Banking
- d) Forestry**

### Question 2

Which of the following statements is most likely to be true?

- a) As incomes rise the demand for agricultural goods in general will fall
- b) As incomes rise the percentage of total income spent on agricultural goods in general tends to fall**
- c) As incomes rise the percentage of total income spent on agricultural goods in general tends to rise
- d) As incomes rise total spending on agricultural products in general will fall

### Question 3

The price of a good will tend to rise if:

- a) The current price is above the equilibrium
- b) The current price is below the equilibrium**
- c) The quantity demanded is less than the quantity supplied
- d) There is a reduction in the costs of a substitute commodity

**Question 4**

The idea of "creative destruction" as developed by the economist Schumpeter is best described as:

- a) The tendency for technology to sometimes have negative externalities
- b) The abilities of monopoly firms to build powerful market positions
- c) That innovation will be constant and will involve the replacement of existing businesses by companies using new and better technology**
- d) That many inventions arise out of the research and development of military developments

**Question 5**

If, as a result of a technological change, a company is able to develop new methods of producing a product and thus improve quality and reduce costs this would be an example of:

- a) Product innovation
- b) Product imitation**
- c) Product invention
- d) Process innovation

**Question 6**

Appropriate Technology...

- a) Is technology that seeks to replace energy intensive and polluting technologies?
- b) Is technology that is best suited to the local internal and external environment in which a business operates?**
- c) Will occur when "high-tech" solutions replace "low-tech" ones.
- d) Is when one business copies the technology that has been developed by another?

## Chapter 6

# Government of India

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**Q1. What do you mean by Commercial Banking?**

**Ans.** An institution which accepts deposits, makes business loans, and offers related services. Commercial banks also allow for a variety of deposit accounts, such as checking, savings, and time deposit. These institutions are run to make a profit and owned by a group of individuals, yet some may be members of the Federal Reserve System. While commercial banks offer services to individuals, they are primarily concerned with receiving deposits and lending to businesses.

**Q2. Define the Functions of commercial Banking?**

**Ans: The functions of commercial banking are:**

1. Primary or Principal Function
2. Secondary or Ancillary function

**1. Primary or Principal Function:**

Primary or principal functions of a commercial bank is three types

- Acceptance of deposit
- Lending
- Investment

A) **Acceptance of Deposit:** An important function of commercial banks is to attract deposit from the public. Those people who have cash account and want their safety; they deposit that amount of banks. Commercial banks accept deposits every class and source and take responsibility to repay the deposit in the same currency whenever they are demanded by depositors.

B) **Lending:** Another function of commercial banks is to make loans and advance out of the deposit receive in various forms. Bank Apply the accumulated public deposits to productive uses by way of loans and advances, overdraft and cash credits against approved securities.

C) **Investment:** Now a days commercial banks are also involved in Investment. Generally investment means long term and medium term investments.

**2. Secondary or Ancillary function:** Secondary or Ancillary functions of Commercial Banks are two types:

**A. Agency Services**

- 1) Collection and Payment of Cheques
- 2) Standing Instruction
- 3) Acting as correspondence
- 4) Collecting of bills- electricity, gas, WASA, telephone etc.
- 5) Purchase and Sales of stocks/ share-act as a banker to issue

**B. Miscellaneous or General Services:**

- 1) Safe Custody- bailee
- 2) Lockers-trustee
- 3) Remittance facilities –DD, TT, MT and PO
- 4) Advisory services
- 5) Providing Credit reports
- 6) Opening L/C
- 7) Demand in ForEx/ Travers Cheque only Authorized Dealer branches
- 8) Complete service in Foreign Trade
- 9) Other Services: Debit Card, Credit Card, On-line banking SMS banking
- 10) Creation of Credit: a multiplier effect, Deposit creates credit and credit creates deposits – derivative deposit.

**Q3. Explain the role of Banks in Economic Development in India.**

**Ans** The foundation for building a broad base of agricultural credit structure was laid by the Report of the All –India Rural Credit Survey (AIRCS) of 1954. The provision of cultivator credit in 1951-52 was less than 11% for commercial banks. In the report it was observed that agricultural credit fell short of the right quantity, was not of the right type, did not fit the right purpose and often failed to go to the right people. With a view to give an impetus to commercial banks, particularly, in the sphere of investment credit, the nationalization of the Imperial Bank of India and its redesignation as the State Bank of India (SBI) was recommended

***Growth in Outreach 1951-91***

From the position prevalent in 1951-52, commercial banks came a long way with substantial spread of 32,224 branches in rural and semi-urban areas comprising 68% of their total outlets as on 31 March 1991. The outstanding deposits of

such branches at Rs.67,855 crore as on the same date constituted around 35% of their total deposits, while loans outstanding at Rs. 43,797 crore comprised 36% of outstanding credit. The agricultural advances of the commercial banking system aggregated Rs.16,687 crore and constituted 14% of total advances in March 1991. The rural and semi-urban branches of commercial banks covered 17.6 crore deposit accounts while the number of loan accounts serviced aggregated 3.7 crore

#### ***Growth during 1991-92 to 2003-04***

The period since 1991-92 has seen a fairly rapid expansion of credit to agriculture. Available data indicate that the flow of credit to agriculture by commercial banks and RRBs taken together increased to Rs. 60,022 crore in 2003-04. This implies a compounded annual growth rate of 22.2%. In fact, as compared with commercial banks (including RRBs), the flow of credit from the cooperative sector was much slower through this period. The compounded annual growth rate of credit for agriculture from cooperative institutions was only 13.7%. Further, the proportion of agriculture credit to total credit came down because of the rapid growth in nonagricultural credit.

The Government took some major initiatives during the period to boost agriculture production and productivity through enhanced credit flow and by way of building agricultural infrastructure, particularly irrigation and connectivity in rural areas.

Special Agricultural Credit Plan (SACP) was introduced by RBI for Public Sector Commercial Banks in 1994-95. Credit growth for agriculture and allied

sectors under this caption reflected a CAGR of 36.45% during 2001-02 to 2005-06.

SACP has since been extended to Private Sector Commercial Banks from 2005-06.

The SHG – Bank Linkage Programme was started as a pilot project by NABARD in 1992. It led to the evolution of a set of RBI approved guidelines to banks to enable SHGs to transact with banks. Initially there was slow progress in the programme up to 1999 as only 32,995 groups were credit linked during the period 1992 to 1999. Since then the programme has been growing rapidly and the cumulative number of SHGs financed increased from 4.61 lakhs on 31 March 2002 to 10.73 lakhs on 31 March 2004 and further to 29.25 lakh groups as on 31 March 2007.

Rural Infrastructure Development Fund (RIDF) was set-up in NABARD by GoI during 1995-96 with an initial corpus of Rs.2000 crore, to accelerate the completion of on-going projects of rural infrastructure. Banks which did not fulfill the priority sector credit requirement and agriculture credit mandate were required to contribute to this Fund. The fund has been strengthened every year with additional allocations in the Union Budget. A large number of irrigation and rural connectivity projects could get completed under RIDF.

RBI scaled down its contribution to the Rural Credit funds with NABARD to a token amount of Rs.1 crore per annum since 1993-94. However to enable

NABARD to have reasonably strong leverage for accessing market funds, the share capital of NABARD was strengthened and increased to Rs.2000 crore (paid up) from Rs.100 crore at the time of its formation in 1982. Contributions to enhanced share capital have come from GoI and RBI. By prudent funds management, the institution has also built a strong base of reserves and has been using it in its business operations judiciously to keep lending rates to rural financial institutions at significantly lower than market costs.

#### ***Developments – Post 2003-04***

Since 2003-04, there has been a substantial increase in the flow of credit to agriculture through commercial banks. Disbursements have increased from Rs. 52,441 crore in 2003-04 to Rs. 1, 16,447 crore in 2005-06, reaching an annual growth of 43% each year. As envisaged in the GoI's strategy for “doubling of credit”, 95 lakh new farmers have been brought under the institutional fold and 1,383 agri-clinics opened. Commercial banks have also played a major role in the promotion of the SHG - bank linkage movement with more than 11.88 lakh groups being linked to banks for provision of credit. Reforms in the commercial banking system include removal of procedural and transactional bottlenecks including elimination of Service Area Approach, reducing margins, redefining overdue to coincide with crop cycles, new debt restructuring policies, one time settlement and relief measures for farmers indebted to non-institutional sources.

#### **The Task Ahead**



Commercial banks are now slowly coming to appreciate the business potential in financial inclusion and also the need for better involvement. RRBs who are expected to function with the social heart of cooperatives and financial acumen of commercial banks have a significant role to play in financial inclusion, especially in the post- amalgamation scenario. The vast postal network, leveraging on their immense outreach, could also be an effective vehicle for purveying financial services.

While, there is evidence that commercial banks have been cognizant of their social responsibility in regard to small farmers, their focus on marginal and sub marginal farmers, tenants, share croppers, oral lessees and non-cultivator households, viz., the very poor and disadvantaged sectors has been found. In the circumstances, there is a need to evolve conscious strategies for providing easier access to affordable credit to the marginal, sub-marginal and other disadvantaged groups in the rural sector. Such strategies should combine using a variety of delivery channels, intermediaries and IT solutions apart from the traditional brick and mortar branch network.

**Q4. Explain the Evolution and Progress of Banking in India?**

**Ans** Post-Independence: The partition of India in 1947 adversely impacted the economies of Punjab and West Bengal, paralyzing banking activities for months. India's independence marked the end of a regime of the Laissez-faire for the Indian banking. The Government of India initiated measures to play an active role in the economic life of the nation, and the Industrial Policy Resolution adopted by the government in 1948 envisaged a mixed economy. This resulted into greater

involvement of the state in different segments of the economy including banking and finance. The major steps to regulate banking included:

- The Reserve Bank of India, India's central banking authority, was nationalized on January 1, 1949 under the terms of the Reserve Bank of India (Transfer to Public Ownership) Act, 1948 (RBI, 2005b).
- In 1949, the Banking Regulation Act was enacted which empowered the Reserve Bank of India (RBI) "to regulate, control, and inspect the banks in India."
- The Banking Regulation Act also provided that no new bank or branch of an existing bank could be opened without a license from the RBI, and no two banks could have common directors.

#### **Nationalization :**

Despite the provisions, control and regulations of Reserve Bank of India, banks in India except the State Bank of India or SBI, continued to be owned and operated by private persons. By the 1960s, the Indian banking industry had become an important tool to facilitate the development of the Indian economy. At the same time, it had emerged as a large employer, and a debate had ensued about the nationalization of the banking industry. Indira Gandhi, then Prime Minister of India, expressed the intention of the Government of India in the annual conference of the All India Congress Meeting in a paper entitled "Stray thoughts on Bank Nationalization." The meeting received the paper with enthusiasm.

Thereafter, her move was swift and sudden. The Government of India issued an ordinance and nationalized the 14 largest commercial banks with effect from the midnight of July 19, 1969. Jayaprakash Narayan, a national leader of India, described the step as a "masterstroke of political sagacity." Within two weeks of

the issue of the ordinance, the Parliament passed the Banking Companies (Acquisition and Transfer of Undertaking) Bill, and it received the presidential approval on 9 August 1969.

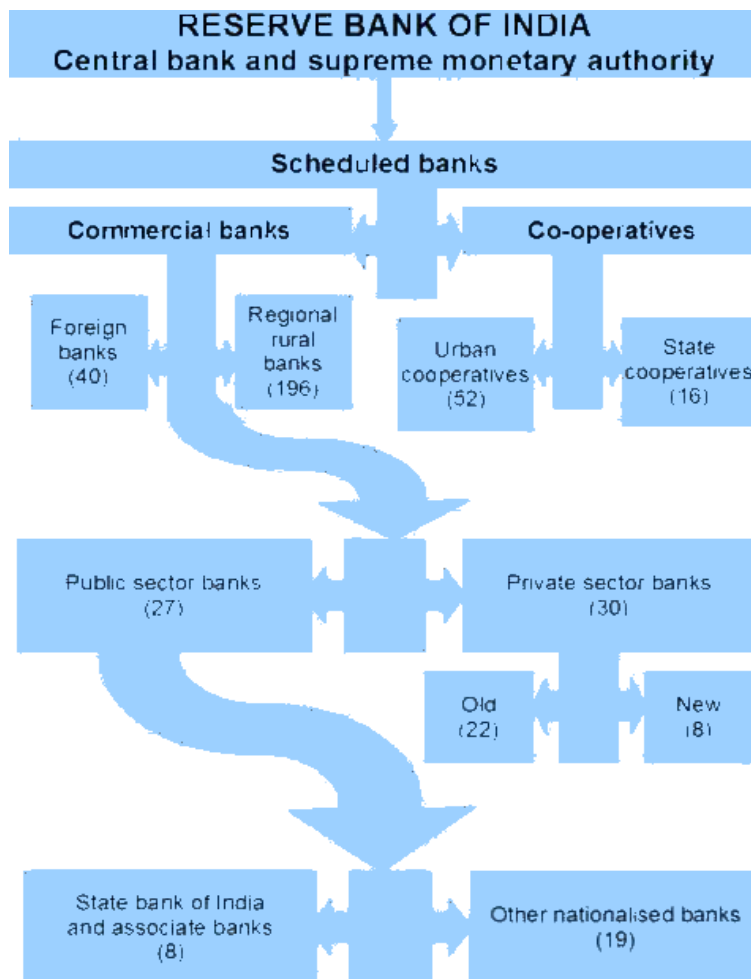


Banks Nationalization in India: Newspaper Clipping, Times of India, July, 20, 1969

A second dose of nationalization of 6 more commercial banks followed in 1980. The stated reason for the nationalization was to give the government more control of credit delivery. With the second dose of nationalization, the Government of India controlled around 91% of the banking business of India. Later on, in the year 1993, the government merged New Bank of India with Punjab National Bank. It was the only merger between nationalized banks and resulted in the reduction of the number of nationalized banks from 20 to 19. After this, until the 1990s, the nationalized banks grew at a pace of around 4%, closer to the average growth rate of the Indian economy..

**Q5. What is the Structure of Commercial Banking?**

**Ans: The Structure of Commercial Banking:**



**Q6. Explain EXIMS and Technology Policy?**

**Ans. EXIM Policy** contains various policy related decisions taken by the government in the sphere of Foreign Trade, i.e. with respect to imports and exports from the country and more especially **export promotion measures**, policies and procedures related thereto. Trade Policy is prepared and announced by the Central Government (Ministry of Commerce). India's Export Import Policy also known as Foreign Trade Policy, in general, aims at developing export potential, improving

export performance, encouraging foreign trade and creating favorable balance of payments position..

**Q.7 Define “Government Policy” regarding Small Sector Enterprise ?**

**Ans: POLICY OBJECTIVES**

1. Pt.Jawaharlal Nehru laid the foundations of modern India. His vision and determination have left a lasting impression on every facet of national endeavour since Independence. It is due to his initiative that India now has a strong and diversified industrial base and is a major industrial nation of the world. The goals and objectives set out for the nation by Pt. Nehru on the eve of Independence, namely, the rapid agricultural and industrial development of our country, rapid expansion of opportunities for gainful employment, progressive reduction of social and economic disparities, removal of poverty and attainment of self-reliance remain as valid today as at the time Pandit Nehru first set them out before the nation. Any industrial policy must contribute to the realization of these goals and objectives at an accelerated pace. The present statement of industrial policy is inspired by these very concerns, and represents a renewed initiative towards consolidating the gains of national reconstruction at this crucial stage.

2. In 1948, immediately after Independence, Government introduced the Industrial Policy Resolution. This outlined the approach to industrial growth and development. It emphasized the importance to the economy of securing a continuous increase in production and ensuring its equitable distribution. After the adoption of the Constitution and the socio-economic goals, the Industrial Policy was comprehensively revised and adopted in 1956. To meet new challenges, from time to time, it was modified through statements in 1973, 1977 and 1980.

3. The Industrial Policy Resolution of 1948 was followed by the Industrial Policy Resolution of 1956 which had as its objective the acceleration of the rate of economic growth and the speeding up of industrialization as a means of achieving a socialist pattern of society. In 1956, capital was scarce and the base of entrepreneurship not strong enough. Hence, the 1956 Industrial Policy Resolution gave primacy to the role of the State to assume a predominant and direct responsibility for industrial development.
4. The Industrial Policy statement of 1973, inter alia, identified high-priority industries where investment from large industrial houses and foreign companies would be permitted.
5. The Industrial Policy Statement of 1977 laid emphasis on decentralization and on the role of small-scale, tiny and cottage industries.
6. The Industrial Policy Statement of 1980 focused attention on the need for promoting competition in the domestic market, technological up gradation and modernization. The policy laid the foundation for an increasingly competitive export based and for encouraging foreign investment in high-technology areas. This found expression in the Sixth Five Year Plan which bore the distinct stamp of Smt. Indira Gandhi. It was Smt. Indira Gandhi who emphasized the need for productivity to be the central concern in all economic and production activities.
7. These policies created a climate for rapid industrial growth in the country.
8. The Seventh Plan recognized the need to consolidate on these strengths and to take initiatives to prepare Indian industry to respond effectively to the emerging challenges. A number of policy and procedural changes were introduced in 1985

and 1986 under the leadership of Rajiv Gandhi aimed at increasing productivity, reducing costs and improving quality.

**9.** Government is pledged to launching a reinvigorated struggle for social and economic justice, to end poverty and unemployment and to build a modern, democratic, socialist, prosperous and forward-looking India. Such a society can be built if India grows as part of the world economy and not in isolation.

**10.** While Government will continue to follow the policy of self-reliance, there would be greater emphasis placed on building up our ability to pay for imports through our own foreign exchange earnings.

**11.** Government will continue to pursue a sound policy framework encompassing encouragement of entrepreneurship, development of indigenous technology through investment in research and development, bringing in new technology, dismantling of the regulatory system, development of the capital markets and increasing competitiveness for the benefit of the common man. The spread of industrialization to backward areas of the country will be actively promoted through appropriate incentives, institutions and infrastructure investments.

**12.** Government will provide enhanced support to the small-scale sector so that it flourishes in an environment of economic efficiency and continuous technological up gradation.

**13.** Foreign investment and technology collaboration will be welcomed to obtain higher technology, to increase exports and to expand the production base.

14. Government will Endeavour to abolish the monopoly of any sector or any individual enterprise in any field of manufacture, except on strategic or military considerations and open all manufacturing activity to competition.
15. Government will fully protect the interests of labor, enhance their welfare and equip them in all respects to deal with the inevitability of technological change.
16. Government will continue to visualize new horizons. The major objectives of the new industrial policy package will be to build on the gains already made, correct the distortions or weaknesses that may have crept in, maintain a sustained growth in productivity and gainful employment and attain international competitiveness. 18. Government's policy will be continuity with change.
17. In pursuit of the above objectives, Government has decided to take a series of initiatives in respect of the policies relating to the following areas:
- A. Industrial Licensing.
  - B. Foreign Investment
  - C. Foreign Technology Agreements.
  - D. Public Sector Policy
  - E. MRTP Act.

**Q 8. Explain the role of Small Scale Industries in India Economy.**

**Ans. Various roles are playing by Small Scale Industries:**

- 1 Production
- 2 Employment
- 3 Export
- 4 Opportunity



## Production

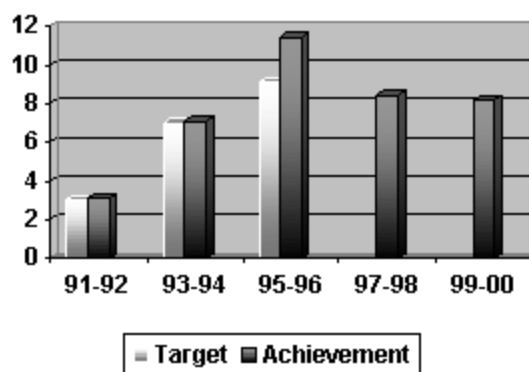
The small-scale industries sector plays a vital role in the growth of the country. It contributes almost 40% of the gross industrial value added in the Indian economy.

It has been estimated that a million Rs. of investment in fixed assets in the small scale sector produces 4.62 million worth of goods or services with an approximate value addition of ten percentage points.

The small-scale sector has grown rapidly over the years. The growth rates during the various plan periods have been very impressive. The number of small-scale units has increased from an estimated 0.87 million units in the year 1980-81 to over 3 million in the year 2000.

When the performance of this sector is viewed against the growth in the manufacturing and the industry sector as a whole, it instills confidence in the resilience of the small-scale sector.

Year	Target	Achievement
1991-92	3.0	3.1
1992-93	5.0	5.6
1993-94	7.0	7.1
1994-95	9.1	10.1
1995-96	9.1	11.4
1996-97	9.1	11.3
1997-98	*	8.43
1998-99	*	7.7
1999-00	*	8.16
2000-01 (P)	*	8.90



P-Projected (April-December)

\* Target not fixed at constant prices

## Employment

SSI Sector in India creates largest employment opportunities for the Indian populace, next only to Agriculture. It has been estimated that 100,000 rupees of

investment in fixed assets in the small-scale sector generates employment for four persons.

### **Generation of Employment - Industry Group-wise**

Food products industry has ranked first in generating employment, providing employment to 0.48 million persons (13.1%). The next two industry groups were Non-metallic mineral products with employment of 0.45 million persons (12.2%) and Metal products with 0.37 million persons (10.2%).

In Chemicals & chemical products, Machinery parts except Electrical parts, Wood products, Basic Metal Industries, Paper products & printing, Hosiery & garments, Repair services and Rubber & plastic products, the contribution ranged from 9% to 5%, the total contribution by these eight industry groups being 49%.

In all other industries the contribution was less than 5%.

### **Export**

SSI Sector plays a major role in India's present export performance. 45%-50% of the Indian Exports is contributed by SSI Sector. Direct exports from the SSI Sector account for nearly 35% of total exports. Besides direct exports, it is estimated that small-scale industrial units contribute around 15% to exports indirectly. This takes place through merchant exporters, trading houses and export houses. They may also be in the form of export orders from large units or the production of parts and components for use for finished exportable goods.

It would surprise many to know that non-traditional products account for more than 95% of the SSI exports.

The exports from SSI sector have been clocking excellent growth rates in this decade. It has been mostly fuelled by the performance of garments, leather and gems and jewelers units from this sector.

The product groups where the SSI sector dominates in exports, are sports goods, readymade garments, woollen garments and knitwear, plastic products, processed food and leather products.

## Opportunity

The opportunities in the small-scale sector are enormous due to the following factors:

- Less Capital Intensive
- Extensive Promotion & Support by Government
- Reservation for Exclusive Manufacture by small scale sector
- Project Profiles
- Funding - Finance & Subsidies
- Machinery Procurement
- Raw Material Procurement
- Manpower Training
- Technical & Managerial skills
- Tooling & Testing support
- Reservation for Exclusive Purchase by Government
- Export Promotion
- Growth in demand in the domestic market size due to overall economic growth
- Increasing Export Potential for Indian products
- Growth in Requirements for ancillary units due to the increase in number of Greenfield units coming up in the large scale sector. Small industry sector has performed exceedingly well and enabled our country to achieve a wide measure of industrial growth and diversification. .

## Multiple Choice Question

### Question 1

The idea that consumers are in charge of the economic system because their preferences drive business decisions about what to produce is referred to as:

- a) Consumer activism
- b) Consumer sovereignty**
- c) Consumerism
- d) Consumer therapy

**Question 2**

A multi-national corporation (MNC) is defined by:

- a) Carrying out production in more than one country
- b) Having sales in more than one country
- c) Having a multi-ethnic workforce
- d) Having suppliers in more than one country

**Question 3**

In SWOT analysis the 'O' stands for

- a) Obstacles
- b) Opportunities
- c) Openings
- d) Objections

**Question 4**

If the economy is operating at its full capacity or potential GDP, following a decline in business confidence:

- a) Investment is likely to fall and unemployment is likely to increase
- b) Investment and employment are likely to remain unchanged
- c) Firms are likely to increase their investment in new plant and machinery
- d) None of the above

**Question 5**

According to the original Phillips curve as unemployment falls:

- a) Inflation decreases
- b) Inflation remains unchanged
- c) Inflation increases
- d) Output falls

**Question 6**

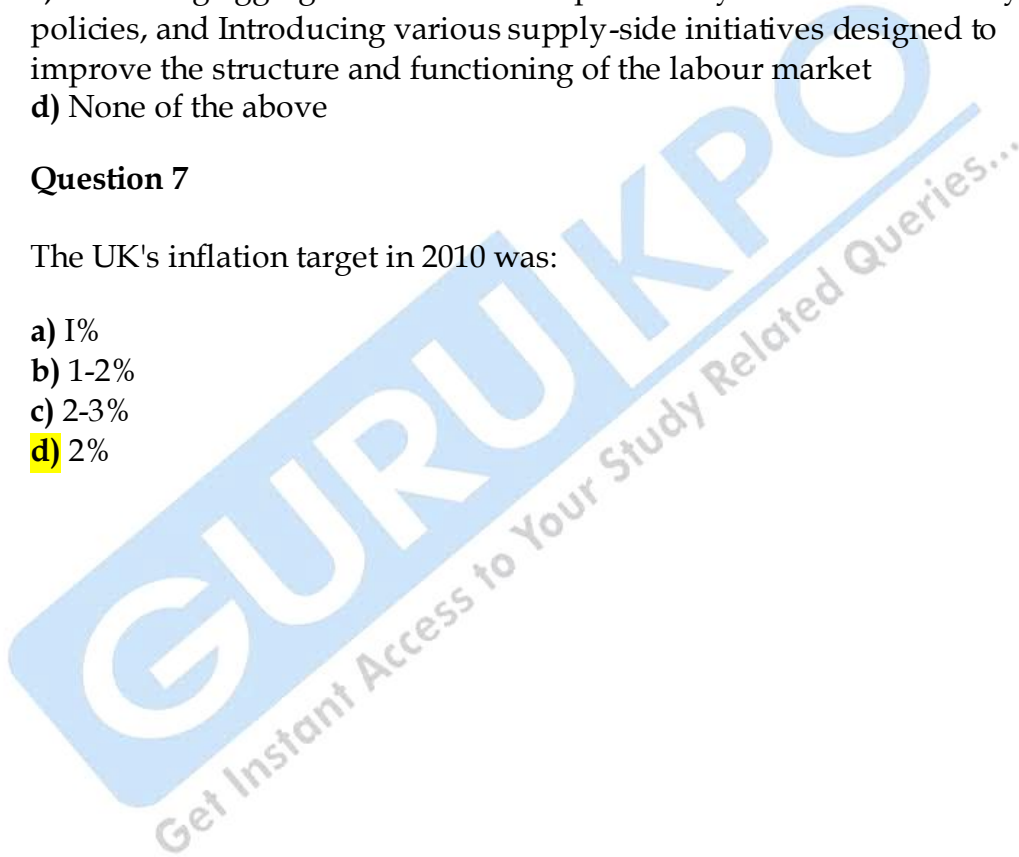
The natural rate of unemployment can be reduced by:

- a) Increasing aggregate demand via expansionary fiscal and monetary policies
- b) Introducing various supply-side initiatives designed to improve the structure and functioning of the labour market**
- c) Increasing aggregate demand via expansionary fiscal and monetary policies, and Introducing various supply-side initiatives designed to improve the structure and functioning of the labour market
- d) None of the above

**Question 7**

The UK's inflation target in 2010 was:

- a) 1%
- b) 1-2%
- c) 2-3%
- d) 2%**



## Key Terms

### **Business Environment**

Environment of a business means the external forces influencing the business decisions. They can be forces of economic, social, political and technological factors. These factors are outside the control of the business. The business can do little to change them.

### **Topography**

It is the description of the physical features of a place. It describes configuration of the ground, its altitude, slope, aspect, etc. It affects vegetation through climate, soil formation processes, soil moisture, soil nutrients, etc.

Topographic Factors can be classified into:

- Configuration of land surface
- Altitude
- Slope
- Aspect and exposure

### **Cultural Exchange**

Cultural exchange contributes to mutual understanding between societies and peoples. Understanding other cultures can prevent prejudice and hate. Cultural exchange also enriches our own lives by inspiring new forms of artistic expression and providing fresh insights that broaden our horizons. Cultural exchange and activities can exercise a more powerful influence than military task forces or political delegations.

### **Financial Intermediaries**

It is the process performed by banks of taking in funds from a depositor and then lending them out to a borrower. The banking business thrives on the financial intermediation abilities of financial institutions that allow them to lend out money at relatively high rates of interest while receiving money on deposit at relatively low rates of interest.

### **Economic Factors**

It is the set of fundamental information that affects a business or an investment's value. Various economic factors need to be taken into account when determining the current and expected future value of a business or investment portfolio. For a business, key economic factors include labor costs, interest rates, government policy, taxes and management.

### **Regulation**

1. General: Principle or rule employed in controlling, directing, or managing an activity, organization, or system.
2. Law: Rule based on and meant to carry out a specific piece of legislation (such as for the protection of environment). Regulations are enforced usually by a regulatory agency formed or mandated to carry out the purpose or provisions of legislation.

### **Promotion**

It is an activity, such as a sale or advertising campaign, designed to increase visibility or sales of a product. It elevates the position of an employee in the hierarchy.

### **Technical Progress Function**

It is an economic relation which seeks to explain changes in the level of economic output in terms of the level of technical progress. Rather than looking at economic growth as a form of efficiently allocating inputs, the technical progress function explains economic growth in terms of investment in technological progress.

### **Capitalism**

It is an economic system in which investment in and ownership of the means of production, distribution, and exchange of wealth is made and maintained chiefly by private individuals or corporations, especially as contrasted to cooperatively or state-owned means of wealth.

## **Socialism**

This is an Economic system which is based on cooperation rather than competition and which utilizes centralized planning and distribution. Economic activity and production especially are adjusted to meet human needs and economic demands. "Production for use": useful goods and services are produced specifically for their usefulness.

## **Value Added Tax**

VAT is a sales tax collected by the government (of the state in which the final consumer is located), which is the government of destination state on consumer expenditure. The mechanism of VAT is such that, for goods that are imported and consumed in a particular state, the first seller pays the first point tax, and the next seller pays tax only on the value-addition done .

## **Doctrine of Social Responsibility**

The doctrine of social responsibility holds that individuals and organizations should advance the interests of society at large. They can do this by abstaining from harmful actions and by performing socially beneficial acts. Although the doctrine of social responsibility applies to people and organizations, much of the discussion focuses on business and the extent to which social responsibility should influence business decisions.

## **Corporate Governance**

Corporate governance refers to the set of systems, principles and processes by which a company is governed. They provide the guidelines as to how the company can be directed or controlled such that it can fulfill its goals and objectives in a manner that adds to the value of the company and is also beneficial for all stakeholders in the long term. Stakeholders in this case would include everyone ranging from the board of directors, management, shareholders to customers, employees and society. The management of the



company hence assumes the role of a trustee for all the others.

### **Bank**

Bank is a financial institution which deals with other people's money i.e. money given by depositors. A bank is "an establishment for custody of money, which it pays out on customer's order." A bank may be a person, firm or a company. A banking company means a company which is in the business of banking.

### **Capital Market**

The capital market is a market for financial assets which have a long or indefinite maturity. Unlike money market instruments the capital market instruments become mature for the period above one year. It is an institutional arrangement to borrow and lend money for a longer period of time. It consists of financial institutions like IDBI, ICICI, UTI, LIC, etc. These institutions play the role of lenders in the capital market.

### **Economic Planning**

Economic planning is a term used to describe the long term plans of an incumbent government to co-ordinate and develop the economy. Economic planning is commonly a feature of big government as it usually involves increased spending on things such as public work schemes and government programs.

### **Trade Cycles**

The alternating periods of expansion and contraction in the economic activity has been called business cycles or **trade cycles**. The period of high income, high output and high employment is called as the **Period of Expansion**, Upswing or Prosperity. The period of low income, low output and low employment is called as the **Period of Contraction**, Recession, Downswing or Depression.

**Social motives**

Social motives are when people do or give things because they feel they have a sense of responsibility to their community. People with social motives may have endured racial discrimination, poverty or may want to live in a selfless way.

**Economic Objectives**

The meaning and measurement of the economic objectives:

- price stability
- economic growth
- full employment
- external stability
- efficiency in resource allocation, and
- equity in personal income distribution;

**Environment and Ecology**

Ecology is the scientific study of the relationships that living organisms have with each other and with their natural environment. Ecosystems are composed of dynamically interacting parts including organisms, the communities they make up, and the non-living components of their environment.

**Well Being of Society**

The wellbeing index measures objectively changes over time in a nation's standards of living, including the way we use our time and balance work-family responsibilities. It also includes more subjective measures of civic participation and community vitality, the social capital that binds a nation together under the principle of a shared destiny.

**Business Operations**

Business operations are those ongoing recurring (cyclic) activities involved in the running of a business for the purpose of producing value for the stakeholders.

They are contrasted with project management (business change managers are responsible for bridging the gap between the projects and business operations), and consist of business processes. The outcome of business operations is the *harvesting* of value from assets owned by a business. Assets can be either *physical* or *intangible*.

### **Foreign Direct Investment**

An investment made by a company or entity based in one country, into a company or entity based in another country. Foreign direct investments differ substantially from indirect investments such as portfolio flows, wherein overseas institutions invest in equities listed on a nation's stock exchange. Entities making direct investments typically have a significant degree of influence and control over the company into which the investment is made. Open economies with skilled workforces and good growth prospects tend to attract larger amounts of foreign direct investment than closed, highly regulated economies.

### **Green Field Investment**

This is a form of foreign direct investment where a parent company starts a new venture in a foreign country by constructing new operational facilities from the ground up. In addition to building new facilities, most parent companies also create new long-term jobs in the foreign country by hiring new employees. This is opposite to a brown field investment.

### **Portfolio Investment**

This is the investment in securities that is intended for financial gain only and does not create a lasting interest in or effective management control over an enterprise.

Investment in an assortment or range of securities, or other types of investment vehicles, to spread the risk of possible loss due to below expectations performance of one or a few of them. See also direct investment.

### **FII Investment**

Foreign Institutional Investors, non-resident Indians, and persons of Indian origin are allowed to invest in the primary and secondary capital markets in India through the portfolio investment scheme. Under this scheme, FIIS/NRIS

can acquire shares/debentures of Indian companies through the stock exchanges in India.

#### **CUSTOMER RELATIONS ASSISTANT**

i. **General Knowledge & Awareness**– Current Affairs, Economy, Culture, History, Geography, Natural Resources and Environment of India, with special focus on Rajasthan.

ii. **General Science** – Acids, Bases and Salts, Chemical Reactions, Metals and Non-metals, Carbon compounds, Periodic classification of elements, Live Processes, Control and co-ordination in animals and plants, Reproduction, Heredity and Evolution, Electric current, Potential difference and Electric current, Magnetic effects of current, Reflection of light, Refraction, Refraction of light through prism, Work, Force, Nuclear Physics, Natural resources and Environment.

iii. **Quantitative Aptitude** - Ratio and Proportion, Percentages and Averages, Profit and Loss, Speed and Distance, Time and Work, LCM and HCF, Simple and Compound Interest.

iv. **Logical Ability and Reasoning** - Data Interpretation, Venn Diagram, Inductive Logic, Puzzles, Coding and decoding, Number Series, Blood Relations, Arrangements.

v. **Computer Awareness** - Input and Output devices, Latest trends in IT, Computer Networks, Operating System, E- Mail and Internet, MS-Office.

vi. **English Comprehension** - Comprehension passage in English with questions in English only.

vii. **Hindi Comprehension** –Comprehension passage in Hindi with questions in Hindi only.

