

Netaji Subhas Open University

**Entrepreneurship Development and Small Business Management
(Diploma)**

Paper-IV

Business Environment

Text Writer

Surojit Dey

Editor

Anirban Ghosh

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An Introductory to Various Economies

1.1 Introduction

The purpose of every economy is to satisfy human wants by using limited or scarce resources available and known to a society. These wants can be satisfied by production and consumption of goods and services. For production, the factors of production are engaged in some economic activities. These economic activities bring income to the economic agents that can either be consumed or saved and invested. On account of these gainful economic activities and accumulated earnings, some countries grow fast while others cannot attain such high growth rate. As a result some economies attain the status of developed economies while others remain underdeveloped or developing economies. They are also known as rich and poor economies. We can look at economies on the basis of ownership of resources. The resources available may be in private ownership or the collective ownership. Thus there are different ways to look at the economy and its level of development. In this lesson we will explain all these terms in simple way so that you may understand and differentiate the meaning and nature of an economy and understand its various types.

1.2 Meaning of an Economy

An economy is a man-made organization for the satisfaction of human wants. According to A.J. Brown, “An economy is a system by which people get living”. The way man attempts to get a living differs in major respects from time to

time and from place to place. In primitive times 'get a living' was simple but with growth of civilization it has become much more complex. Here it is important to note that the way person earns his/her living must be legal and fair. Unfair and illegal means such as robbery, smuggling may earn income for oneself but should not be taken into consideration as gainful economic activity or a system of 'get a living'. It will therefore be appropriate to call that economy is a framework where all economic activities are carried out.

1.3 Some of the salient features of an economy are as follows:

- Economic institutions are manmade. Thus an economy is what we make it.
- Economic institutions can be created, destroyed, replaced or changed. For example the capitalism was replaced by communism in 1917 in USSR and the communism was destroyed in 1989 through a series of economic reforms by former USSR. In India after independence in 1947 through economic and social reforms we abolished Zamindari system and introduced many land reforms.
- Levels of economic activities keep on changing.
- Producers and consumers are the same persons. Thus they have a dual role. As producers they work and produce certain goods and services and consume the same as consumers.
- Production, consumption and investment are the vital processes of an economy.
- In modern complex economies we use money as a medium, of exchange.
- Now-a-days the government intervention in the economy is considered undesirable and the preference for free functioning of prices and market forces is increasing in all types of economic systems.

1.4 Types of Economies

As you know that economy is a man-made organization, which is created, destroyed or changed as per the requirement of the society. We can

differentiate in various types of economic systems on the basis of following criteria.

On the Basis of Ownership and Control over Means of Production or Resources

Resources or means of production remain either in private ownership with full individual freedom to use them for the profit motive or they can be in collective ownership (government control) and can be used for the collective welfare of the society as a whole. Based on the criterion of degree of individual freedom and profit motive, economies are labelled as:

(A) Capitalist Economy

(B) Socialist Economy

(C) Mixed Economy

Now we shall discuss about the main characteristics of these economics in brief.

1.4.1 Capitalist Economy

The capitalist or free enterprise economy is the oldest form of economy. Earlier economists supported the policy of 'laissez fair' meaning leave free. They advocated minimum government intervention in the economic activities. The following are the main features of a capitalist economy;

- a) Private property:** In a capitalism system all the individuals have the right to own property. An individual can acquire property and use it for the benefit of his own family. There is no restriction on the ownership of land, machines, mines, factories and to earn profit and accumulate wealth. After the death of a person the property or wealth is transferred to the legal heirs. Thus the institution of private property is sustained over time by the right of inheritance.

- b) Freedom of enterprise:** In a capitalist economy the government does not coordinate production decisions of the citizens. Individuals are free to choose any occupation. Freedom of enterprise implies that business firms are free to acquire resources and use them in the production of any good or service. The firms are also free to sell their product in the markets of their choice. A worker is free to choose his/her employer. In small business units owner himself takes the risk of production and earns profit or loss for himself. But in modern corporations the shareholders take risks whereas paid directors manage business. Thus the individual supervision of one's own capital is now no longer required to earn profit. Government or any other agency does not impose restrictions/obstacles in the way of workers to enter or leave a particular industry. A worker chooses that occupation where his income is maximum.
- c) Consumer's Sovereignty:** In a capitalist economy consumers are like a king. They have the full freedom to spend their income on goods and services that give them maximum satisfaction. In capitalist system production is guided by consumer's choices. This freedom of consumers is called consumer's sovereignty.
- d) Profit Motive:** Self-interest is the guiding principle in capitalism. Entrepreneurs know that they will own the profit or loss after the payment to all other factors of production. Therefore they are always motivated to maximize their residual profit by minimizing cost and maximizing revenue. This makes the capitalist economy an efficient and self-regulated economy.
- e) Competition:** There are no restrictions on the entry and exit of firms in a capitalism system. The large number of producers are available to supply a particular good or service and therefore no firm can earn more than normal profit. Competition is the fundamental feature of capitalist

economy and essential to safeguard against consumer's exploitation. Although due to large-size and product distinction monopolistic tendencies have grown these days still the competition can be seen among a large number of firms.

f) Importance of markets and prices: The important features of capitalism like private property, freedom of choice, profit motive and competition make a room for free and efficient functioning of price mechanism. Capitalism is essentially a market economy where every commodity has a price. The forces of demand and supply in an industry determine this price. Firms which are able to adjust at a given price earn normal profit and those who fail to do so often quit the industry. A producer will produce those goods, which give him more profit.

g) Absence of government interference In a free enterprise or capitalist economy the price system plays an important role of coordinating agent. Government intervention and support is not required. The role of government is to help in free and efficient functioning of the markets.

Capitalism in today's world

Pure capitalism is not seen in the world now-a-days. The economies of USA, UK, France, Netherland, Spain, Portugal, Australia etc. are known as capitalistic countries with active role of their respective government in economic development.

Merits of Capitalistic System:

The main merits of this system are:

a) Economic Freedom: The foremost advantage of this system is that everybody enjoys' economic freedom as one can spend one's income

according to one's wishes. Producers have complete freedom to invest in any business or trade.

- b) Automatic Working:** Another advantage according to classical economists is an automatic system. Equilibrium point is automatically come with the forces of demand and supply.

- c) Variety of Goods and Services:** All the basic decisions of what to produce, how to produce and for whom to produce are taken by producers. Every producer gives attention to consumers' taste and preferences. Hence, there are large variety of goods and services; produced in the economy.

- d) Optimum Use of Resources:** All natural resources are used to their optimum level as production is undertaken with a sole purpose: of earning profit and no scope for wastages at all.

- e) Efficient Producer:** There is very tough I competition among entrepreneurs. They always encouraged to produce best quality of products. Thus, technical development will lead to increase in higher productivity as well as efficiency.

- f) Higher Standard of Living:** Varieties of goods at cheap rates make it easy to be within the; reach of poor and weaker sections of society. This results in rise in their standard of living.

- g) Incentive to efficient:** In this system, incentives are given to the efficient workers in cash or kind. This means every worker should get reward according to his ability. Hence, workers will try to work more and more, therefore, total output will also increase.

- h) New Inventions:** In this type of economy, there is ample scope of new invention. To get more profit every producer takes initiative to develop new techniques in production.

Demerits of Capitalistic System:

According to Karl Marx, "Capitalism contains the seeds of its own destruction." The main demerits of this system are given below:

- a) **Labour Exploitation:** The main defect of capitalism is the exploitation of labour. Labourers get fewer wages in comparison to their working hours. The wages less than their marginal productivity are not sufficient for their livelihood.

- b) **Class Struggle:** A lion's share of income and resources is controlled by the upper sections of the society, while others remain deprived of the basic amenities of life. Thus, the entire society is divided between 'haves and 'have not's. Hence, the continuous class struggle spoils the health environment of the economy.

- c) **Wasteful Competition:** Capitalism is a wasteful competition. A lot of money is spent on advertisement and publicity for pushing the sale of the commodity. Its burden ultimately is borne by the poor consumers in the form of increased price.

- d) **Threat of Over-Production:** The production is made on a large scale which cannot be changed in a short period. Therefore, under capitalism, fear of over-production always exists. The Great Depression of 1930s in USA is an example of it.

- e) **Economic Fluctuations:** Being automatic in nature, capitalist economy always faces the problem of economic fluctuations and unemployment. This means the state of instability and uncertainty,

- f) **Unbalanced Growth:** All the resources are put only to those channels where there is maximum profit. Other sectors of the economy are neglected. As there is no check on the economic system, the growth is unbalanced in nature.

- g) **No Welfare Activities:** In capitalism, the sole motive is maximum profit, but not the public welfare. Variety of goods are produced according to market demand, not for any welfare activity.

- h) **Monopoly Practices:** This economic system has been criticised on the fact that it develops monopoly activities within the country.

1.4.2 Socialist Economy

In the socialist or centrally planned economies all the productive resources are owned and controlled by the government in the overall interest of the society. A central planning authority takes the decisions. The socialist economy has the following main features.

- a) Collective Ownership of means of Production:** In a Socialist economy means of production are owned by the government on behalf of the people. The institution of private property is abolished and no individual is allowed to own any production unit and accumulate wealth and transfer it to their heirs. However, people may own some durable consumer goods for their personal use.

- b) Social Welfare Objective:** The decisions are taken by the government at macro level with the objective of maximization of social welfare in mind rather than maximization of individual profit. The forces of demand and supply do not play any important role. Careful decisions are taken with the welfare objectives in mind.

- c) Central Planning:** Economic planning is an essential feature of a socialist economy. The Central Planning Authority keeping the national priorities and availability of resources in mind allocates resources. Government takes all economic decisions regarding production, consumption and investment keeping in minds the present and future needs. The planning authorities fix targets for various sectors and ensure efficient utilization of resources.

- d) Reduction in Inequalities:** The institutions of private property and inheritance are at the root of inequalities of income and wealth in a capitalist economy. By abolishing these twin institutions a socialist economic system is able to reduce the inequalities of incomes. It is

important to note that perfect equality in income and wealth is neither desirable nor practicable.

- e) **No class conflict:** In capitalist economy the interests of the workers and management are different. Both of them want to maximize their own individual profit or earnings. This results in class conflict in capitalist economy. In socialism there is no competition among classes. Every person is a worker so there is no class conflict. All are co-workers.

Socialism in today's world

Countries such as Russia, China and many eastern European countries are said to be socialist countries. But they are changing now and encouraging liberalisation in their countries for their economic development.

Merits of Socialist Economy:

- a) **No Labour Exploitation:** There is only one class in a socialistic economy hence there is no question of exploitation. There are no concept of strikes and lock-outs. Everybody works in a well-knit family way.
- b) **Proper Utilisation of Resources:** Under this economy, all types of natural resources are utilized in a most organized manner. Its main objective is to exploit these resources for the welfare of society.
- c) **No Wasteful Advertisement:** The government is virtually the owner of almost every sector. Hence, all the individual producers are also more according to the plan targets. Therefore, the competition among the producers is almost nil. Hence, very less money is spent on wasteful advertisement.
- d) **Proper Planning:** In order to solve various problems, which arise from time to time, there is proper economic plan in this type of economy.

Thus, with the help of economic plans socialist economy will adopt the balanced development strategy.

- e) No Cyclical Fluctuations:** Under socialist economy, no cyclical fluctuations are found. It means economy faces no boom, depression, unemployment or over production etc. Economic stability is maintained by the government on the basis of economic planning.
- f) Social Welfare:** The aim of socialist economy is to maximize social welfare of the society. It provides equal opportunities of employment to all individual according to their abilities.
- g) Rapid Economic Development:** The Central Planning Authority is the main figure in a socialist economy. It coordinates the natural, human and physical resources to attain economic progress of the country. In turn it accelerates the path of tremendous progress and people enjoy higher standard of living.
- h) Most Suitable to Developing Countries:** This type of economic system is most suitable to the needs of developing countries as all means of production are controlled by the government.

Demerits of Socialist Economy

Economists like Robbins, Maurice Dobb, Georg Halm etc. have criticised the socialist economy on the following grounds.

- a) Loss of Consumer Sovereignty:** A consumer has no choice of his own, he acts as a mere slave under this system. Government produces goods and services keeping in view the needs of the people.
- b) Less Democratic:** Socialist economy is always less democratic as it possesses no element of freedom. It is also like government dictatorship.

- c) No Automatic Functioning:** Under this system, no automatic function in system exists at all. It is the Central Authority, i.e., government, that governs the country according to its own interest.
- d) Evils of Bureaucracy:** In socialist economy, all economic activities are controlled by the government. Thus, they develop all evils of bureaucracy like favouritism, delay, corruption and other sue evils.
- e) Rigid Economy:** Socialist economy is very rigid and not susceptible to change according to requirements. Hence people work like a machine and never get any incentive to work.
- f) Burden on Government:** All the economic activities are performed by the Central Authority on behalf of the government. Hence, it is overburdened with daily activities and, therefore, it gets very less time to think and plan for the economic prosperity of the economy.
- g) Expenditure on Planning:** In fact, planning is a long process in a socialist economy. This expenditure is unnecessarily wasteful and a burden on the national economy.

1.4.3 Mixed Economy

A mixed economy combines the best features of capitalism and socialism. Thus mixed economy has some elements of both free enterprise or capitalist economy as well as a government controlled socialist economy. The public and private sectors co-exist in mixed economies. The main characteristics of a mixed economy are as follows:

- a) Co-existence of public and private sectors:** The private sector consists of production units that are owned privately and work on the basis of profit motive. The public sector consists of production units

owned by the government and works on the basis of social welfare. The areas of economic activities of each sector are generally demarcated. Government uses its various policies e.g. licensing policy, taxation policy, price policy, monetary policy and fiscal policy to control and regulate the private sector.

- b) Individual Freedom:** Individuals take up economic activities to maximize their personal income. They are free to choose any occupation and consume as per their choice. But producers are not given the freedom to exploit consumers and labourers. Government puts some restrictions keeping in mind the welfare of the people. For instance, government may put restrictions on the production and consumption of harmful goods. But within rules, regulations and restrictions imposed by the government, for the welfare of the society the private sector enjoys complete freedom.

- c) Economic Planning:** The government prepares long-term plans and decides the roles to be played by the private and public sectors in the development of the economy. The public sector is under direct control of the government as such production targets and plans are formulated for them directly. The private sector is provided encouragement, incentives, support and subsidies to work as per national priorities.

- d) Price Mechanism:** Prices play a significant role in the allocation of resources. For some sectors the policy of administered prices is adopted. Government also provides price subsidies to help the target group. The aim of the government is to maximize the welfare of the masses. For those who cannot afford to purchase the goods at market prices, government makes the goods available either free of cost or at below market (subsidized) prices. Thus in a mixed economy people at large enjoy individual freedom and government support to protect the interests of weaker sections of the society. Indian economy is considered a mixed economy as it has well defined areas for functioning

of public and private sectors and economic planning. Even countries such as USA, UK, etc. which were known as capitalistic countries are also called mixed economies now because of active role of their government in economic development.

Merits of Mixed Economy

There are several advantages of mixed economy which are as below:

- a) Encouragement to Private Sector:** The most important advantage of mixed economy is that it provides encouragement to private sector and it gets proper opportunity to grow. It leads to increase in capital formation within the country.
- b) Freedom:** In a mixed economy, there is both economic and occupational freedom as found in capitalist system. Every individual has a liberty to choose any occupation of his choice. Similarly, every producer can take decisions regarding production and consumption.
- c) Optimum Use of Resources:** Under this system, both private and public sectors work for the efficient use of resources. Public sector works for social benefit while private sector makes the optimum use of these resources for maximisation of profit.
- d) Advantages of Economic Planning:** In the mixed economy, there are all advantages of economic planning. Government takes measures to control economic fluctuations and to meet other economic evils.
- e) Lesser Economic Inequalities:** Capitalism enhances economic inequalities but under mixed economy, inequalities can easily be controlled by the efforts of government.

- f) Competition and Efficient Production:** Due to competition between both private and public sectors, the level of efficiency remains, high. All factors of production work efficiently in the hope of profit.
- g) Social Welfare:**
- h)** Under this system, the main priority is given to social welfare through effective economic, planning. The private sector is controlled by the government. Production and price policies of private sector are determined to achieve maximum social welfare.
- i) Economic Development:** Under this system, both government and private sector join their hands for the development of socio-economic infrastructures, Moreover, government enacts many legislative measures to safe guard the interests of the poor and weaker section of the society. Hence, for any underdeveloped country, mixed economy is a right choice.

Demerits of Mixed Economy:

The main demerits of mixed economy are as follows:

- a) Un-stability:** Some economists claim that mixed economy is most unstable in nature. The public sector gets maximum benefits whereas private sector remains controlled.
- b) Ineffectiveness of Sectors:** Under this system, both the sectors are ineffective in nature. The private sector does not get full freedom, hence it becomes ineffective. This leads to ineffectiveness among the public sector. In true sense, both sectors are not only competitive but also complementary in nature.
- c) Inefficient Planning:** There are no such comprehensive planning in mixed economy. As a result, a large sector of the economy remains outside the control of the government.

- d) Lack of Efficiency:** In this system, both sectors suffer due to lack of efficiency. In public sector it is so because government employees do not perform their duty with responsibility, while in private sector, efficiency goes down because government imposes too many restrictions in the form of control, permits and licenses, etc.
- e) Delay in Economic Decisions:** In a mixed economy, there is always delay in making certain decisions, especially in case of public sector. This type of delay always leads to a great hindrance in the path of smooth functioning of the economy.
- f) More Wastage:** Another problem of the mixed economic system is the wastages of resources. A part of funds allocated to different projects in public sector goes into the pocket of intermediaries. Thus, resources are misused.
- g) Corruption and Black Marketing:** There is always corruption and black marketing in this system. Political parties and self- interested people take undue advantages from public sector. Hence, this leads to emergence of several evils like black money, bribe, tax evasion and other illegal activities. All these ultimately bring red-tapism within the system.
- h) Threat of Nationalism:** Under mixed economy, there is a constant fear of nationalism of private sector. For this reason private sector does not put into use their resources for the common benefits.

1.4.5 Types of Economics on the Basis of Level of Development

On the basis of level of development economies can be classified in two categories:

(i) Developed economy

(ii) Developing economy

The countries are labelled developed or rich and developing or poor on the basis of real national and per capita income and standard of living of its population. Developed countries have higher national and per-capita income, high rate of capital formation i.e. high savings and investment. They have highly educated human resources, better civic facilities, health and sanitation facilities, low birth rate, low death rate, low infant mortality, developed industrial and social infrastructures and a strong financial and capital market. In short, developed countries have high standard of living.

Developing countries are low on the ladder of development. They are sometimes also called underdeveloped, backward or poor countries. But economists prefer to call them developing countries because it gives a sense of dynamism. The national and per capita income is low in these countries. They have backward agricultural and industrial sectors with low savings, investment and capital formation. Although these countries have export earnings but generally they export primary agricultural products. In short, they have low standard of living and poor health and sanitation, high infant mortality, high birth rate, education level is poor etc.

1.5 Meaning of Economic Development

Economic growth, as distinguished from economic development, is a sustained increase in national income. Taking the differences in population into consideration, it is reflected in the growth of per-capita income (i.e. national income ÷ total population). Although there may be year-to-year fluctuations or short-term variations in the growth of national income, there has to be a continuous growth in national income in the long run for it to qualify as economic growth. Economic development, on the other hand, includes not only economic growth but also various other economic changes that improve the quality of life or standard of living of people in a country. If with economic growth, a country experiences various economic changes such as reduction in poverty and unemployment, reduction in income and wealth

inequality, increase in literacy rate, improvement in health and hygiene, decrease in population growth, improvement in environmental standards etc, that improve the quality of life then that is economic development. Such economic changes that are conducive to improvements in standards of living of people are necessary for economic development. Otherwise, people's standard of living may not improve in spite of economic growth. It may happen that with economic growth, the rich get richer while the poor get poorer if the fruits of growth are snatched by the richer sections of the society. Clearly, economic development is a much broader concept than economic growth. It not only includes economic growth but also various other economic changes that bring about improvement in the standard of living of people or quality of life.

1.6 Determinant of Economic Development

The process of economic development is influenced by a number of economic as well as non-economic factors. The important economic factors are as follows:

- a) Natural Resources:** The availability of natural resources facilitates and accelerates economic growth and economic development. It is believed that quality and quantity of natural resources affect the rate of growth.
- b) Human Resources:** Another important determinant of economic development is the quantity and quality of human resources or the population. Other things being equal, educated and technically qualified manpower helps in achieving higher growth rate. On the other hand illiterate and unskilled population retards economic growth.
- c) Capital Formation:** Stock of capital goods is crucial for rapid economic growth. For increasing the stock of capital, rate of savings must be high. The savings must be invested. Given the rate of savings and investment the rate of growth will depend upon capital output ratio. If the domestic savings are not sufficient government can seek external assistance to increase capital formation and growth rate in developing countries.

d) Technology: Technology can play an important role in the economic development. Technological progress depends upon continuous research and development. Through technological progress a nation may overcome other constraints such as scarcity of natural resources low productivity, inflation, education, infrastructure development etc.

1.7 Distinction between Economic Development and Economic Growth

Economic growth is a short-term measure and generally refers to year to year rise in national and per capita income in real terms. But the income index does not take into account the distributional aspects of national income. Another important thing is that income approach does not take into account the unproductive and dysfunction growth and productive and socially useful growth. Economic development on the other hand is a long term measure over a long period. The economic development refers to overall rise in standard of living and a better quality of life. Besides income index some non income indices are also taken into account. These are high life expectancy at birth, low infant mortality and high rate of literacy. An improvement in these non-income indices imply that the quality of life has also improved. Some important institutions like UNESCO and ILO include the basic needs approach such as availability of food, clothing and shelter, availability of drinking water, sanitation and public transport facilities good health and education as an index of economic development. The objective of development, therefore, is meeting the needs of the vast masses of population. The United Nations Development Programmes emphasizes on Human Development Index (HDI) that is based on per capita income, educational attainment and life expectancy. Thus it is a composite index of economic and social indicators. The economic development, therefore, is a much wider term to capture overall improvement in the quality of life of people.

1.8 Economic Indicators

There are two types of indicators you need to be aware of they are discussed below:

A) Leading indicators: These indicators often change prior to large economic adjustments and, as such, can be used to predict future trends.

B) Lagging indicators: These indicators however, reflect the economy's historical performance and changes to these are only identifiable after an economic trend or pattern has already been established.

A. Leading Indicators

Leading indicators have the potential to forecast where an economy is headed, fiscal policymakers and governments make use of them to implement or alter programs in order to ward off a recession or other negative economic events.

The top leading indicators discussed below:

a) Stock Market: Though the stock market is not the most important indicator, it's the one that most people look to first. Because stock prices are based in part on what companies are expected to earn, the market can indicate the economy's direction if earnings estimates are accurate. For example, a strong market may suggest that earnings estimates are up and therefore that the overall economy is preparing to thrive. Conversely, a down market may indicate that company earnings are expected to decrease and that the economy is headed toward a recession.

b) Manufacturing Activity: Manufacturing activity is another indicator of the state of the economy. This influences the GDP (gross domestic product) strongly; an increase in which suggests more demand for consumer goods and, in turn, a healthy economy. Moreover, since workers are required to manufacture new goods, increases in manufacturing activity also boost employment and possibly wages as well. However, increases in manufacturing activity can also be misleading. For example, sometimes the goods produced do not make

it to the end consumer. They may sit in wholesale or retailer inventory for a while, which increases the cost of holding the assets. Therefore, when looking at manufacturing data, it is also important to look at retail sales data. If both are on the rise, it indicates there is heightened demand for consumer goods. However, it's also important to look at inventory levels, which we'll discuss next.

- c) Inventory Levels:** High inventory levels can reflect two very different things: either that demand for inventory is expected to increase or that there is a current lack of demand. In the first scenario, businesses purposely bulk up inventory to prepare for increased consumption in the coming months. If consumer activity increases as expected, businesses with high inventory can meet the demand and thereby increase their profit. Both are good things for the economy. In the second scenario, however, high inventories reflect that company supplies exceed demand. Not only does this cost companies money, but it indicates that retail sales and consumer confidence are both down, which further suggests that tough times are ahead.
- d) Retail Sales:** Retail sales are particularly important metrics and function hand in hand with inventory levels and manufacturing activity. Most importantly, strong retail sales directly increase GDP, which also strengthens the home currency. When sales improve, companies can hire more employees to sell and manufacture more products, which in turn put more money back in the pockets of consumers. One downside to this metric, though, is that it doesn't account for how people pay for their purchases. For example, if consumers go into debt to acquire goods, it could signal an impending recession if the debt becomes too steep to pay off. However, in general, an increase in retail sales indicates an improving economy.
- e) Building Permits:** Building permits offer foresight into future real estate supply levels. A high volume indicates the construction industry will be active, which forecasts more jobs and, again, an increase in GDP. But just like with inventory levels, if more houses are built than consumers are willing to buy, it takes away from the builder's bottom

line. To compensate, housing prices are likely to decline, which, in turn, devalues the entire real estate market and not just “new” homes.

f) Housing Market: A decline in housing prices can suggest that supply exceeds demand that existing prices are unaffordable, and/or that housing prices are inflated and need to correct as a result of a housing bubble. In any scenario, declines in housing have a negative impact on the economy for several key reasons:

1. They decrease homeowner wealth.
2. They reduce the number of construction jobs needed to build new homes, which thereby increases unemployment.
3. They reduce property taxes, which limits government resources.
4. Homeowners are less able to refinance or sell their homes, which may force them into foreclosure.

When you look at housing data, look at two things: changes in housing values and changes in sales. When sales decline, it generally indicates that values will also drop. For example, the collapse of the housing bubble in 2007 had dire effects on the economy and is widely blamed for driving the United States into a recession.

g) Level of New Business Start-ups: The number of new businesses entering the economy is another indicator of economic health. In fact, some have claimed that small businesses hire more employees than larger corporations and, thereby, contribute more to addressing unemployment. Moreover, small businesses can contribute significantly to GDP, and they introduce innovative ideas and products that stimulate growth. Therefore, increases in small businesses are an extremely important indicator of the economic well-being of any capitalist nation.

B. Lagging Indicators

Unlike leading indicators, lagging indicators shift after the economy changes. Although they do not typically tell us where the economy is headed, they indicate how the economy changes over time and can help identify long-term trends. The important lagging indicators are discussed below:

- a) Changes in the Gross Domestic Product (GDP):** GDP is typically considered by economists to be the most important measure of the economy's current health. When GDP increases, it's a sign the economy is strong. In fact, businesses will adjust their expenditures on inventory, payroll, and other investments based on GDP output. Moreover, as a lagging indicator, some question the true value of the GDP metric. After all, it simply tells us what has already happened, not what is going to happen. Nonetheless, GDP is a key determinant as to whether or not a nation is entering a recession.
- b) Income and Wages:** If the economy is operating efficiently, earnings should increase regularly to keep up with the average cost of living. When incomes decline, however, it is a sign that employers are cutting pay rates, laying workers off, or reducing their hours. Declining incomes can also reflect an environment where investments are not performing as well. Incomes are broken down by different demographics, such as gender, age, ethnicity, and level of education, and these demographics give insight into how wages change for various groups. This is important because a trend affecting a few outliers may suggest an income problem for the entire country, rather than just the groups it affects.
- c) Unemployment Rate:** The unemployment rate is very important and measures the number of people looking for work as a percentage of the total labour force. In a healthy economy, the unemployment rate will be anywhere from 3% to 5%. When unemployment rates are high, however, consumers have less

money to spend, which negatively affects retail stores, GDP, housing markets, and stocks, to name a few. Government debt can also increase via stimulus spending and assistance programs, such as unemployment benefits and food stamps.

- d) Inflation/ Deflation:** The consumer price index (CPI) reflects the increased cost of living, or inflation. The CPI is calculated by measuring the costs of essential goods and services, including vehicles, medical care, professional services, shelter, clothing, transportation, and electronics. Inflation is then determined by the average increased cost of the total basket of goods over a period of time. A high rate of inflation may erode the value of the home currency more quickly than the average consumer's income can compensate. This, thereby, decreases consumer purchasing power, and the average standard of living declines. Moreover, inflation can affect other factors, such as job growth, and can lead to decreases in the employment rate and GDP. Deflation is a condition in which the cost of living decreases. Although this sounds like a good thing, it is an indicator that the economy is in very poor shape. Deflation occurs when consumers decide to cut back on spending and is often caused by a reduction in the supply of money. This forces retailers to lower their prices to meet a lower demand. But as retailers lower their prices, their profits reduce considerably. Since they don't have as much money to pay their employees, creditors, and suppliers, they have to cut wages, lay off employees, or default on their loans. These issues cause the supply of money to reduce even further, which leads to higher levels of deflation and creates a vicious cycle that may result in an economic depression.
- e) Currency Strength:** A strong currency increases a country's purchasing and selling power with other nations. The country

with the stronger currency can sell its products overseas at higher foreign prices and import products more cheaply.

- f) Interest Rates:** Interest rates are another important lagging indicator of economic growth. They represent the cost of borrowing money and are based on the RBI policy in India. When repo rate increases, banks and other lenders have to pay higher interest rates to obtain money. They, in turn, lend money to borrowers at higher rates to compensate, which thereby makes borrowers more reluctant to take out loans. This discourages businesses from expanding and consumers from taking on debt. As a result, GDP growth becomes stagnant. On the other hand, rates that are too low can lead to an increased demand for money and raise the likelihood of inflation, can distort the economy and the value of its currency.
- g) Corporate Profits:** Strong corporate profits are correlated with a rise in GDP because they reflect an increase in sales and therefore encourage job growth. They also increase stock market performance as investors look for places to invest income. That said, growth in profits does not always reflect a healthy economy.
- h) Balance of Trade:** The balance of trade is the net difference between the value of exports and imports and shows whether there is a trade surplus (more money coming into the country) or a trade deficit (more money going out of the country).

Trade surpluses are generally desirable, but if the trade surplus is too high, a country may not be taking full advantage of the opportunity to purchase other countries' products. That is, in a global economy, nations specialize in manufacturing specific products while taking advantage of the goods other nations produce at a cheaper, more efficient rate. Trade deficits, however, can lead to significant domestic debt. Over the long term, a trade deficit can result in a devaluation of the local currency as foreign debt increases. This increase in debt will reduce the credibility of

the local currency, which will inevitably lower the demand for it and thereby the value. Moreover, significant debt will likely lead to a major financial burden for future generations who will be forced to pay it off.

Exercise

A. Very short type questions

1. Purpose of every economy is to satisfy **(a) Satisfy human wants** (b) Exploit other nation (c) Increase economic activities (d) Liberalize economy.
2. In modern economies _____ is used as medium of exchange.
(a) Coins (b) Bonds **(c) Money** (d) Foreign currency

3. 'Laissez fair' economic policy refers to **(a) Leave free** (b) good food (c) Fair price (d) Private property.

4. In capitalistic economy consumers are

(a) Seller (b) Buyer (c) Slaves **(d) King**

5. Under socialist economy all the resources are controlled by

(a) public **(b) Government** (c) MNCs (d) All of these

6. Key indicator for determining development of a country **(a) Per capita income** (b) Rate of tax (c) Production (d) Foreign exchange reserve

7. Lagging indicators reflects economies **(a) Historical performance** (b) Future performance (c) both (a) and (b) (d) present performance

8. Inflation of a country reflected by (a) WPI **(b) CPI** (c) NEFT (d) Repo rate

Answer. 1.(a). 2. (c). 3.(a). 4. (d). 5.(b). 6.(a). 7.(a). 8.(b).

B. Short type questions

1) What is an economy?

2) What is the main characteristic of economy?

3) Give two determinant of economic development?

4) State two features of capitalistic system?

5) State two features of socialistic economy?

6) State two features of mixed economy?

7) What is the meaning of economic development?

- 8) Distinguish between economic development and economic growth?
- 9) Explain two leading indicators?
- 10) Explain two lagging indicators?

C. Long answer type questions

- 1) State the features of economy?
- 2) Discuss the merits and demerits of capitalistic economy system?
- 3) Discuss the merits and demerits of socialistic economy system?
- 4) Discuss the merits and demerits of capitalist economy system?
- 5) Explain the key determinant of economic development?
- 6) Explain the economic indicators?

Nature and Evolution of Business Environment

2.1 Concept of Business Environment

The word business environment consists of two words i.e. business and environment. Business refers to exchange in simple terms. According to **Wheeler** “ Business refers to a form of activity pursued primarily with the object of earning profits for the benefit of those whose behalf the activity is

conducted.” But profit earning cannot be the sole objective of business. Wealth maximizing and increase the value of the firm may be the ultimate objective of firm. Environment on the other hand is key parameter in determining success and failure of the firm. According to **Davis and Blomstorm** “Our modern view of society is an ecological one. Ecology is concerned with the mutual relations of human population or systems with their environment. It is necessary to take this broad view because the influence and involvement of business is extensive.” A business organisation does not exist in a vacuum. It exists in a world of economic, political, cultural, geographical, environmental factors. All of these factors collectively determine the success or failure of an organisation.

Business environment may be defined as summation of micro and macro economic factors which internally and externally affect the business. These factors are uncontrollable in nature. Thus the environment of the business changes with respect to technology, time, place, product, price, and demographic parameters etc. For example as the time changes cinema industry replaced by multiplex. Again with the advancement of technology the storage medium changes from magnetic tape to chip. With a view to reduce pollution the waste management techniques evolved and the waste are now used to generate electricity. As the above internal and external factors changing, the business environment is also changing. Thus we may conclude that business environment is dynamic in nature.

A few important definitions of business environment are as follows:

“Business environment is the sum of those inputs to an organisation which are under the control of other organisations or interest groups or are influenced by interaction of several groups, such as the economy.”

- **Paire and Anderson.**

“The environment includes factors outside the firm which can lead to opportunities for or threats to the firm. Although there are many factors, the

most important are socio-economic, technological, supplier, competitors and government.”

- **William F. Glueck and Lawrence R. Jauch.**

“Environmental factors or constraints are largely if not totally, external and beyond the control of individual industrial enterprises and their managements. These are essentially the givers within which firms and their managements must operate in a specific country and they vary, often greatly, from country to country.”

- **Richman and Copen.**

“ Every organisation exists in an environment that extends beyond its formal boundaries. This external environment represents a set of conditions, circumstances and influences that surround and affect the functioning of the organisation. This environment is made up of many different individuals (e.g. suppliers, labour unions) and government bodies (e. g. Regulatory agencies, legislators). It includes those people who are capable of influencing an organisation and its management system as well as those who might be affected by the organisation’s actions.”

- **Dunham and Pierce.**

“ An organisation’s external environment consists of those things outside an organisation such as customers, competitors, government units, suppliers, financial firms and labour pools that are relevant to an organisation’s operations.”

- **Gerald Bell.**

2.2 Features of business Environment

The features of business environment can be summarised as follows:

- Business environment is the sum total of all factors external to the business firm and that greatly influences their functioning.
- It covers factors and forces like customers, competitors, suppliers, government, and the social, cultural, political, technological and legal conditions.
- The business environment is dynamic in nature that means it keeps on changing.
- The changes in business environment are unpredictable. It is very difficult to predict the exact nature of future happenings and the changes in economic and social environment.
- Business Environment differs from place to place, region to region and country to country. Political conditions in India differ from those in Pakistan. Taste and values cherished by people in India and China vary considerably.

2.3 Importance of business Environment

There is a close and continuous interaction between the business and its environment. This interaction helps in strengthening the business firm and using its resources more effectively. As stated above, the business environment is multifaceted, complex, and dynamic in nature and has a far-reaching impact on the survival and growth of the business. To be more specific, proper understanding of the social, political, legal and economic environment helps the business in the following ways:

- a) Determining Opportunities and Threats:** The interaction between the business and its environment would identify opportunities for and threats to the business. It helps the business enterprises for meeting the challenges successfully.
- b) Giving Direction for Growth:** The interaction with the environment leads to opening up new frontiers of growth for the business firms. It

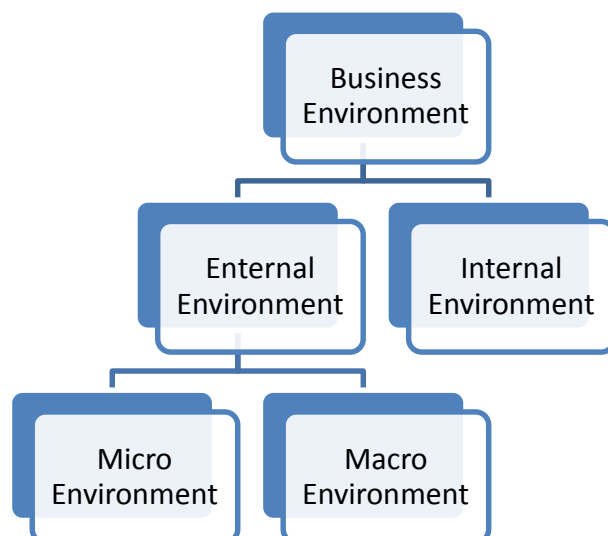
enables the business to identify the areas for growth and expansion of their activities.

- c) Continuous Learning:** Environmental analysis makes the task of managers easier in dealing with business challenges. The managers are motivated to continuously update their knowledge, understanding and skills to meet the predicted changes in realm of business.
- d) Image Building:** Environmental understanding helps the business organisations in improving their image by showing their sensitivity to the environment within which they are working. For example, in view of the shortage of power, many companies have set up Captive Power Plants (CPP) in their factories to meet their own requirement of power.
- e) Meeting Competition:** It helps the firms to analyse the competitors' strategies and formulate their own strategies accordingly.
- f) Identifying Firm's Strength and Weakness:** Business environment helps to identify the individual strengths and weaknesses in view of the technological and global developments.

2.4 Classification of Business Environment

The business environment classified into two parts:

- A. Internal Environment
- B. External Environment



2.4.1 Internal Environment

Internal Environment refers to environment within the organisation. It includes internal factors of the business which can be controlled by business. It includes objectives of business, managerial policies, management and employees of the organisation, labour management relationship, brand image and corporate image, working conditions in the organisation, technological and research and development capabilities etc. Internal environment includes 5 M's i.e. men, material, money, machinery, management available with business. These components are usually within the control of business.

2.4.2 External Environment

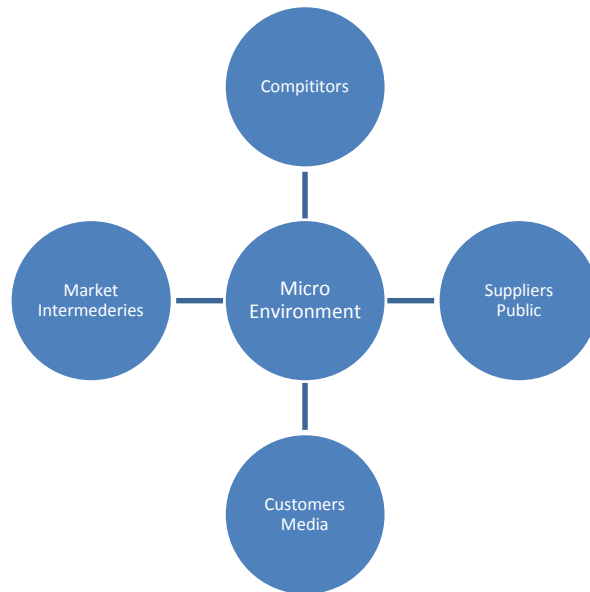
External Environment refers to external aspects of the surroundings of business enterprise which have influence on the functioning of business. These factors are beyond the control of business. External environment includes factors outside the firm which can provide opportunities or pose threats to the firm.

External environment has two types:-

i) Micro Environment ii) Macro Environment

A. Micro Environment

The micro environment of a company consists of elements that directly affect the company. It includes suppliers, customers, market intermediaries, competitors and public etc., which is explained as below:-

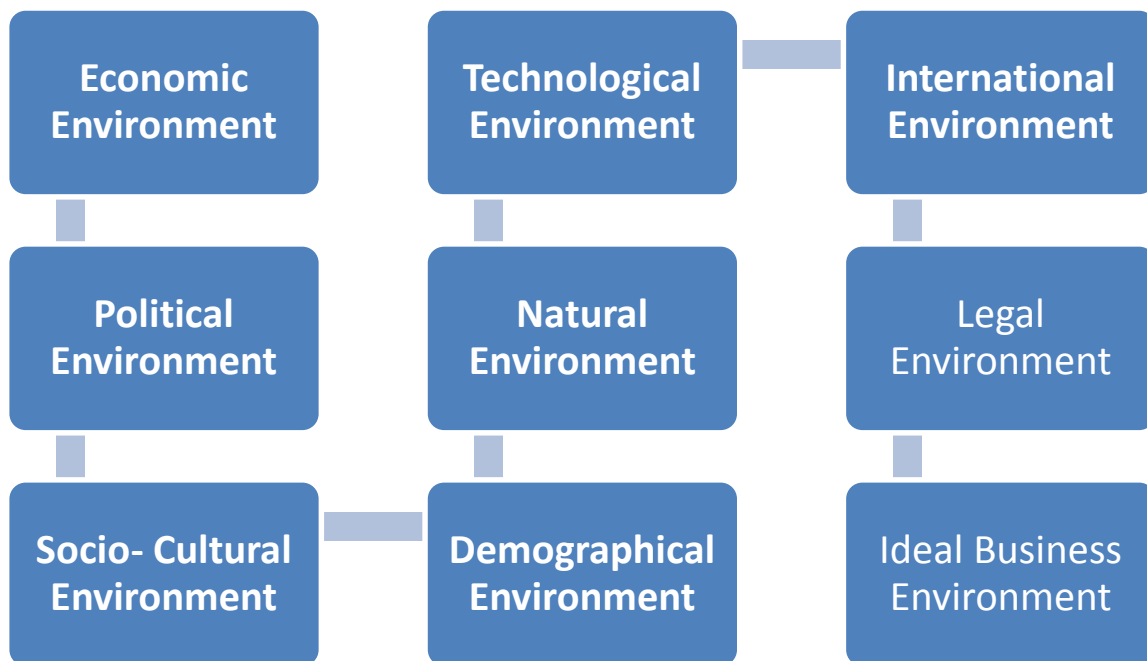


- a) Suppliers:** Suppliers are those who supply raw materials and components of the company. Every business requires the suppliers. If our supplier is reliable, our business will run smoothly. If our supplier is not reliable, we have to maintain high inventories.
- b) (ii) Customers:** Customer is the central point of the business. The success of a business organisation depends upon the customers, their needs, tastes etc. Now a day's the competition is growing so it is very essential to satisfy the customer. For attracting new customers companies conduct consumer research, provide after sale services etc.
- c) (iii) Market Intermediaries:** Market Intermediaries are which include agents and brokers who help the company to find customers. It is a link between company and consumer. Market intermediaries help the company to promote sell and distribute its goods to final buyers. Market intermediaries include middlemen, marketing agencies, financial intermediaries, physical intermediaries etc.
- d) (iv) Competitors:** Competitors means other business units which are producing similar products or a very close substitute of our product. Now a day's competition has increased. No business units enjoy monopoly in the market. So the business has to satisfy the customer for the success in the market.
- e) (v) Public:** Public is group that has actual or potential interest in the business. So public also affect the business.

f) (Vi) Media: Media also affect the business. It includes al newspaper, magazines, journals etc. Media also affects the reputation of the company.

B. Macro Environment

Macro Environment means general environment of business. These factors are uncontrollable. These factors create opportunities and pose threats to the business. It includes economic, demographic, natural, technological, political and cultural environments.



(i) Economic Environment:

Economic Environment refers to those economic factors which have impact on the working of business. Economic environment is very complex in nature. It is very dynamic. It has three elements:-

a) Economic conditions: Economic conditions of the economy the business. Economic conditions include income level, distribution of income, demand and supply trends etc. If the economy is in boom conditions, it positively affects demand and market share. On the other

hand if the economy is in depression, it will have negative effect on the business.

b) Economic policies: Economic policies are framed by government. These policies establish relationship between business and government. The effect of these policies may be favourable or unfavourable.

c) Economic Systems: Different economic system prevails in different countries. These systems affect the business. The economic system includes capitalism, socialism and mixed economy.

(ii) Political Environment: Political Environment affects the different business units. A stable and dynamic political environment is very necessary for business growth. Political environment includes political stability in the country, relation of the government with other countries, welfare activities of government, centre state relationship, thinking of opposition parties towards business. If the political system is stable and efficient then the business grows. In the lack of political stability long terms plans cannot be formulated. Thus business is adversely affected if the government is not stable. Similarly relations of government with other countries also affect business. If a country enjoys friendly relations with other nations, then it has favourable effect on foreign trade.

(iii) Socio- Cultural Environment: Socio- Cultural Environment refers to social and cultural factors which are beyond the control of business unit. Such factors includes attitude of people to work, family system, caste system, education, habits, language, religion etc. Socio-cultural environment is one of the important non-economic external components of business environment. Religion has considerable effect on business. Some religions restrict their followers from doing a particular type of business, e.g. Jain religion does not allow its followers to engage in leather industry, wine making etc. Similarly difference in language is another problem area in national level and

international level business. The businessman must be familiar with the local language of the place where business is to be operated.

(iv) Technological Environment: Technological environment is most important factor which affects the business enterprise. The faster changes in technology create problems for business enterprise. Product has shorter life span than the past because of rapid technological development. Technology provides a various advantage. Success in many industries depends on a innovation and research. For promote innovation and research some companies establish research and development department in their enterprise. For example Japanese industries have achieved a great success because of innovation and rapid technological up gradation.

(v) Natural Environment: Natural Environment refers to geographical and ecological factors which are beyond the control of the enterprise. It includes natural resources, weather and climatic conditions, landforms rainfall, environmental pollution etc. Climate and weather conditions affect the location certain industries like textile industry. Similarly environment pollution in the form of air pollution, water pollution and noise pollution have caused disturbances in ecological balance. Government has framed various Acts for the control of environmental pollution. The business enterprise must keep in mind these factors.

(vi) Demographical Environment: Demographical environment affect the business externally. Demographic environment differs from country to country and from place to place within the same country. Demographic factors include size of population and population growth, family size, age composition, sex composition, urban-rural population education level etc. Huge population size indicate cheap labour and more demand in the economy. If population size is large then there will be more demand for goods and services. It will have favourable effect on business. Similarly, Education level is also important demographic factor affecting business. If public is

highly educated, supply of unskilled labour will decrease. On the other hand if education level is low then supply of unskilled labour will increase.

(vii) International Environment: International Environment is the important component of the business environment. International environment affect the business differently. International environment is very important for certain types of business. It is particularly important for industries directly depending on imports or exports. Recession in foreign market may create difficulties for industries depending on exports. Liberalisation of imports may help some industries but may adversely affect other industries. For example the entry of multinationals such as LG, Samsung in electronics industry has adversely affected the market share of domestic business firms.

(viii) Legal Environment

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

- (i) Companies Act, 1956
- (ii) Foreign Exchange Management Act, 1999
- (iii) The Factories Act, 1948
- (iv) Industrial Disputes Act, 1972
- (v) Payment of Gratuity Act, 1972
- (vi) Industries (Development and Regulation) Act, 1951
- (vii) Prevention of Food Adulteration Act, 1954
- (viii) Essential Commodities Act, 2002
- (ix) The Standards of Weights and Measures Act, 1956
- (x) Monopolies and Restrictive Trade Practices Act, 1969
- (xi) Trade Marks Act, 1999
- (xii) Bureau of Indian Standards Act, 1986
- (xiii) Consumer Protection Act, 1986
- (xiv) Environment Protection Act

- (xv) Competition Act, 2013
- (xvi) Banking Regulation Act, 1949
- (xvii) Negotiable Instrument Act, 1881
- (xviii) SARFASEI Act, 2000S

2.5 Objective of Business Environment

The objective of business environment lies with economic objective of business and means to achieve it and social responsibility of business towards different groups of stake holders of the society.

2.5.1 Economic objective of Business

Economic objectives of business refer to the objective of earning profit and also other objectives that are necessary to be pursued to achieve the profit objective, which includes creation of customers, regular innovations and best possible use of available resources. Let us learn about these.

i. Profit earning

Profit is the lifeblood of business, without which no business can survive in a competitive market. In fact profit making is the primary objective for which a business unit is brought into existence. Profits must be earned to ensure the survival of business, its growth and expansion over time. Profits help businessmen not only to earn their living but also to expand their business activities by reinvesting a part of the profits. In order to achieve this primary objective, certain other objectives are also necessary to be pursued by business, which are as follows:

- a) Creation of customers:** A business unit cannot survive unless there are customers to buy the products and services. Again a businessman can earn profits only when he/she provides quality goods and services at a reasonable price. For this it needs to attract more customers for its existing as well as new products. This is achieved with the help of various marketing activities.

- b) Regular innovations:** Innovation means changes, which bring about improvement in products, process of production and distribution of goods. Business units, through innovation, are able to reduce cost by adopting better methods of production and also increase their sales by attracting more customers because of improved products. Reduction in cost and increase in sales gives more profit to the businessman. Use of power-looms in place of handlooms, use of tractors in place of hand implements in farms etc. are all the results of innovation.
- c) Best possible use of resources:** As you know, to run any business you must have sufficient capital or funds. The amount of capital may be used to buy machinery, raw materials, employ men and have cash to meet day-to-day expenses. Thus, business activities require various resources like men, materials, money and machines. The availability of these resources is usually limited. Thus, every business should try to make the best possible use of these resources. This objective can be achieved by employing efficient workers, making full use of machines and minimizing wastage of raw materials.

2.5.2 Social Responsibility of Business

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

Social responsibility of business refers to the obligation of business enterprises to adopt policies and plans of actions that are desirable in terms of the expectation, values and interest of the society. It ensures that the

interests of different groups of the public are not adversely affected by the decisions and policies of the business.

2.5.3 Social Responsibilities towards different Stake Holders.

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

a) Responsibility towards the shareholders or

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

b) Responsibility towards the Employees:

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

c) Responsibility towards the Consumers:

A business enterprise must supply quality goods and services to the consumers at reasonable prices. It should avoid adulteration, poor packaging, misleading and

dishonest advertising, and ensure proper arrangement for attending to customer complaints and grievances.

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

e) Responsibility towards the Community: Every business is a part and parcel of our community. So it should contribute towards the general welfare of the community. It should preserve and promote social and cultural values, generate employment opportunity and contribute towards the upliftment of weaker sections of the society. It must take every step to protect the physical and ecological environment of the society. It should contribute to the community development programmes like public health care, sports, cultural programmes. Looking at the importance of the social responsibilities of business towards various groups, it would have been better if the companies act provided for the reporting of the social activity in the annual report of the companies. However, a few large companies have been voluntarily reporting their social performances in their Annual Reports regularly. The prominent among them are Cement Corporation of India, Indian Oil Corporation, Tata Iron and Steel Company, Asian paints and ITC. These reports reveal that companies are becoming eco-friendly and conscious of their role in community development.

2.6 Business Ethics

The word 'Ethics' originated from the Greek word 'ethos' meaning character, conduct and activities of the people based on moral principles. It is concerned

with what is right and what is wrong in human behaviour on the basis of standard behaviour or conduct accepted by the society. Honesty, truthfulness, compassion, sympathy, feeling of brotherhood etc. are considered ethical. Similarly, ethics from business point of view or business ethics are the moral principles, which guide the behaviour of businessmen or business activities in relation to the society. It provides certain code of conduct to carry on the business in a morally justified manner. Running the business without adopting unfair practices, being honest and truthful about quality of goods, charging fair prices, abiding to laws, paying taxes, duties and fees to the government honestly are some of the ethical behaviour of business. There are eight major features of business ethics they are discussed bellow

2.6.1 Features of Business Ethics

- a) Code of Conduct:** Business ethics is actually a form of codes of conduct. It lets us know what to do and what not to do. Businesses must follow this code of conduct.
- b) Based on Moral and Social Values:** Business ethics is a subject that is based on moral and social values. It offers some moral and social principles (rules) for conducting a business.
- c) Protection to Social Groups:** Business ethics protect various social groups including consumers, employees, small businesspersons, government, shareholders, creditors, etc.
- d) Offers a Basic Framework:** Business ethics is the basic framework for doing business properly. It constructs the social, cultural, legal, economic, and other limits in which a business must operate.
- e) Voluntary:** Business ethics is meant to be voluntary. It should be self-practiced and must not be enforced by law.
- f) Requires Education & Guidance:** Businessmen should get proper education and guidance about business ethics. Trade Associations and Chambers of Commerce should be active enough in this matter.

- g) Relative Term:** Business ethics is a relative term. It changes from one business to another and from one country to another.
- h) New Concept:** Business ethics is a relatively newer concept. Developed countries have more exposure to business ethics, while poor and developing countries are relatively backward in applying the principles of business ethics.

2.6.2 Principles of Business Ethics

The principles of business ethics are related to social groups that comprise of consumers, employees, investors, and the local community. The important rules or principles of business ethics are as follows

- a) Avoid Exploitation of Consumers** – Do not cheat and exploit consumer with measures such as artificial price rise and adulteration.
- b) Avoid Profiteering** – Unscrupulous business activities such as hoarding, black-marketing, selling banned or harmful goods to earn exorbitant profits must be avoided.
- c) Encourage Healthy Competition** – A healthy competitive atmosphere that offers certain benefits to the consumers must be encouraged.
- d) Ensure Accuracy** – Accuracy in weighing, packaging and quality of supplying goods to the consumers has to be followed.
- e) Pay Taxes Regularly** – Taxes and other duties to the government must be honestly and regularly paid.
- f) Get the Accounts Audited** – Proper business records, accounts must be managed. All authorized persons and authorities should have access to these details.
- g) Fair Treatment to Employees** – Fair wages or salaries, facilities and incentives must be provided to the employees.

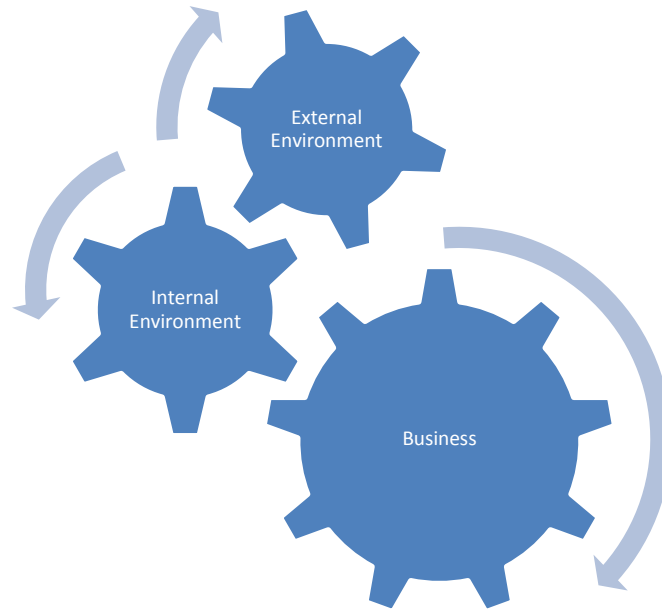
- h) Keep the Investors Informed** – The shareholders and investors must know about the financial and other important decisions of the company.
- i) Avoid Injustice and Discrimination** – Avoid all types of injustice and partiality to employees. Discrimination based on gender, race, religion, language, nationality, etc. should be avoided.
- j) No Bribe and Corruption** – Do not give expensive gifts, commissions and payoffs to people having influence.
- k) Discourage Secret Agreement** – Making secret agreements with other business people to influence production, distribution, pricing etc. are unethical.
- l) Service before Profit** – Accept the principle of "service first and profit next."
- m) Practice Fair Business** – Businesses should be fair, humane, efficient and dynamic to offer certain benefits to consumers.
- n) Avoid Monopoly** – No private monopolies and concentration of economic power should be practiced.
- o) Fulfil Customers' Expectations** – Adjust your business activities as per the demands, needs and expectations of the customers.
- p) Respect Consumers Rights** – Honor the basic rights of the consumers.
- q) Accept Social Responsibilities** – Honor responsibilities towards the society.
- r) Satisfy Consumers' Wants** – Satisfy the wants of the consumers as the main objective of the business is to satisfy the consumer's wants. All business operations must have this aim.
- s) Service Motive** – Service and consumer's satisfaction should get more attention than profit-maximization.

- t) **Optimum Utilization of Resources** – Ensure optimum utilization of resources to remove poverty and to increase the standard of living of people.
- u) **Intentions of Business** – Use permitted legal and sacred means to do business. Avoid Illegal, unscrupulous and evil means.

According to Woodrow **Wilson's** rules there are four important principles of business ethics. These four rules are as follows

- a) **Rule of publicity** : According to this principle, the business must tell the people clearly, what it tends to do.
- b) **Rule of equivalent price** : The customer should get proper value for their money. Below standard, outdated and inferior goods should not be sold at high prices.
- c) **Rule of conscience in business** : The businesspersons must have conscience while doing business, i.e. a morale sense of judging what is right and what is wrong.
- d) **Rule of spirit of service** : The business must give importance to the service motive.

2.7 Impact of Business Environment in success or failure of an organisation



Success or failure of an organisation highly depends on internal and external environment of business. If a firm successfully manage its internal environment which consists of 5 M i.e. Man, Material, Money Machinery and Management with Creativity, Courage, Curiosity the environment increases the productivity of the organisation. Again it is observed without proper external environment management organisation unable to survive. With proper management of above two environments how an organisation become successful is illustrated bellow with a case study.

2.7.1 Case Studies

- Sunil Bharti Mittal, born October 23, 1957 is an Indian businessman. Son of a politician, Sunil Mittal is from the town of Ludhiana in Punjab. A former student of Harvard Business School graduated from Punjab University. Founder, Chairman and Managing Director of Bharti Group
- Started his first business in 1976 at the age of 18 with a capital investment of Rs 20,000 (US\$1500) borrowed from his father.
- First business was to make crankshafts for local bicycle manufacturers. Closed in 1979 and moved to Bombay importing a variety of products -
- steel, brass, zinc, zip fasteners and plastics.

- Started a full-fledged business selling portable generators imported from Japan in 1982.
- Government banned the import of generators as two Indian companies were awarded licenses to manufacture generators locally and Sunil had to close his business.
- 1982 - First Step in Telecom Introduced the push button phones to India, replacing rotary phones.
- Bharti Telecom Limited (BTL) was incorporated.
- Entered into a technical tie up with Siemens AG of Germany.
- 1990s - Started making fax machines, cordless phones and other telecom gear.
- 1992 - **Turning Point**. Awarding of licenses for mobile phone services for the first time by Indian Govt.
- Secured rights to serve New Delhi. 1995, Bharti Cellular Limited (BCL) was formed to offer cellular services under the brand name Airtel.
- 2001- Entered into a joint venture with Singapore Telecom International for a \$650-million submarine cable project.
- Countries **first ever** undersea cable link connecting Chennai in India and Singapore.
- Bharti Enterprises went public in 2002.
- Airtel - **India's largest integrated and the first private telecom services provider** with a footprint in all the 23 telecom circles.
- July 2007 - Joint venture between Bharti Enterprises and AXA Group of France. (world leader in financial protection and wealth management).
- Retailing - November 2006, Sunil Mittal struck a joint venture deal with Wal-Mart, the US retail giant, to start a number of retail stores across India.
- Launched the Bharti Airtel's Digital TV.
- Partner with Narayanamurthy's Infosys Technologies to DTH service.
- Bharti Realty Private Limited - the in-house Real Estate Arm for Bharti Group - facilitates by extending support to the Group Companies for Identifying, Developing and Maintaining Quality Real Estate in line with their Business Models.
- With the advent of Reliance Jio into the telecommunication market Bharti group slowly move its business towards other sector except Airtel.

Learning's

- With the key understanding of both internal and external environment Bharti group uses its MEN, METEOR, MONEY, MECHANICS and

MANAGEMENT with CREATIVITY, CURIOSITY and COURAGE to maximize its productivity to extent business.

- Managing the current as well as future breed of volatile customers, reading their mind and predicting the future consumption trend.
- Ability to take decisions amidst uncertainties is at the root of new leadership paradigm. Sunil Mittal is first to enter many sectors of the business, which involves the risk of uncertainties. Here it is his vision of the entrepreneur that makes him successful.
- In this era of me-too products that flood the market place, the key to survival and success of an innovation is speed to market. Sunil Mittal's company Bharti has followed it by coming into the retail sector, insurance sector, and finance sector and now in the entertainment sector.
- Out-of-the-box thinking is one of the essentials of new leadership.

2.8 Techniques of Business Environment Analysis:

There are five techniques used by organisation to analyse and diagnose the business environment. The techniques are 1. SWOT analysis, 2. ETOP, 3. Forecasting, 4. Verbal and written information, 5. Management Information System.

2.8.1 SWOT Analysis

S stands for strengths, W for weaknesses, O for opportunities, and T for threats. SWOT analysis is the starting point to formulate a strategy. It is a technique of environment analysis which evaluates organisation's strengths and weaknesses, opportunities and threats and helps to formulate strategies and achieve objectives by:

- a) Exploiting organisational strengths,
- b). Exploiting environmental opportunities,
- c). Minimising and correcting the weaknesses, and
- d). Minimising environmental threats.

Objectives of SWOT analysis:

1. To compare company's profile (strengths and weaknesses) with threats and opportunities in the product or market areas where it wants to compete. It highlights company's strengths on which strategies will be based (to exploit environmental opportunities) and weaknesses that must be overcome.
2. To compare company's profile with that of competitors. These highlight areas where company has advantage or disadvantage over competitors in different product/market areas.

The impact of four variables (S, W, O and T) on strategy formulation is depicted through a matrix.

SWOT ANALYSIS		
INTERNAL & EXTERNAL FACTORS	STRENGTH(S)	WEAKNESS(W)
OPPORTUNITIES(O)	[S.O]	[W.O]
THREAT(T)	[S.T]	[W.T]

A brief description of four strategies is given below:

- a) **SO strategy:** Company uses its strengths to take advantage of environmental opportunities. Weaknesses are overcome and converted into strengths. Environmental threats are overpowered by opportunities.
- b) **WO strategy:** Company minimizes its weaknesses to maximise environmental opportunities by developing internal strengths or acquire the needed strength from outside (for example, adopt a new technology or seek the guidance of experts).
- c) **ST strategy:** The company maximises its strengths (technological, financial, managerial etc.) to minimise

environmental threats. For example, company can use technological developments to face competition in the market.

d) WT strategy: The company minimizes its weaknesses and environmental threats. It may require restructuring of the firm.

SO is the most desirable strategy where organisations use their strengths to exploit environmental opportunities and convert environmental threats into opportunities. In the worst situation, company's weaknesses match the environmental threats. Organisations follow WT strategy to minimise their weaknesses, convert them into strengths and convert environmental threats to opportunities.

2.8.2 ETOP:

ETOP means environmental threat and opportunity profile. It is a technique of environment analysis where organisations make a profile of their external environment. It analyses information about environmental threats and opportunities and their impact on strategic planning process. It helps to identify strategic opportunities for the company. Environmental opportunities indicate new lines of business and threats restrain them from entering into new business lines. A firm that wants to manufacture shoes, for example, will prepare an ETOP to analyse demand for shoes in the market, purchasing power of consumers, gender composition of market (male-female ratio), government regulations, technology used etc. On analysing the environment, if it finds there is demand for shoes, it will venture into this business.

2.8.3 Forecasting:

Forecasting means predicting future events and analysing their impact on plans. Organisations analyse the environment by applying various techniques to forecast Government policies, sales, technological developments etc. and use that information to formulate plans and strategies.

2.8.4 Verbal and Written Information:

Verbal information is collected by hearing and written information is collected by reading articles, journals, newspapers, newsletters etc. Common sources of verbal information are radio, television, work force, outsiders (consumers, suppliers, bankers) etc. It informs changes in the environment and prepares organisations to incorporate them in their plans and strategies.

2.8.5 Management Information System (MIS):

MIS is “a formal method of making available to management the accurate and timely information necessary to facilitate the decision-making process and enable the organisation’s planning, control and operational functions to be carried out effectively.”

MIS provides timely, accurate, concise, complete and relevant information based on computer technology about present and future environmental changes. It facilitates decision-making process and helps in making decisions based on future environment.

2.9 Limitations of Business Environment Analysis

Environmental analysis, particularly the forecasting part, suffers from several limitations:

- a) Based on Assumptions:** All forecasting results are based on certain assumptions which may not always be true. The basic assumption behind forecasting is that events do not change haphazardly and there is an orderly pattern in their behaviour. This assumption may not hold good in all cases. As a result forecast may become unreliable.
- b) Not Absolute Truth:** Forecasts merely indicate the trend of future events and may not be fully true. The various technique of forecasting simply projects the future trends and cannot guarantee that a particular trend will occur in future. All forecasts are wrong; they only differ in the degree of error. There is always a possibility of mistake.
- c) Time-consuming and Expensive:** Lot of time and money are involved in the collection, analysis and interpretation of data for forecasting.

Therefore, forecasting is useful only to the extent that benefits expected from it exceed the time and cost involved.

d) Unexpected and Unanticipated Events: We cannot tell unexpected and unanticipated events in business environment analysis.

Sometime, business has to face unexpected happenings. So, there will no benefit of business environment in these cases.

e) Not a sufficient guarantor: Environmental analysis in itself is not a sufficient guarantor of organisational effectiveness. It is only one of the inputs in the strategy development and testing.

f) Too much information Sometime too much information relating to business environment analysis will create the doubt in businessmen.

Exercise

Very Short Answer Type Questions

1. Business refers to

(a) Exchange (b) Money (c) Risk (d) Profit & Loss.

2. Business environment is the sum total of all
(a) External & internal factors (b) All Financial factors (c) Only non financial factors (d) GDP and fiscal deficit.
3. Internal environment consists of 5 M i.e.
 (a) Material, Money, Machinery, Management, Mob **(b) Men, Material, Money, Machinery, Management** (c) Men, Material, Money, Miracle, Management (d) Mail, Man, Material, Money, Management.
4. Micro environment does not include
(a) Money (b) Supplier (c) Customers (d) Media
5. Economic condition does not include
(a) Technological environment (b) Economic systems (c) Economic policies (d) Distribution of income.
6. The objective of business lies with (a) Increase the value of the firm with profit (b) Economic objective and Labour policy (c) Social responsibility towards different stake holders **(d) Economic objective of business and social responsibility of business.**
7. Ethics refers to
 (a) Character (b) morality (c) attitude (d) Cohesiveness
8. In SWOT analysis 'O' refers to
 (a) Observation **(b) Opportunity** (c) Oath (d) Optimality.
9. under ETOP
(a) Environmental threat and opportunity are analysed.
 (b) Profit maximisation and environment threat are analysed.
 (c) Loss minimisation and environmental opportunity are analysed.
 (d) Environmental threat, opportunity, profit & loss analysed.

10. Too much information relating to business creating _____ in decision making. (a) Positive effect (c) Willingness (d) Positive impact.

Answer. 1.(a). 2. (a). 3.(b). 4. (a). 5.(a). 6.(d). 7.(a). 8.(b). 9.(a)

Short Answer Type Questions

- 1) State any two features of business environment.
- 2) Mention the different types of business environment.
- 3) List the various elements of non-economic environment of business.
- 4) What is meant by the term 'ethics'?
- 5) What is Management Information System(MIS)?
- 6) How does demographic environment of business influence the business activities?
- 7) Explain the effect of political environment in the normal functioning of business enterprises.
- 8) Why should a business enterprise be socially responsible?
- 9) Bring out the limitations of business environment.
- 10) State key principle of business ethics.
- 11) Explain micro environment of Business.
- 12) What is business environment?
- 13) Evaluate the impact of business environment in success / failure of the firm

Long Answer Type Questions

- 1) 1.Describe the importance of business environment for the business firm.
- 2) Explain any two non-economic environment of business.
- 3) 3.What is meant by social responsibility of business? State the responsibilities of business towards the community.

- 4) Describe in brief the economic environment of business.
- 5) Discuss the macro environment of business.
- 6) Explain SWAT analysis.
- 7) Explain the social responsibility of business towards different groups.

.....Thank You.....

Globalization and its Consequence

3.1 Introduction

What is Globalization?

Globalization is the free movement of people, goods, and services across boundaries. This movement is managed in a unified and integrated manner. Further, it can be seen as a scheme to open the global economy as well as the associated growth in trade (global). Hence, when the countries that were previously shut to foreign investment and trade have now burned down barriers.

Considering a precise definition, countries that abide the rules and regulations set by WTO (World Trade Organization) are part of globalization. These procedures include oversees trade conditions among countries. Apart from this, there are other organizations such as the UN and different arbitration bodies available for supervision. Under this, non-discriminatory policies of trade are also enclosed.

Globalization is a process that encompasses the causes, courses, and consequences of transnational and transcultural integration of human and non-human activities. India had the distinction of being the world's largest economy in the beginning of the Christian era, as it accounted for about 32.9% share of world GDP and about 17% of the world population. The goods produced in India had long been exported to far off destinations across the world; the concept of globalisation is hardly new to India.

India currently accounts for Share in world total exports, 1.68 (%), Share in world total imports 2.48 (%) according to the World Trade Organisation (WTO) report 2017. Until the liberalisation of 1991, India was largely and intentionally isolated from the world markets, to protect its fledgling economy and to achieve self-reliance. Foreign trade was subject to import tariffs, export taxes and quantitative restrictions, while foreign direct investment was restricted by upper-limit equity participation, restrictions on technology transfer, export obligations and government approvals; these approvals were needed for nearly 60% of new FDI in the industrial sector. The restrictions ensured that FDI averaged only around \$200M annually between 1985 and

1991; a large percentage of the capital flows consisted of foreign aid, commercial borrowing and deposits of non-resident Indians.

India's exports were stagnant for the first 15 years after independence, due to the predominance of tea, jute and cotton manufactures, demand for which was generally inelastic. Imports in the same period consisted predominantly of machinery, equipment and raw materials, due to nascent industrialisation. Since liberalisation, the value of India's international trade has become more broad-based and has risen to ₹ 63, 0801 billion in 2003–04 from ₹ 12.50 billion in 1950–51. India's trading partners are China, the US, the UAE, the UK, Japan and the EU. The exports during April 2007 were \$12.31 billion up by 16% and import were \$17.68 billion with an increase of 18.06% over the previous year. Exports during April 2018 were valued at US \$ 25.91 Billion as compared to US \$ 24.64 Billion during April 2017.

Few definitions of globalization are given bellow:

“All those processes by which the people of the world are incorporated into a single world society”.

-Albrow

Globalization is defined here as a set of economic and political structures and processes deriving from the changing character of the goods and assets that comprise the base of the international political economy - in particular, the increasing structural differentiation of those goods and assets.

- Cerny

“Globalization may simply be an intensification of the process of international interdependence, a function of the growth of competition in an international free trade system intensified by the diffusion of technology”.

- Jones

“ A process in which the production and financial structures of countries are becoming interlinked by an increasing number of cross-border transactions to create an international division of labour in which national wealth creation comes, increasingly, to depend on economic agents in other countries, and the ultimate stage of economic integration where such dependence has reached its spatial limit”.

- **Bairoch & Kozul-Wright**

According to Thomas (1997), “globalization refers broadly to the process whereby power is located in global social formations and expressed through global networks rather than through territorially-based states”.

- **Thomas**

3.2 Features of Globalization

The concept of Globalisation involves within its ambit the following features:

- a) Liberalisation:** It stands for the freedom of the entrepreneurs to establish any industry or trade or business venture, within their own countries or abroad.
- b) Free trade:** It stands for free flow of trade relations among all the nations. Each state grants MFN (most favoured nation) status to other states and keeps its business and trade away from excessive and hard regulatory and protective regimes.
- c) Globalisation of Economic Activity:** Economic activities are be governed both by the domestic market and also the world market. It stands for the process of integrating the domestic economies with world economy.

- d) Liberalisation of Import-Export System:** It stands for liberating the import-export activity and securing a free flow of goods and services across borders.
- e) Privatisation:** Keeping the state away from ownership of means of production and distribution and letting the free flow of industrial, trade and economic activity across borders.
- f) Increased Collaborations:** Encouraging the process of collaborations among the entrepreneurs with a view to secure rapid modernisation, development and technological advancement.
- g) Economic Reforms:** Encouraging fiscal and financial reforms with a view to give strength to free world trade, free enterprise, and market forces.
- h) Several dimensions of Globalisation:** Increased and Active Social, Economic and Cultural Linkages among the people. Globalisation has social, economic, political cultural and technological dimensions. It involves all round inter-linkages among all the people of the world. Free flow of knowledge, technology goods services and people across all societies is its key feature. It attempts at making geographical borders soft permitting all the people to develop their relations and links. Globalisation accepts and advocates the value of free world, free trade, freedom of access to world markets and a free flow of investments across borders. It stands for integration and democratisation of the world's culture, economy and infrastructure through global investments.
- i) Connectivity:** Localities being connected with the world by breaking national boundaries; forging of links between one society and another, and between one country and another through international transmission of knowledge, literature, technology, culture and information.
- j) Borderless Globe:** Breaking of national barriers and creation of inter-connectedness; the ideal of 'borderless globe' articulated by Kenichi Ohmae.

- k) A Composite Process:** Integration of nation-states across the world by common economic, commercial, political, cultural and technological ties; creation of a new world order with no national boundaries.

3.3 Consequences of Globalization

Globalization is an economic tsunami that is sweeping the planet. We can't stop it but there are many things we can do to slow it down and make it more equitable. The consequence of Globalization is may be positive or negative in nature they are discussed below:

3.3.1 Positive Consequences

Supporters of globalization argue that it has the potential to make this world a better place to live in and solve some of the deep-seated problems like unemployment and poverty.

a) Free trade: Free trade is supposed to reduce barriers such as tariffs, value added taxes, subsidies, and other barriers between nations. This is not true. There are still many barriers to free trade. The problem is that the big G20 countries added more than 1,200 restrictive export and import measures since 2008.

b) Economic growth: The proponents say globalization represents free trade which promotes global economic growth; creates jobs, makes companies more competitive, and lowers prices for consumers, improvement in GDP.

c) Ethical goal: It also provides poor countries, through infusions of foreign capital and technology, with the chance to develop economically and by spreading prosperity, creates the conditions in which democracy and respect for human rights may flourish. According to supporters

globalization and democracy should go hand in hand. It should be pure business with no colonialist designs.

d) Worldwide market: There is now a worldwide market for companies and consumers who have access to products of different countries.

e) Super power: Gradually there is a world power that is being created instead of separate power sectors. Politics is merging and decisions that are being taken are actually beneficial for people all over the world.

f) Exchange of information: There is more influx of information between two countries, which do not have anything in common between them.

g) Exchange of Culture: There is cultural intermingling and each country is learning more about other cultures.

h) Better understanding: Socially we have become more open and tolerant towards each other and people who live in the other part of the world are not considered aliens.

I) E platform: Most people see speedy travel, mass communications and quick dissemination of information through the Internet as benefits of globalization.

j) Easy procurement of labour: Labour can move from country to country to market their skills. But this can cause problems with the existing labour and downward pressure on wages.

k) Sharing technology: Sharing technology with developing nations will help them progress. True for small

countries but stealing technologies and IP have become a big problem with competitors like China.

L) Investment worldwide: Transnational companies investing in installing plants in other countries provide employment for the people in those countries often getting them out of poverty.

3.3.2 Negative Consequences

The general complaint about globalization is that it has made the rich richer while making the non-rich poorer. “It is wonderful for managers, owners and investors, but hell on workers and nature.”

- a) **Barriers in trade:** Globalization is supposed to be about free trade where all barriers are eliminated but there are still many barriers. For instance 161 countries have value added taxes (VATs) on imports which are as high as 21.6% in Europe.
- b) **Losing employment:** The biggest problem for developed countries is that jobs are lost and transferred to lower cost countries.” According to conservative estimates by Robert Scott of the Economic Policy Institute, granting China most favoured nation status drained away 3.2 million jobs, including 2.4 million manufacturing jobs.
- c) **Exploit Employees:** Workers in developed countries like the US face pay-cut demands from employers who threaten to export jobs. This has created a culture of fear for many middle class workers who have little leverage in this global game

- d) Exploit tax:** Large multi-national corporations have the ability to exploit tax havens in other countries to avoid paying taxes.
- e) social injustice:** Multinational corporations are accused of social injustice, unfair working conditions (including slave labour wages, living and working conditions), as well as lack of concern for environment, mismanagement of natural resources, and ecological damage.
- f) Interference in Political decisions:** Multinational corporations, which were previously restricted to commercial activities, are increasingly influencing political decisions. Many think there is a threat of corporations ruling the world because they are gaining power, due to globalization.
- g) Copy of technologies:** Building products overseas in countries like China puts our technologies at risk of being copied or stolen, which is in fact happening rapidly.
- h) Unequal distribution of resources:** The anti-globalists also claim that globalization is not working for the majority of the world. During the most recent period of rapid growth in global trade and investment, 1960 to 1998, inequality worsened both internationally and within countries. The UN Development Program reports that the richest 20 percent of the world's population consume 86 percent of the world's resources while the poorest 80 percent consume just 14 percent.

i) Communicable diseases: Some experts think that globalization is also leading to the incursion of communicable diseases. Deadly diseases like HIV/AIDS are being spread by travellers to the remotest corners of the globe.

j) Exploitation of labour: Globalization has led to exploitation of labour. Prisoners and child workers are used to work in inhumane conditions. Safety standards are ignored to produce cheap goods. There is also an increase in human trafficking.

k) Social Welfare: Social welfare schemes or “safety nets” are under great pressure in developed countries because of deficits, job losses, and other economic ramifications of globalization.

3.4 Globalization and India

Developed countries have been trying to pursue developing countries to liberalize the trade and allow more flexibility in business policies to provide equal opportunities to multinational firms in their domestic market. **International Monetary Fund (IMF)** and **World Bank** helped them in this endeavour. Liberalization began to hold its foot on barren lands of developing countries like India by means of reduction in excise duties on electronic goods in a fixed time frame. Indian government did the same and liberalized the trade and investment due to the pressure from World Trade Organization. Import duties were cut down phase-wise to allow MNC's operate

in India on equality basis. As a result globalization has brought to India new technologies, new products and also the economic opportunities.

Despite bureaucracy, lack of infrastructure and an ambiguous policy framework that adversely impact MNCs operating in India, MNCs are looking at India in a big way, and are making huge investments to set up R&D centres in the country. India has made a lead over other growing economies for IT, business processing, and R&D investments. There have been both positive and negative impacts of globalization on social and cultural values in India.

When we talk about **globalization and the Indian economy**, one name strikes our mind, that is, Dr Manmohan Singh. He was the finance minister in the 1990s when globalization was fully implemented and experienced in India. He was the front man who framed the economic liberalization proposal. Since then, the nation has gradually moved ahead to become one of the supreme economic leaders in the world.

New Economic Policy – 1991

The year 1991 is an important landmark in the economic history of post-Independent India. The country went through a severe economic crisis triggered by a serious Balance of Payments situation. The crisis was converted into an opportunity to introduce some fundamental changes in the content and approach to economic policy.

Objectives

The main objectives behind the launching of the New Economic policy in 1991 by the union Finance Minister Dr. Manmohan Singh are stated as follows:

- 1)** The main objective was to plunge Indian economy in to the arena of Globalization and to give it a new thrust on market orientation.
- 2)** The policy intended to bring down the rate of inflation and to remove imbalances in payment.

- 3) It intended to move towards higher economic growth rate and to build sufficient foreign exchange reserves.
- 4) It wanted to achieve economic stabilization and to convert the economic in to a market economy by removing all kinds of unnecessary restrictions.
- 5) It wanted to permit the international flow of goods, services, capital, human resources and technology, without many restrictions.
- 6) It wanted to increase the participation of private players in the all sectors of the economy.

Beginning with mid-1991, the govt. has made some radical changes in its policies bearing on trade, foreign investment exchange rate, industry, fiscal discipline etc. The various elements, when put together, constitute an economic policy which marks a big departure from what has gone before.

The thrust of the New Economic Policy has been towards creating a more competitive environment in the economy as a means to improving the productivity and efficiency of the system. This was to be achieved by removing the barriers to entry and the restrictions on the growth of firm.

Measures Adopted in the New Economic Policy

Due to various controls, the economy became defective. The entrepreneurs were unwilling to establish new industries. Corruption, undue delays and inefficiency rose due to these controls. Rate of economic growth of the economy came down. So in such a scenario economic reforms were introduced to reduce the restrictions imposed on the economy. The following measures were taken in new economic policy 1991.

(i) Free determination of interest rate by the commercial Banks:

Under the policy of liberalisation interest rate of the banking system

will not be determined by RBI rather all commercial Banks are independent to determine the rate of interest.

(ii) Increase in the investment limit for the Small Scale Industries

(SSIs): Investment limit of the small scale industries has been raised to Rs. 1 crore. So these companies can upgrade their machinery and improve their efficiency.

(iii) Freedom to import capital goods: Indian industries will be free to buy machines and raw materials from foreign countries to do their holistic development.

(v) Freedom for expansion and production to Industries: In this new liberalized era now the Industries are free to diversify their production capacities and reduce the cost of production. Earlier government used to fix the maximum limit of production capacity. No industry could produce beyond that limit. Now the industries are free to decide their production by their own on the basis of the requirement of the markets.

(vi) Abolition of Restrictive Trade Practices: According to Monopolies and Restrictive Trade Practices (MRTP) Act 1969, all those companies having assets worth Rs. 100 crore or more were called MRTP firms and were subjected to several restrictions. Now these firms have not to obtain prior approval of the Govt. for taking investment decision.

(vii) Removal of Industrial Licensing and Registration: Previously private sector had to obtain license from Govt. for starting a new venture. In this policy private sector has been freed from licensing and other restrictions. Previously licence were needed in Liquor, Cigarette, Defence equipment, Industrial explosives, Drugs, Hazardous chemicals etc but after 1991 licensing procedure removed completely from the above items.

(viii) Privatisation: Simply speaking, privatisation means permitting the private sector to set up industries which were previously reserved for the public sector. Under this policy many PSU's were sold to private

sector. Literally speaking, privatisation is the process of involving the private sector-in the ownership of Public Sector Units (PSU's). The main reason for privatisation was in currency of PSU's are running in losses due to political interference. The managers cannot work independently. Production capacity remained under-utilized. To increase competition and efficiency privatisation of PSUs was inevitable.

Step taken for Privatisation:

The following steps are taken for privatisation

a) Sale of shares of PSUs: Indian Govt. started selling shares of PSU's to public and financial institution.

b) Disinvestment in PSU's: The Govt. has started the process of disinvestment in those PSU's which had been running into loss. It means that Govt. has been selling out these industries to private sector.

c) Minimisation of Public Sector: Previously Public sector was given the importance with a view to help in industrialisation and removal of poverty. But these PSU's could not able to achieve this objective hence it was decided to minimise public sector.

ix) Globalization: Literally speaking Globalisation means to make Global or worldwide, otherwise taking into consideration the whole world. Broadly speaking, Globalisation means the interaction of the domestic economy with the rest of the world with regard to foreign investment, trade, production and financial matters.

Steps taken for Globalisation:

Following steps are taken for Globalisation:

(i) Reduction in tariffs: Custom duties and tariffs imposed on imports and exports are reduced gradually just to make India economy attractive to the global investors.

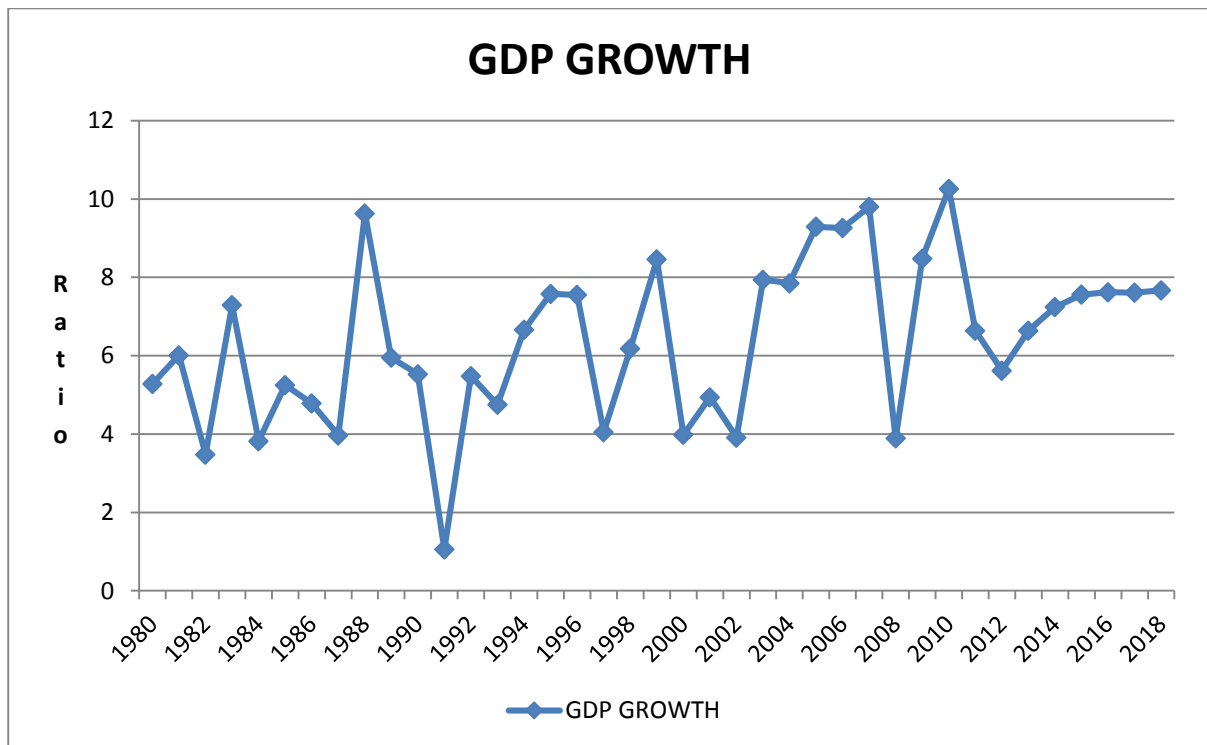
(ii) Long term Trade Policy: Forcing trade policy was enforced for longer duration.

(iv) Increase in Equity Limit of Foreign Investment:

Equity limit of foreign capital investment has been raised from 40% to 100% percent. In 47 high priority industries foreign direct investment (FDI) to the extent of 100% will be allowed without any restriction. In this regard Foreign Exchange Management Act (FEMA) will be enforced.

The growth of gross domestic product is outlined bellow which shows that in most of the years after 1991 the growth is increased significantly and after 2012 it has an increasing trend till now.

Table 1. GDP growth of India before and after 1991



Date Source: International Monetary Fund

If the Indian economy is shining at the world map currently, its sole attribution goes to the implementation of the new economic policy in 1991.

3.4.1 Benefits of Globalization in India

a) Rise in Employment: With the opening of SEZs or Special Economic Zones, availability of new jobs has been quite effective. Furthermore, Export Processing Zones or EPZs are also established employing thousands of people. Another factor is cheap labour in India. This has motivated big firms in the west outsource work to companies present in this region. All these factors are causing more employment.

b) Surge in Compensation: After the outburst of globalization, the compensation levels have stayed higher. These figures are impressive as compared to what domestic companies might have presented. The level of knowledge and skill brought by foreign companies is obviously advanced. This has ultimately resulted in modification of the management structure.

c) Improved Standard of Living and Better Purchasing Power: Wealth generation across Indian cities has enhanced since globalization has fully hit the nation. It is notice improvement in the purchasing power for individuals, especially those working under foreign organizations. Further, domestic organizations are motivated to present higher rewards to their employees. Therefore, a number of cities are experiencing better standards of living together with business development.

3.4.2 Factors aiding globalisation

a) Technology: The integration of technology in India has transformed jobs which required specialized skills and lacked decision-making skills to extensively-defined jobs with higher accountability that require new skills, such as numerical, analytical, communication and interactive skills. As a result of this, more job opportunities are created for people.

b) Reforms: The 1991 reforms in India have led to greater economic liberalisation which has in turn increased India's interaction with the rest of the world.

c) Faster Transportation: Improved transport, making global travel easier. For example, there has been a rapid growth in air-travel, enabling greater movement of people and goods across the globe.

d) Rise of WTO: The formation of WTO in 1994 led to reduction in tariffs and non-tariff barriers across the world. It also led to the increase in the free trade agreements among various countries.

e) Improved mobility of capital: In the past few decades there has been a general reduction in capital barriers, making it easier for capital to flow between different economies. This has increased the ability for firms to receive finance.

f) Rise of MNCs: Multinational corporations operating in different geographies have led to a diffusion of best practices. MNCs produce in one country sale it across the world.

These factors have helped in economic liberalization and globalization and have facilitated the world in becoming a "global village". Increasing interaction between people of different countries has led to internationalization of food habits, dress habits, lifestyle and views.

3.4.3 Impact of Globalisation in India

Globalization has been defined as the process of rapid integration of countries and happenings through greater foreign trade and foreign investment. It is the process of international integration arising from the interchange of world views, products, ideas and other aspects of culture.

a) Greater Number of Jobs: The advent of foreign companies and growth in economy has led to job creation. However, these jobs are concentrated more in the services sector and this has led to rapid growth of service sector creating problems for individuals with low level of education.

b) More choice to consumers: Globalisation has led to a boom in consumer products market. We have a range of choice in selecting goods unlike the times where there were just a couple of manufacturers.

c) Higher Disposable Incomes: People in cities working in high paying jobs have greater income to spend on lifestyle goods. There has been an increase in the demand of products like meat, egg, pulses, organic food as a result. It has also led to protein inflation.

d) Shrinking Agricultural Sector: Globalization does not have any positive impact on agriculture. On the contrary, it has few detrimental effects as government is always willing to import food grains, sugar etc. Government never thinks to pay more to farmers so that they produce more food grains but resorts to imports. On the other hand, subsidies are declining so cost of production is increasing. Even farms producing fertilizers have to suffer due to imports. There are also threats like introduction of new hybrid, herbicide resistant crops etc.

e) Increasing Health-Care costs: Greater interconnections of the world have also led to the increasing susceptibility to diseases. Whether it is the bird-flu virus or Ebola, the diseases have taken a global turn,

spreading far and wide. This results in greater investment in healthcare system to fight such diseases.

f) Child Labour: Despite prohibition of child labour by the Indian constitution, most rural child workers are agricultural labourers, urban children work in manufacturing, processing, servicing and repairs. Globalization most directly exploits an estimated 300,000 Indian children who work in India's hand-knotted carpet industry, which exports over \$300 million worth of goods a year.

g) Socio-Cultural Impact on Indian Society

Nuclear families are emerging. Divorce rates are rising day by day. Men and women are gaining equal right to education, to earn, and to speak. 'Hi', 'Hello' is used to people instead of Namaskar and Namaste.

(i) Access to education: Globalisation has aided in the explosion of information on the web that has helped in greater awareness among people. It has also led to greater need for specialisation and promotion of higher education in the country.

(ii) Growth of cities: It has been estimated that by 2050 more than 50% of India's population will live in cities. The boom of services sector and city centric job creation has led to increasing rural to urban migration.

(iii) Clothing: Traditional Indian clothes replaced by Indo-western clothing, the fusion of Western and Sub continental fashion is in trend. Wearing jeans, t-shirts, have become common among Indians.

(iii) Indian Performing Arts: The Indian Classical music has gained worldwide recognition but recently, western music is too becoming very popular in our country. Fusing Indian music along with western music is encouraged among musicians. More Indian dance shows are held globally. The number of foreigners who are eager to learn

Bharatanatyam is rising. Western dance forms such as Jazz, Hip hop, Salsa, Ballet have become common among Indian youngsters.

(iv) Nuclear Families: The increasing migration coupled with financial independence has led to the breaking of joint families into nuclear ones.

(v) Pervasive Media: There is greater access to news, music, movies, videos from around the world. Foreign media houses have increased their presence in India. India is part of the global launch of Hollywood movies which is very well received here. It has a psychological, social and cultural influence on our society.

(h) Psychological Impact on Indian Society

a) Development of Bicultural Identity: A good example of bicultural identity is among the educated youth in India who despite being integrated into the global fast paced technological world, may continue to have deep rooted traditional Indian values with respect to their personal lives and choices such as preference for an arranged marriage, caring for parents in their old age.

b) Growth of Self-Selected Culture: means people choose to form groups with like-minded persons who wish to have an identity that is untainted by the global culture and its values. The values of the global culture, which are based on individualism, free market economics, and democracy and include freedom, of choice, individual rights, openness to change, and tolerance of differences are part of western values. For most people worldwide, what the global culture has to offer is appealing. One of the most vehement criticisms of globalization is that it threatens to create one homogeneous worldwide culture in which all children grow

up wanting to be like the latest pop music star, eat Big Macs, vacation at Disney World, and wear blue jeans, and Nikes.

- c) Consumerism:** Consumerism has permeated and changed the fabric of contemporary Indian society. Western fashions are coming to India: the traditional Indian dress is increasingly being displaced by western dresses especially in urban areas. Media- movies and serials- set a stage for patterns of behaviour, dress codes and jargon. There is a changing need to consume more and more of everything.

We cannot say that the impact of globalization has been totally positive or totally negative. It has been both. Each impact mentioned above can be seen as both positive as well as negative. However, it becomes a point of concern when, an overwhelming impact of globalization can be observed on the Indian culture.

Drivers of Globalization

The different drivers of globalization are discussed bellow:

1) Technological drivers: Technology shaped and set the foundation for modern globalization. Innovations in the transportation technology revolutionized the industry. The most important developments among these are the commercial jet aircraft and usage of lesser technology in defence and medical sector. Inventions in the area of microprocessors and telecommunications enabled highly effective computing and communication at a low-cost level. Finally the rapid growth of the Internet is the latest technological driver that created global e-business and e-commerce.

2) Political drivers: Liberalized trading rules and deregulated markets lead to lowered tariffs and allowed foreign direct investments in almost all over the world. The introduction of the theory of GST and concept of

easy tax structure including one nation one market theory may be termed as political drivers that welcome foreign investment.

3) Market drivers: As domestic markets become more and more saturated, the opportunities for growth are limited and global expanding is a way most organizations choose to overcome this situation. Common customer needs and the opportunity to use global marketing channels and transfer marketing to some extent are also incentives to choose internationalization.

4) Cost drivers: Sourcing efficiency and costs vary from country to country and global firms can take advantage of this fact. MNCs now a day manufacture product in the country where cost of each unit lower than any other country and sells it worldwide to gain competitive advantage.

5) Competitive drivers: With the global market, global inter-firm competition increases and organizations are forced to “play” international. Strong interdependences among countries and high two-way trades and FDI actions also support this driver.

WTO , World Bank and IMF

The Bretton Woods Institutions, the IMF and World Bank have an important role to play in making globalization work better. They were created in 1944 to help restore and sustain the benefits of global integration, by promoting international economic cooperation. Today, they pursue, within their respective mandates, the common objective of broadly-shared prosperity. The World Bank concentrates on long-term investment projects, institution-building, and on social, environmental, and poverty issues. The IMF focuses on the functioning of the international monetary system, and on promoting sound macroeconomic policies as a precondition for sustained economic growth. WTO is world trade organisation, whose main objective is liberalisation of international trade I.e to remove all kinds of barriers in trade

between nations. For which number of agreements are there under WTO for trade in goods and services, for intellectual property rights and investment. There are several other terms and agreements. Also there is a dispute settlement body under it.

International Monetary Fund

International Monetary fund (IMF) is more like a cooperative bank which works towards the monetary cooperation of member countries i .e helps in matters of money and currency. It works in areas like balance of payment problems, exchange rate stability, providing policy advice to govt and central banks etc. The IMF has implemented many reforms in recent years, to serve the globe and improve its ability to serve its membership. They are discussed follows:

a) Transparency: The IMF has increasingly become an open and transparent organization, as demonstrated by the overwhelming amount of information now available on its internet website. It is also encouraging transparency among its membership.

b) Economic Governance: It is taking action to strengthen economic governance. For instance, it is promoting the use of standards and codes as vehicles for sound economic and financial management and corporate governance.

c) Stability and Integrity: It is working to safeguard the stability and integrity of the international financial system as a global public good. In particular, the joint IMF-World Bank Financial Sector Assessment Program (FSAP) is at the core of efforts to strengthen financial sectors and combat money laundering in member countries.

Encouraging Reforms: It is encouraging true national ownership of reforms by streamlining the conditions attached to IMF-supported programs. While conditionality remains essential, countries must themselves take responsibility for implementing the necessary reforms.

World Bank

World Bank is actually a development fund or institution working towards the social and economic development of developing countries. Like providing funds and technical help for health, education, infrastructure, irrigation projects etc. The World Bank Group, like the IMF, was created at Bretton Woods in 1944. Its goal is to provide financial and technical assistance to developing countries around the world in an effort to reduce poverty and support development. It consists of five underlying institutions, the first two of which are collectively referred to as The World Bank.

i) International Bank for Reconstruction and Development (IBRD).

This is the IMF's lending arm. It provides financial assistance to credit-worthy, middle- and low-income nations.

ii) International Development Association (IDA). IDA provides loans and grants to poor countries.

iii) International Finance Corporation (IFC). In contrast to the World Bank, which focuses its efforts on governments, the IFC provides money and advice to private sector entities.

iv) Multilateral Investment Guarantee Agency. MIGA seeks to encourage foreign direct investment in developing nations.

v) International Centre for Settlement of Investment Disputes. ICSID provides physical facilities and procedural expertise to help resolve the inevitable disputes that arise between two parties.

The World Bank pursues its objectives by delivering financial assistance to developing nations. It gives low- or no-interest loans and grants to finance a wide array of investments in such areas as education, health, public administration, infrastructure, financial and private sector development, agriculture, and environmental and natural resource management. For example the 10-year loan was made on

favourable terms that include a provision that repayment does not need to begin for five years etc.

The World Trade Organization

The World Trade Organization (WTO) claims to be “the only global international organization dealing with the rules of trade between nations.” The WTO’s efforts centre on developing trade agreements between nations to encourage cross-border commerce. This includes setting up the agreements, interpreting the agreements and facilitating dispute settlement. Officially founded in 1995, the WTO traces its roots back to Bretton Woods where the General Agreement on Trade and Tariffs (GATT) was crafted in an effort to encourage and support trade between nations. Following up on GATT, the 1986-1994 Uruguay Roundtable trade negotiations resulted in the formal creation of the WTO. The WTO headquarters is located in Geneva, Switzerland. Like the IMF and the World Bank, the WTO is funded by its members. The WTO seeks to facilitate cross-border trade. Negotiations are conducted in an all-or-nothing format, with every issue on the table discussed until resolved. Accordingly, there are no partial deals, so missed deadlines and protracted efforts that continue for many years are not uncommon. In addition to large-scale trade initiatives, the WTO also facilitates trade dispute negotiations, consultations etc.

Exercise

Very Short Answer Type Questions

1. Globalization is the free movement of people, goods, _____ across the globe.
(a) Funds **(b) Services** (c) Technologies (d) Dividend
2. WTO stands for
(a) World trade organisation (b) World tariff organisation (c) World Tiffin organisation (d) World technological organisation.
3. Globalization has social, economic, cultural, political and _____ dimensions.
(a) technological (b) tactical (c) terminal (c) regulating
4. SEZ refers to
(a) Special Economic Zone (b) Special Energy Zone (c) Specific Economic Zone (d) Special Earth Zone
5. Which of the following factors does not aid globalization?
(a) Technology **(b) poverty** (c) Transportation (d) MNCs
6. World bank working towards the
(a) Political and cultural development **(b) Social and economic development**
(c) political and economic development (d) Social and cultural development.

7. GATT refers to

(a) General Agreement on Trade and Tariffs (b) Generally Accepted Tax and Tariff (c) Generally Accepted Tax and Trade (d) General Agreement on Trade and Technology.

Answer. 1.(b). 2. (a). 3.(a). 4. (a). 5.(b). 6.(b). 7.(a).

Short Answer Type Questions

- 1) What is Globalization?
- 2) Give two features of globalization.
- 3) State two positive consequence of Globalization.
- 4) What is privatization?
- 5) Write two benefits of Globalization?
- 6) Explain the socio cultural impact of Globalization?
- 7) What is “Consumerism”?
- 8) Write short note on WTO?

Long Answer Type Questions

- 1) What are the consequences of Globalization?
- 2) Objective of new economic policy 1991?
- 3) Measures adopted in new economic policy 1991?
- 4) Explain factors aiding Globalization?
- 5) Explain the impact of Globalization?
- 6) What are different driver of Globalization?
- 7) Explain the role of World Bank, IMF in financial development of a country?

E-Commerce

4.1 Introduction

E-commerce refers to buying and selling of products or services over electronic systems through internet and other computer networks. Electronic commerce draws on technologies such as mobile commerce, electronic funds transfer, supply chain management, Internet marketing, online transaction processing, Electronic Data Interchange (EDI), inventory management systems, and automated data collection systems.

E-commerce businesses employ the following:

- Online shopping web sites for retail sales direct to consumers.
- Providing or participating in online marketplaces, which process third-party business-to-consumer or consumer-to-consumer sales.
- Business-to-business buying and selling Gathering and using demographic data through web contacts and social media. Business-to-Business (B2B) electronic data interchange.
- Marketing to prospective and established customers by e-mail or fax (for example, with newsletters).
- Online financial exchanges for currency exchanges or trading purposes.

E-Commerce or Electronics Commerce is a methodology of modern business, which addresses the need of business organizations, vendors and customers to reduce cost and improve the quality of goods and services while increasing the speed of delivery. E-commerce refers to the paperless exchange of business information using the following ways:

- a) Electronic Data Exchange (EDI)
- b) Electronic Mail (e-mail)
- c) Electronic Bulletin Boards
- d) Electronic Fund Transfer (EFT)
- e) Other Network-based technologies

4.1.1 Technical Infrastructure

The Internet's growth has become explosive and it seems impossible to escape the bombardment of www.com's seen constantly on television, heard on radio, and seen in magazines. Because the Internet has become such a large part of our lives, a good understanding is needed to use this new tool most effectively. Internet is network of network means a global network of computers. Each computer connected to the Internet must have a unique address. Internet addresses are in the form of nnn.nnn.nnn.nnn (where nnn must be a number from 0 – 255). This address is known as an IP address. Every single system is identified with this IP address. Every single event and transaction can be monitored and control with the help of IP address and internet protocols.

4.2 Features E-Commerce

Non-Cash Payment: E-Commerce enables the use of credit cards, debit cards, smart cards, electronic fund transfer via bank's website, and other modes of electronics payment.

a) 24x7 Service availability: E-commerce automates the business of enterprises and the way they provide services to their customers. It is available anytime, anywhere.

b) Advertising and Marketing: E-commerce increases the reach of advertising of products and services of businesses. It helps in better marketing management of products and services.

c) Improved Sales: Using e-commerce, orders for the products can be generated anytime, anywhere without any human intervention. It gives a big boost to existing sales volumes.

d) Support: E-commerce provides various ways to provide pre-sales and post-sales assistance to provide better services to customers.

e) Inventory Management: E-commerce automates inventory management. Reports get generated instantly when required. Product inventory management becomes very efficient and easy to maintain.

f) Communication improvement: E-commerce provides ways for faster, efficient, reliable communication with customers and partners.

4.3 Difference between Traditional Commerce and E-Commerce

Traditional Commerce	E- commerce
Heavy dependency on information exchange from person to person.	Information sharing is made easy via electronic communication channels making a little dependency on person to person information exchange.
Communication/transactions are done in synchronous way. Manual intervention is required for each communication or transaction.	Communication or transactions can be done in asynchronous way. The whole process is completely automated.
It is difficult to establish and maintain standard practices in traditional commerce.	A uniform strategy can be easily established and maintained in e-commerce.
Communications of business depends upon individual skills.	In e-commerce, there is no human intervention.
Unavailability of a uniform platform, as traditional commerce depends heavily on personal communication.	E-commerce websites provide the user a platform where all the information is available at one place.
No uniform platform for information sharing, as it depends heavily on personal communication.	E-commerce provides a universal platform to support commercial/business activities across the globe.

4.4 The advantages of e-commerce can be broadly classified into three major categories:

- a) Advantages to Organizations
- b) Advantages to Consumers
- c) Advantages to Society

a) Advantage to organisation:

i) Expansion of Market: Using e-commerce, organizations can expand their market to national and international markets with minimum capital investment. An organization can easily locate more customers, best suppliers, and suitable business partners across the globe.

ii) Cost Reduction: E-commerce helps organizations to reduce the cost to create process, distribute, retrieve and manage the paper based information by digitizing the information.

iii) Brand Image: E-commerce improves the brand image of the company.

iv) Customer Service: E-commerce helps organizations to provide better customer service.

v) Simplify Work: E-commerce helps to simplify the business processes and makes them faster and efficient.

vi) Reduction of Paper Work: E-commerce reduces the paper work.

vii) Improve Productivity: E-commerce increases the productivity of organizations. It supports "pull" type supply management. In "pull" type supply management, a business process starts when a request comes from a customer and it uses just-in-time manufacturing way.

b) Advantage to consumers

i) Continues Service: It provides 24x7 supports. Customers can enquire about a product or service and place orders anytime, anywhere from any location.

ii) Choice of Options: E-commerce application provides users with more options and quicker delivery of product and users with more options to compare and select the cheaper and better options.

iii) Review Options: A customer can put review comments about a product and can see what others are buying, or see the review comments of other customers before making a final purchase. E-commerce provides options of virtual auctions.

iv) More Information: It provides readily available information. A customer can see the relevant detailed information within seconds, rather than waiting for days or weeks.

v) Time and Cost Saving: Digital platform provide the customer variety of choice and opportunity of comparison of price and products. Because of this it reduces the time and cost to a great extent.

c) Advantage to society

i) Competitiveness: E-Commerce increases the competition among organisations and as a result, organisations provide substantial discounts to customers. Customers need not travel to shop a product, thus less traffic on road and low air pollution.

ii) Reduction of Cost: E-commerce helps in reducing the cost of products, so less affluent people can also afford the products.

iii) Expansion of Service: E-commerce has enabled rural areas to access services and products, which are otherwise not available to them. E-commerce helps the government to deliver public services such as healthcare, education, social services at a reduced cost and in an improved manner.

iv) Economic Improvement: With the help of digital platform, software development, it become very easy to accumulate tax for Government which further used by the govt for infrastructure development and economic development.

4.5 The disadvantages of e-commerce can be broadly classified into two major categories:

- a)** Technical disadvantages
- b)** Non-technical disadvantages

a) Technical Disadvantages

- i.** The software development industry is still evolving and keeps changing rapidly. In many countries, network bandwidth might cause an issue.
- ii.** ii) Special types of web servers or other software might be required by the vendor, setting the e-commerce environment apart from network servers.
- iii.** iii) Sometimes, it becomes difficult to integrate an e-commerce software or website with existing applications or databases. There could be software/hardware compatibility issues, as some e-commerce software may be incompatible with some operating system or any other component.
- iv.** iv) There can be lack of system security, reliability or standards owing to poor implementation of e-commerce. This will certainly bring the issues of virus, stalling information, mismanagement of data etc.

b) Non Technical Disadvantage

i) Initial cost: The cost of creating/building an e-commerce application in-house may be very high. There could be delays in launching an e-Commerce application due to mistakes, and lack of experience.

ii) User resistance: Users may not trust the site being an unknown faceless seller. Such mistrust makes it difficult to convince traditional users to switch from physical stores to online/virtual stores.

iii) Security/ Privacy: It is difficult to ensure the security or privacy on online transactions.

iv) Lack of touch: Lack of touch or feel of products during online shopping is a drawback.

iv) Unable to accept Changes: E-commerce applications are still evolving and changing rapidly.

v) Cost: Internet access is still not cheaper and is inconvenient to use for many potential customers, for example, those living in remote villages.

4.6 E- Commerce Business Models

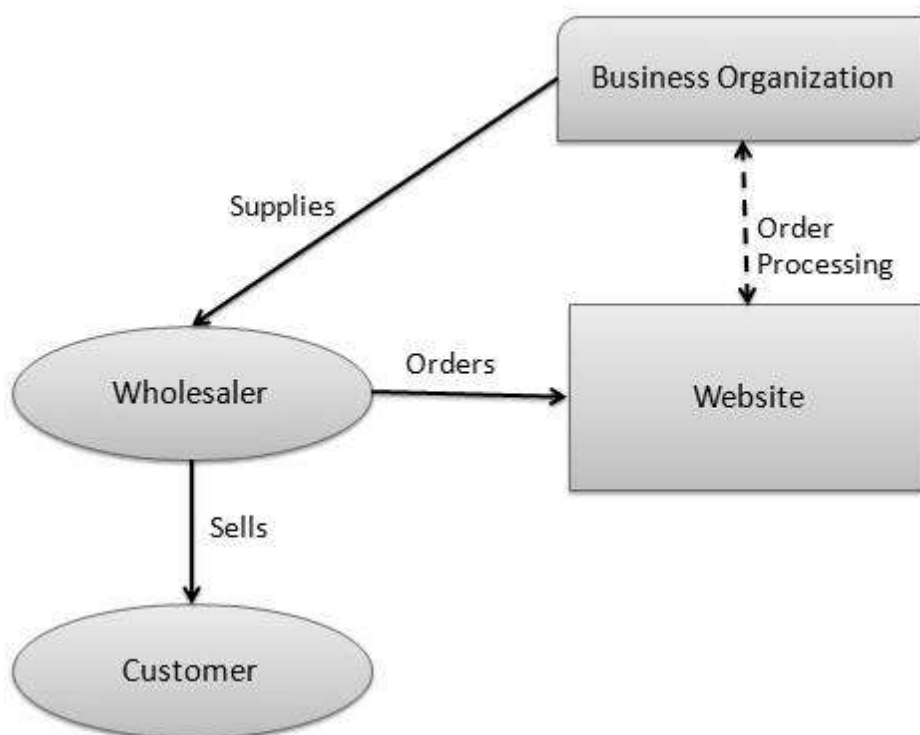
E-commerce business models can generally be categorized into the following categories.

- a)** Business - to - Business (B2B)
- b)** Business - to - Consumer (B2C)
- c)** Consumer - to - Consumer (C2C)
- d)** Consumer - to - Business (C2B)
- e)** Business - to - Government (B2G)
- f)** Government - to - Business (G2B)
- g)** Government - to - Citizen (G2C)

4.6.1 Business - to - Business (B2B)

A website following the B2B business model sells its products to an intermediate buyer who then sells the product to the final customer. As an example, a wholesaler places an order from a company's website and after receiving the consignment, sells the end-product to the final customer who comes to buy the product at one of its retail outlets. In a Business-to-Business E-commerce environment, companies sell their online goods to other

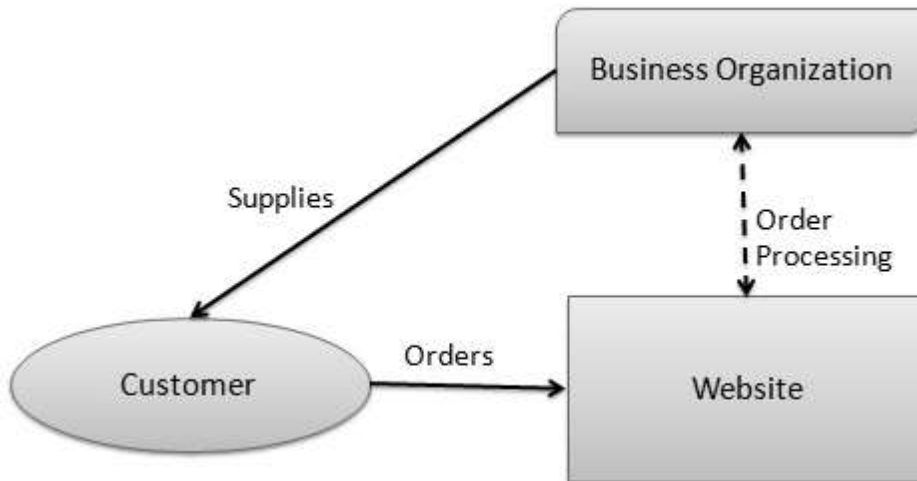
companies without being engaged in sales to consumers. In most B2B E-commerce environments entering the web shop will require a log in. B2B web shop usually contains customer-specific pricing, customer specific assortments and customer-specific discounts. It includes the IOS transactions and electronic market transactions between organizations. IOS Transactions means Inter Organizational Information Systems refers to flow of standard transactions information between business partners, such as placing orders, building or paying.



4.6.2 Business - to - Consumer (B2C)

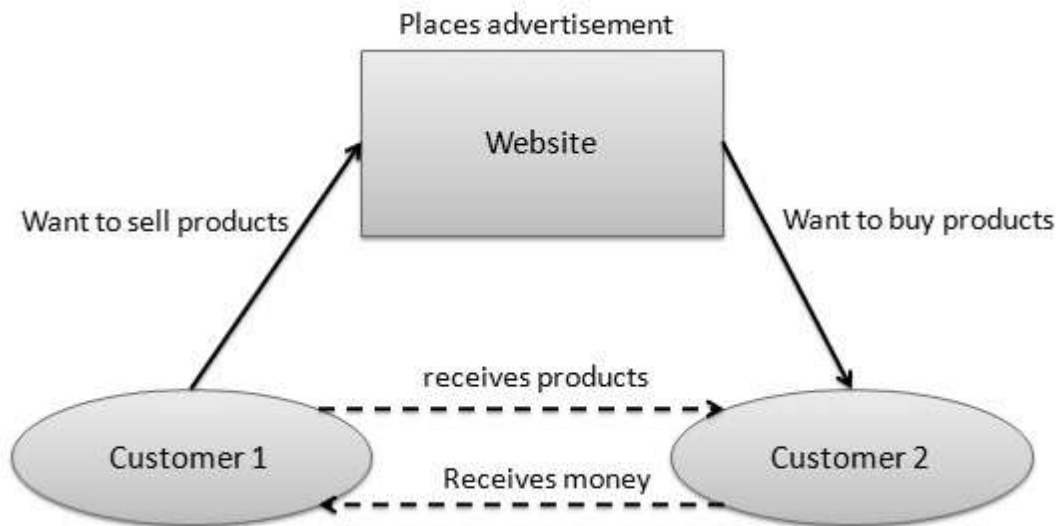
A website following the B2C business model sells its products directly to a customer. A customer can view the products shown on the website. The customer can choose a product and order the same. The website will then send a notification to the business organization via email and the organization will dispatch the product/goods to the customer. In a Business-to-Consumer E-commerce environment, companies sell their online goods to consumers who are the end users of their products or services. Usually, B2C E-commerce

web shops have an open access for any visitor, meaning that there is no need for a person to login in order to make any product related inquiry.



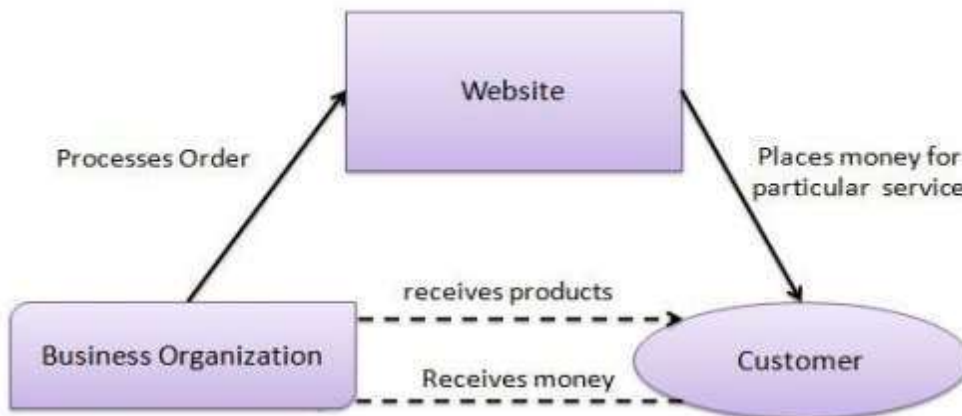
4.6.3 Consumer - to - Consumer (B2B)

A website following the C2C business model helps consumers to sell their assets like residential property, cars, motorcycles, etc., or rent a room by publishing their information on the website. Website may or may not charge the consumer for its services. Another consumer may opt to buy the product of the first customer by viewing the post/advertisement on the website.



4.6.4 Consumer-to-Business (C2B)

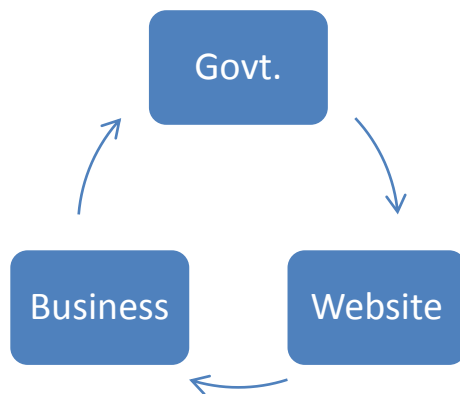
In a Consumer-to-Business E-commerce environment, consumers usually post their products or services online on which companies can post their bids. A consumer reviews the bids and selects the company that meets his price expectations.



4.6.5 Business - to - Government (B2G)

Business-to-government (B2G) is a business model that refers to businesses selling products, services or information to governments or government agencies. B2G networks or models provide a way for businesses to bid on government projects or products those governments might purchase or need

for their organizations. This can encompass public sector organizations that propose the bids. B2G activities are increasingly being conducted via the Internet through real-time bidding. B2G is also referred to as public sector marketing



4.6.6 Government - to - Business (G2B)

This Model is a part of e-governance. Under this Model all the information and services are provided by the Government to the Business Organizations through vast network of government websites. A Business Organization can get the information about business rules, requirement and permission needed for starting a new business, and other specifications. A Business Organization can also download the different forms and submit it online or offline to the related office. For Example <http://www.incometaxindia.gov.in> provides all the rules related to Tax, different forms, and facility for submission of online tax returns.

4.6.7 Government - to - Citizen (G2C)

Government-to-Citizen (abbreviated G2C) is the communication link between a government and private individuals or residents. Such G2C communication most often refers to that which takes place through Information and Communication Technologies (ICTs), but can also include direct mail and media campaigns. G2C can take place at the federal, state, and local levels.

Pradan Mantri Jan Dhan Yojna (PMJBY), BHIM UPI app, etc. are the government initiative for the betterment of citizen of the country is the example of G2C business models.

4.7 E-Commerce Applications:

a) E-Marketing: E-Marketing also known as Internet marketing, Online marketing, Web marketing. It is the marketing of products or services over the internet. It is consider to be broad in scope because not refers to marketing on the internet but also done in Email and wireless media. E Marketing ties together the creative and technical aspects of the internet, including design development, advertising and sales. Internet marketing is associated with several business models i.e., B2C, B2B, C2C.

b) E-Advertising: It is also known as online advertising it is a form of promotion that uses internet and World Wide Web to deliver marketing messages to attracts customers. Example: Banner ads, Social network advertising, online classified advertising etc. growth of these particular media attracts the attention of advertisers as a more productive source to bring in consumers. An online advertisement also offers various forms of animation. The term online advertisement comprises all sorts of banner advertisement, email advertising, in game advertising and key soon.

c) E-Banking or Internet Banking: Means any user with a personal computer and browser can get connected to his banks, website to perform any of the banking functions. In internet banking system the bank has a centralized data base i.e., web-enabled. Example for E-Banking is ATM, Bill payment service, Fund Transfer, Investing through internet Banking, Shopping etc.

d) Mobile-Commerce: Mobile Commerce also known as M-Commerce is the ability to conduct commerce as a mobile device, such as Mobile ticketing, Mobile Vouchers, Coupons and Mobile contract purchase and sale of ring tones, wallpapers and games of mobile phones.

e) E-Learning: E-Learning comprises all forms of electronically supported learning and teaching's-Learning specially the computer and network skills and knowledge's-Learning applications include web-based learning, computer-based learning. Content is delivered via. The internet, intranet, audio, or video tape, satellite TV.

f) Online Shopping: Online shopping is the process whereby consumer directly buys goods or services from a sell in real time, without intermediary services over the internet. Online shoppers commonly use credit card to make payments, however some systems enable users to create accounts and pay by alternative means, such as Billing to mobile phones and landline, Cheque, Postal money order.

g) Search Engine: A web search engine is designed to search for information on the WWW and FTP servers. The search results are generally presented in list of result and are often called hits. The information may consist of web pages, images, information, and other types of files.

i) Online Trading: An online trading community provides participants with a structured method for trading barter (exchanging goods with goods) or selling goods and services. These communities often have forums and chat rooms, designed to facilitate communication between the members.

j) Entertainment: The conventional media that have been used for entertainment are Books/magazines, Radio, Television/films, Video games.

4.8 Electronic Payment Systems

4.8.1 Definition: Electronic payment is a financial exchange that takes place online between buyers and sellers. The content of this exchange is usually as encrypted credit card numbers, electronic cheques or cash. The various factors that have the financial intuitions to make use of electronic payments are:

- Decreased technology cost.
- Interest is becoming free almost everywhere in the world.
- Reduced operational and proceeding cost.
- Increasing online commerce.

4.8.2 Advantages:-

a) Privacy: Privacy is maintained in electronic payment system.

b) Compatibility: the system is compatible in small device to personal computers, mobile etc.

c) Good transaction efficiency: Every transaction is efficiently done in electronic payment system.

d) Acceptability: Electronic payment system is accepted by people worldwide.

e) Convenience: The greatest advantage of e-payments is the convenience i.e. customer can pay from any locations 24 hours day, 7 days a week

f) Mobility: Mobility in process and transaction is seen in this system.

g) Low financial risk: As in this system no need to carry physical cash, very low financial risk is involved in every transaction.

h) Security: E-payments are secure.

4.8.3 Risks in Electronic payment systems:-

There are three major risks in the operation of the payment system

- a) **Fraud or Mistake:** All electronic payment systems need some ability to keep automatic records. Once information has been captured electronically, it is easy and inexpensive to maintain. The need for record keeping is for the purpose of risk management like fraud or any sort of mistakes.
- b) **Privacy Issues:** The electronic payment system must ensure and maintain privacy. The privacy of customers should be protected as much as possible. Privacy must be maintained against unauthorized access. For any type of transaction trusted third-parties will be needed for all tenacity and good faith.
- c) **Managing Credit Risk:** Credit or systematic risk is a major concern in net settlement systems because a bank's failure to settle its net position could lead to a chain reaction of bank failures.

4.9 Types of Electronic Payments System

Electronic payment systems are mainly used in banking, retail, healthcare, online markets, etc., Electronic payment system also called as Electronic Funds Transfer (EFT) It is defined as “ any transfer of funds initiate through an electronic terminal telephonic instrument or computer or authorize a financial institution to debit or credit an account”

EFT (Electronic Funds Transfer) can be categorized in to three types.

a) Banking and financial payments

Large-scale or wholesale payments (e.g., Bank-to-bank transfer)

Small-scale or retail payments (e.g., automated teller machines)

Personal banking (e.g., bill payment)

b) Retailing payments

Credit Cards (e.g., VISA or MasterCard)

Private label credit/debit cards (e.g., J.C. Penney Card)

Charge Cards (e.g., American Express)

c) Online electronic payments.

i) Token-based payment systems Electronic cash (e.g., Digi Cash)
Electronic cheques (e.g., Net Cheque) Smart cards or debit cards (e.g.,
Mondex Electronic Currency Card)

ii) Credit card-based payments systems Encrypted Credit Cards (e.g.,
World Wide Web form-based encryption) Third-party authorization
numbers (e.g., First Virtual)

4.10 Electronic Cash (E-cash)

E-cash is a new concept in online payment system because it combines computerized convenience with security and privacy. E-cash presents some interesting characteristics that should make it an attractive alternative for payment over the internet.

Properties of E-cash:

There are four properties of E-cash

a) Monetary Value: E-cash must have a monetary value; it must be backed by cash, bank authorized credit or a bank certified cashier cheque. When e-cash created by one bank is accepted by others.

b) Interpretability: E-cash must be Interpretable i.e. this can be cleared in multiple banks, because multiple banks are required with an international clearing house that handles the exchangeability issues because all customers are not going to be using the same bank or even be in the same country.

c) Irretrievability and security: E-cash must be storable and retrievable from any place telephone or personal communication device and withdraw from and deposit into banking A/C. E-cash should not be easy to copy, this includes preventing or detecting duplication.

Working of E-cash:

E-cash is based on cryptographic systems called “Digital Signatures”. This method involves a pair of numeric keys (Very large no’s) One for locking (encoding), another for unlocking (decoding). Encoding key is kept private and the decoding key is made public. These digital signatures are very secured way for e-cash. Electronic cash fulfils two main functions:

- 1) As a medium of exchange.
- 2) As a store of value.

Digital money is a perfect medium of exchange e-cash would be allowed to realize its potential for bypassing the transaction costs of the foreign exchange market.

4.11 Smart Cards & Electronic Payment Systems:

- Smart cards have been in existence since the early 1980s and hold promise for secure transactions using existing infrastructure.
- Smart cards are credit and debit cards and other card products enhanced with microprocessors capable of holding more information than the traditional magnetic stripe.
- The smart card technology is widely used in countries such as France, Germany, Japan, and Singapore to pay for public phone calls, transportation, and shopper loyalty programs.

Types of Smart Cards:

- a) Relationship-Based Smart Credit Cards
- b) Electronic Purses also known as debit cards

a) Relationship-Based Smart Credit Cards:

It is an enhancement of existing cards services &/ or the addition of new services that a financial institution delivers to its customers via a chip-based card or other device. These services include access to multiple financial accounts, value-added marketing programs, or other information card holders may want to store on their card. It includes access to multiple accounts, such as debit, credit, cash access, bill payment & multiple access options at multiple locations.

b) Electronic Purses:

To replace cash and place a financial instrument are racing to introduce electronic purses wallet-sized smart cards embedded with programmable microchips that store sums of money for people to use instead of cash for everything. The electronic purse works in the following manner: After purse is loaded with money at an ATM, it can be used to pay for candy in a vending machine with a card reader. It verifies card is authentic & it has enough money, the value is deducted from balance on the card & added to an e-cash & remaining balance is displayed by the vending machine.

4.12 Security Requirements in Electronic Payment Systems

a) Integrity and authorization

A payment system with integrity allows no money to be taken from a user without explicit authorization by that user. It may also disallow the receipt of payment without explicit consent, to prevent occurrences of things like unsolicited bribery. Authorization constitutes the most important relationship in a payment system. Payment can be authorized in three ways: via out-band authorization, passwords, and signature.

i) Out-band authorization: In this approach, the verifying party (typically a bank) notifies the authorizing party (the payer) of a transaction. The authorizing party is required to approve or deny the payment using a secure, out-band channel (such as via surface mail or the phone). This is the current approach for credit cards involving mail

orders and telephone orders: Anyone who knows a user's credit card data can initiate transactions, and the legitimate user must check the statement and actively complain about unauthorized transactions.

ii) Password authorization: A transaction protected by a password requires that every message from the authorizing party include a cryptographic check value. The check value is computed using a secret known only to the authorizing and verifying parties.

iii) Signature authorization: In this type of transaction, the verifying party requires a digital signature of the authorizing party. Digital signatures provide non repudiation of origin.

b) Confidentiality

Some parties involved may wish confidentiality of transactions. Confidentiality in this context means the restriction of the knowledge about various pieces of information related to a transaction. The identity of payer/payee, purchase content, amount, and so on.

c) Availability and reliability

All parties require the ability to make or receive payments whenever necessary. Payment transactions must be atomic. They occur entirely or not at all, but they never hang in an unknown or inconsistent state. No payer would accept a loss of money due to a network or system crash. Availability and reliability presume that the underlying networking services and all software and hardware components are sufficiently dependable. Recovery from crash failures requires some sort of stable storage at all parties and specific resynchronization protocols.

4.13 EDI-Electronic Data Interchange

EDI refers to the exchange of electronic business documents i.e. purchasing orders, invoices, etc. between applications. The exchange involves no paper, no human intervention and takes place in a matter of seconds. EDI documents are formatted using published standards. EDI requires a network connection between the two companies exchanging business documents. EDI has provided great value to trading partners especially those in certain “EDI – ENABLED” industries such as retail, automotive, and petroleum. The advent of the internet has created a common information and communications platform upon which business can be conducted. Internet provides the communications Capabilities of EDI over a Value-Added network at a much lower price.

4.13.1 EDI layered architecture

EDI layered consists of four layers they are discussed below:

- a) Semantic (or application) layer
- b) Standards translation layer
- c) Packing (or transport) layer
- d) Physical network infrastructure layer

Semantic layer	Application level services	
Standards translation layer	EDIFACT business form standards	
	ANSI X12 business form standards	
Packing layer	Electronic mail	X.435,MIME
	Point to point	FTP,TELNET
	WWW	HTTP
Physical layer	Dial up lines, Internet, i -way	

a) Semantic layer: It describes the business application that is driving EDI. For a procurement application, this translates into requests for quotes, price quotes, purchase orders, acknowledgments, and invoices. This layer is specific to a company and the software it uses. In other words, the user interface is customized to local environments.

b) Standard translation layer: The information seen at the EDI semantic layer must be translated from a company-specific form to a more generic or universal form so that it can be sent to various trading partners, who could be using a variety of software applications at their end. To achieve this, companies must adopt universal EDI standards that lay out the acceptable fields of business forms. What complicates matters is the presence of two competing standards that define the content and structure of EDI forms: the X12 standard, developed by the American National Standards Institute (ANSI), and EDIFACT, developed by United Nations Economic Commission for Europe (UN /ECE).

c) Transport layer: When the trading partner sends a document, the EDI translation software converts the proprietary format into a standard mutually agreed on by the processing systems. When a company receives the document, their EDI translation software automatically changes the standard format into the proprietary format of their document processing software so that the company can manipulate the information in whatever way it chooses to.

d) Physical network infrastructure layer: It consists of Dial-up lines, Internet, value-added network, etc.

4.14 M-Commerce

M-Commerce or mobile commerce is process of buying and selling products and services through wireless handheld devices such as cell phones or PDAs. Though M-commerce is a new term, it has become an instant hit and is also being called as the next generation e-commerce. M-commerce lets users carry out financial transaction using mobile phones and does not always require internet. It is has made the process of buying and selling products even easier due to a technology known as WAP (Wireless Application Protocol), which allows users to connect to the internet without dealing with the hassle of wires

and electricity. It also allows businesses to reach consumers even faster compared to e-commerce, as a person may not always have a computer with them, while a person will always have their cell phones on them. Promotional text messages are an example of mobile commerce. Another popular example is downloading movie tickets and airline tickets on the phone. With the constant upgrade in cellular technology, more and more possibilities are available to the consumers. Mobile applications, online banking, online shopping via phone, are also different forms of m-commerce. Compared to M-commerce, E-commerce is more limited as it requires the use of a computer and internet connection, while mobiles work on satellites. Video conferencing is now available on mobile phones with 3G and 4G networks, without the hassle of internet. M-commerce however is costly compared to E-commerce.

4.15.1 Marketing on the web

Marketing on internet is very popular now a day. The essentials and techniques are discussed below.

The Five “P”s Applied To Internet Marketing they are:

a) Product

b) pricing

c) Place & Distribution

d) Promotion

e) People

a) Product: Product is a good or service that a business offers to its customers without a perfect product to offer, a business cannot survive. The produce component in the marketing is related to the production section of the consumers –oriented value chain.

b) Pricing: The pricing of a “good” refers to the processes involved in determining the amount to charge for a specific physical good or service pricing models are typically used to determine a firms price. Because of the development of search engines customers are easily able to compare prices of many goods offered for sale on the internet. On-line quotation

are a popular method for selling items on the internet an interesting method of pricing goods on the internet is through offers made by consumers.

c) Place (Distribution): Place is frequently referred to as out bound logistics or Distribution. The Distribution task entails moving the product from the producer to the customer. The product may travel directly from the products to the customer or it may be channelled intermediaries such as whole sales or retailers.

E-commerce involving the sale of physical goods can be very useful in exchanging information between business and delivery companies. The physical internet itself us also a delivery channel for digital products like software data or multimedia fill.

d) Promotion:

The sales and marketing function under the traditional marketing category called promotion. The successful promotion of a product requires that at a minimum a positive message be received by potential customers. This message can be communicated many ways.

- 1) Paid advertising channels.
- 2) New stories and press releases.
- 3) Word of mouth.
- 4) Consumers personal experiences.
- 5) Packaging.

Another aspect of promotion is the sharing of information with customers.

e) People – The people decisions that you will make are those that refer to how you want your customer service representatives to interact with your customers. How will they be instructed to work with the customer? How will you make sure they have the information they need to help the customer? How will you incorporate your current customer service strategies into your Internet strategies? Will you offer live support even to online customers?

4.15.2 Internet Marketing Techniques:

Internet marketing techniques are of 2 types they are:

a) Passive Techniques.

b) Aggressive Techniques.

a) Passive Techniques: Passive techniques are considered to be those methods that require the user to 'pull' the information from the website.

b) Aggressive Techniques: Aggressive techniques are considered to be those techniques in which the website "pushes" the information on to the customer regardless of whether the consumers is interested or not. Some of the aggressive marketing techniques are discussed below:

i) Solicited, targeted e-mail.

ii) Interactive sites.

iii) Banner advertising.

iv) Off-line advertising.

v) Unsolicited targeted e-mail.

vi) Spam Mail.

vii) E-mail, chain letters.

i) Solicited, Targeted E-mail: E-mail marketing has become a popular medium because of its relatively low cost and the ability to send HTML messages containing full colour pictures of products, as well as links to order from pages. The transmit of an e-mail message to a solicited, targeted list is a method used to visitors to a website that requires acts by both the website and the visitor. This mechanism allows a business to maintain regular contract with customers and drive traffic to websites or other products. Because the user requests the information this type of internet marketing technique is considered to be "pulled" by the consumer with the help of the website. This Technique comes under passive Techniques.

ii) Interactive Sites: Some sites may exhibit initiative to attract initial and subsequent visitors to their site by providing general information in an interactive fashion.

iii) Banner Advertising: Online Banner advertising, off-line advertising one comes under aggressive advertising techniques. Online banner advertising a service sold. Internet marketing firms can be very effective. A major advantage is that the banner's effectiveness, in terms of visitors to site is easily monitored.

iv) Off- Line Advertising: The method used to promote website is off-line advertising, such as television, radio and print. These advertising mechanisms are also relatively more costly than previously mentioned methods.

v) Unsolicited, Targeted E-mail: The method of on-line advertising that unsolicited, targeted email advertising to past visitor or customers. This type of advertising is aggressive in that the visitor or customer does not specifically request additional sales or promotion items. When conducted properly, these methods can be effective.

v) Spam mail: Even more aggressive factices to attract customers is the sending of unsolicited e-mail advertisements to individuals or business that has never visited the site. The e-mail address may be purchased or traded with another business. The online equivalent of junk-mail that is sent out repeatedly is referred to as spam mail. Spam is referred to as "Postage due marketing "because the thousands of messages sent reside on the recipients host computers until they are deleted, and the storage of such messages cost business money.

vi) E-mail chain letters: Another low-cost, aggressive advertisement technique used on the internet is e-mail chain letters. Email chain letters typically require that a user visit site and register.

Exercise

Very short type questions

1. EDI refers to

(a) Electronic Data Interchange

(b) Electronic Device Interchange

(c) Energy Data Interchange

(d) Energy Device Interchange

2. E-Commerce refers to the_____ exchange of business.

(a) Paperless (b) Priceless (c) Painless (d) Puzzled

3. Which of the following is not a mode of Non-cash payment

(a) Debit Card (b) Credit Card (c) NEFT/RTGS **(d) Payment in Coins**

4. Communication of transaction in E-Commerce is made with

(a) Asynchronous way (b) Synchronous way (c) Traditional way (d) Smooth way

5. Which of the following is not an important E- Commerce business models?

(a) Business to Business (b) Business to Consumer (c) Consumer to Consumer

(d) Producer to Consumer

6. B2C business model sells its product directly to

(a) Customer (b) Businessman (c) Producer (d) Supplier

7. EDI layer does not consists of the following layer

(a) Semantic Layer (b) Standard translation layer (c) Packing layer

(d) Presentation layer

Answer. 1.(a). 2. (a). 3.(d). 4. (a). 5.(d). 6.(a). 7.(d).

Short type questions

1. What is E-commerce?
2. Define two features of E-commerce?
3. Distinguish between traditional commerce and E-commerce?
4. Give one disadvantage of E-commerce?
5. What is E-marketing?
6. What is E-learning?
7. Explain mobile commerce?
8. Define electronic payment system?
9. Give two advantages of electronic system?
10. What is E-cash?
11. What is E-Purse?
12. Explain application layer in EDI architecture?

Long type questions

1. Give the advantage of E-commerce?
2. Explain with graph B2B and B2C model? Why C2C model is popular now a day?
3. Explain important E-commerce applications?
4. Explain different type of electronic payment system? Give advantages of electronic payment system?
5. Explain the risk involved and security requirement in electronic system?
6. Describe EDI layered architecture?
7. What is M-Commerce? Explain different internet marketing techniques?

Unfair Trade Practices

5.1 Introduction

Consumer means a person who buys goods for a consideration which has been paid or promised or partly paid or partly promised. Unfair trade practice means a trade practice, which for the purpose of promoting any sale, use or supply of any goods or services, adopts unfair method or deceptive practice. Section 36A of Monopolies and Restrictive Trade Practices (Amendment) Act, 1984 defines and prescribes unfair trade practices and its various forms, modalities and descriptions. Section 36A specifically defines 'unfair trade practices' as **a trade practice which for the purpose of promoting the sale, use or supply of any goods or for the provisions of any services adopts one or more of the following practices and thereby causes loss or injury to the consumer of such goods or services whether by eliminating or restricting competitions.** The practice of making any statement oral or in writing or by visible representation which falsely represent's the goods in terms of standards, quality, grade, composition, style or model is an unfair trade practice. Furthermore it also includes false representation with regard to services of a particular standard quality and grade. Furthermore if any statement falsely represents that any particular goods is rebuilt or second-hand, renovated, reconditioned or old goods as new will also constitute an unfair trade practice. If it also represents that the goods or services have sponsorship, approval, performance, characteristics, accessories uses or benefits which such goods or services do not have in any way then this will also be unfair trade practice. If a statement makes a false or misleading representation for concerning the need or the usefulness of any goods or services that is also prohibited under the provisions of this Act. Warranty is one of the most important aspects of consumer protection which is also covered under the amended Act if it comes to the public giving any warranty or guarantee for the performance, efficacy or length of life of a product or of any goods that is not based on adequate or proper test thereof. In such warranty where the defence is raised to the effect that such warranty or guarantee is based on adequate or proper test in that eventuality, the burden of proof of such defence will be on the person raising such defence.

An unfair trade practice means a trade practice, which for the purpose of promoting any sale, use or supply of any goods or services, adopts unfair method or deceptive practice. Unfair trade practice can be categorized as under-

- a) False representation**
- b) False offer of bargain price**
- c) Free gifts offers and prize schemes**
- d) Noncompliance of prescribed standards**
- e) Hoarding, destruction etc.**

a) False Representation

- i) Falsely suggestion regarding quality, standard, quantity, grade, composition, style or model of goods or services
- ii) False representation regarding approval, performance, characteristics, accessories of goods or services.
- iii) False or misleading representation concerning the need or the usefulness of goods or services.
- iv) Materially misleads about the prices at which such goods or services are available in the market.

b) False offer of Bargain Price: Where an advertisement is published in a newspaper or otherwise, whereby goods or services are offered at a bargain price when in fact there is no intention that the same shall be offered at that price for a reasonable period or reasonable quantity, it shall amount to an unfair trade practice.

c) Free gifts offers and prize scheme: The unfair trade practices under this category means offering any gifts, prizes or other items along with the goods when the real intention is different, creating impression that something is being offered free along with the goods, when in fact the price is wholly or

partly covered by the prize of the article sold or offering some prizes to the consumer by the conduct of any contest, lottery or game of chance or still with real intention to promote sales or business.

d) Non-compliance of Prescribed standards: Any sale or supply of goods for use by consumer, knowingly or having reason to believe that the goods do not comply with the standards prescribed by some competent authority, in relation to their performance, composition, contents, design, construction, finishing or packing as are necessary to prevent or reduce the risk of injury to the person using such goods, shall amount to unfair trade practice.

e) Hoarding, Destruction etc.: Any practice which permits the hoarding or destruction of goods or refusal to sell the goods or provides any service with an intention to raise the cost of those or other similar goods or services shall be an unfair trade practice.

5.2 Legal Remedy

Remedy generally means a successful way of curing an illness or dealing with a problem or difficulty. Whereas legal remedy means a way of solving a problem or ordering someone to make a payment for harm or damage which has been caused by such person by court of law or to do something to correct or improve something that is wrong . The lure of profits and incomes induces enterprises in collusive practices and behave in a way which is contrary to overall interests of the consumers. Consequently a spate of consumer laws have been passed especially in the latter half of the twentieth century for consumer protection against adulteration of foods, drugs, cosmetics in regard to quality of consumer products, product safety, price warranty of goods and so forth fixing accountability and strict liability on the seller-cum-manufacturer rather than the consumer which has paved the way in the emergence of a new jurisprudence concerning consumer interests, claims and needs. Consumers are continually subjected to manipulate and non-manipulate unfair trade such as monopoly situations cut throat competition,

substandard quality, misrepresentation etc. Wonderful significance of consumer is that age, competency, soundness of mind is not necessary. The word consumer also includes associations. On the other hand unfair trade practices means adopting unfair method or deceptive practice for the promotion of sale or use or supply of any goods or services. It includes false representation false offer of bargain price, free gifts offers and prize schemes noncompliance of prescribed standards etc. There are some legal remedies are available in India for unfair trade practices. These are removal of defects, replacement of goods, refund of price, award of compensation, removal of deficiency in service, discontinuation of unfair trade practice, stopping of sale and withdrawal of hazardous goods, payment of adequate cost etc. Beside these remedies The Competition Commission of Act, 2002 and Consumer protection Act, 1986 play a vital role in protection of consumer rights in case of unfair trade practices in India.

5.3 Present Scenario

Today the founding principles of the movement still energize and inspire people and organizations. The focus has broadened to address poverty reduction, corporate responsibility, services and sustainable consumption as well as providing advice on consumer products. The following are the general and special Laws and Practices for unfair trade practices.

a) Removal of Defects: If after proper testing the product founds to be defective, then the 'remove its defects' order can be passed by the authority concern.

b) Replacement of goods: Order can be passed to replace the defective product by a new one product of the same type.

c) Refund of price: Order can be passed to refund the price paid by the complainant for the product.

d) Award of compensation: If because of the negligence of the deliverer goods suffer physical or any other loss, then compensation for that loss can also be demanded.

f) Removal of deficiency in service: If there is any deficiency in delivery of service, then orders can be passed to remove that deficiency. For instance, if an insurance company makes unnecessary delay in giving the claim then orders can be passed to immediately finalize the claim.

g) Discontinuance of unfair trade practice: If a complaint is filed against unfair trade practice then practice can be banned with immediate effect. For instance, if a gas company makes it compulsory for a consumer to buy gas stove with the gas connection, then this type of restrictive trade practice can be checked with immediate effect.

h) Stopping of Sale and withdrawal of Hazardous goods: The sale of products which can be hazardous for health and life, their sale can be stopped and such goods can be withdrawn from the market.

i) Payment of adequate cost: There is also a provision that the trader should pay adequate cost to the victim concerned.

j) Criminal laws: It is necessary to know that along with above remedies a consumer has also criminal remedies, and in case of forgery, cheating, mischief, misappropriation of goods, consumer aggrieved may approach to the proper authority for violation of his rights.

k) Civil laws: Sales of goods act, consumer protection act, and specific relief act also contain provisions regarding aggrieved consumer.

l) MRTP Act, 1969- The monopolistic and restrictive trade practices Act, 1969 was enacted to ensure that the operations of the economic system does not result in the concentration of economic power in hands

of few, to provide for the control of monopolies, to prohibit monopolistic and restrictive trade practices and regulation of unfair trade practices. It can be said that the MRTP Act was successful to an extent. However, due to scarcity of resources, lack of clearly defined procedures and rules and regulations the act was not as effective as it was supposed to be. Also, the changing economic and trade environment (brought by the new economic policy, 1991) made it necessary for a change in MRTP Act. Currently the said act has been renamed as the Competition Act, 2002 with a few changes to it.

m) The Competition Act, 2002- This act was enacted by the Parliament of India and governs Indian competition law. It replaced the archaic the Monopolies and Restrictive Trade Practices Act, 1969. Under this legislation, the Competition Commission of India was established to prevent activities that have an adverse effect on competition in India. This act extends to whole of India except the State of Jammu and Kashmir. It is a tool to implement and enforce competition policy and to prevent and punish anti-competitive business practices by firms in the market. A competition law is equally applicable on written as well as oral agreement, arrangements between the enterprises or persons. The Competition Act, 2002 was amended by the Competition (Amendment) Act, 2007 and again by the Competition (Amendment) Act, 2009.

n) Anti-Competitive Agreements- When enterprises, persons or associations of enterprises or persons, including cartels, enter into agreements in respect of production, supply, distribution, storage, acquisition or control of goods or provision of services, which cause or are likely to cause an "appreciable adverse impact" on competition in India are called anti-competitive agreements. Such agreements would consequently be considered void. Agreements which would be considered to have an appreciable adverse impact would be those agreements which directly or indirectly determine sale or purchase

prices, Limit or control production, supply, markets, technical development, investment or provision of services, Share the market or source of production or provision of services by allocation of geographical area of market, nature of goods or number of customers or any other similar way.

5.4 Following are the Authorities and Agencies for Unfair Trade Practices in India

District Forum: A district forum is a place in a district where a consumer can lodge a complaint if he is misguided or deceived by any service provider or trader. District forum is the lowest consumer court in the hierarchy of redressal forums under Sec. 10 of Consumer Protection Act. At present there are 630 district forums across the country.

b) State Commission: State commissions have been established at the state levels by virtue of sec. 16 of Consumer Protection Act. State commission is next, after district forum in the hierarchy of consumer dispute redressal forums. There are 35 state commissions at present in India. State commissions can entertain all the matters where the value of services or goods exceeds Rs. 20 lakhs, but does not go beyond Rs. 1 crore. If the claim is above one crore, then it does not falls under its jurisdiction.

c) National Commission: A national consumer dispute redressal commission is established by the central government under the Consumer Protection Act. It is considered as an apex court, because it oversees the functioning of the state commissions and district forum also.

d) Supreme Court: if any person is not satisfied with the Judgment given by national commission can make appeal in the Supreme Court. There is a procedure for filing an appeal against the order of national commission. An appeal can be made with the Supreme Court against the order of national commission within 30 days from the date of order and this period can be extended for further 15 days. Supreme Court entertains the appeal only when the appellant has deposited in prescribed manner 50% of that amount or fifty thousand whichever is less

e) Competition Commission of India - Competition Commission of India is a body corporate and independent entity possessing a common seal with the power to enter into contracts and to sue in its name. It is to consist of a chairperson, who is to be assisted by a minimum of two, and a maximum of ten, other members. It is the duty of the Commission to eliminate practices having adverse effect on competition, promote and sustain competition, protect the interests of consumers and ensure freedom of trade in the markets of India. The Commission is also required to give opinion on competition issues on a reference received from a statutory authority established under any law and to undertake competition advocacy, create public awareness and impart training on competition issues. Commission has the power to inquire into anti-competitive or unfair agreements or abuse of dominant position or combinations taking place outside India but having adverse effect on competition in India.

5.5 Penalty

If any person fails to comply with the orders or directions of the Commission shall be punishable with fine which may extend to Rs.1 lakh for each day during which such noncompliance occurs, subject to a maximum of Rs.10 crore. If any person does not comply with the orders or directions issued, or

fails to pay the fine imposed under this section, he shall be punishable with imprisonment for a term which will extend to three years, or with fine which may extend to Rs. 25 crores or with both.

5.6 PLA (Permanent Lok Adalat)

The word Lok Adalat means people's court. It is strictly not a court in the conventional sense because Lok Adalat cannot adjudicate on facts by application of law. It is a forum where disputes between the parties are resolved by conciliation and participation. Lok Adalat is one of the most important components of the ADR System operating in India. Criminal courts and civil courts have also jurisdiction in the matter of unfair trade practices to some extent.

5.7 Unfair Trade Practices in Various Sectors

In the recent past, there have been many incidences of unfair trade practices coming up to light. Unfair trade practices in India have penetrated through various sectors to the Indian Scenario. Some of them are through Food Processing Industry, Pharmaceutical Industry, Insurance, Education etc. They are discussed below:

5.7.1 Pharmaceutical Sector

The competition among the generic drugs and brand name drug dealers has been never ending. These competitions can sometime turn ugly leading to many incidents of unfair trade practices in the sector of medicines. It is widely observed that in case of prescription of a drug, where the doctor is decision maker for the ultimate user, i.e., the patient, the pharmaceutical industry has a powerful influence on prescribing habits of doctors. There is an essential difference between promotion and information. A medical representative while delivering information to the doctors about new drugs, including its usefulness and effectiveness may have precompetitive effects. The marketing

strategies adopted by firms such as giving the doctors gifts like mobile, cars or even sponsored nursing home, may downplay the demand side and hence raise prices for consumers. In the year 2003, Consumer Education and Research Society, Ahmedabad, brought to the notice of the regulatory authority in Gujarat, the sale and promotion of certain health gadgets by Conybio Health Care, in violation of the Drugs and Magic Remedies. The company was found promoting and distributing sun shades to cure migraines and sun strokes, socks for acidity, pillow covers for spondylitis, palm guards for Parkinson's disease, eye-shade for sinusitis, T-shirts for high, low blood pressure, short pants that cure gas, acidity, prostate, piles, urinary system problems, ladies briefs for menstrual problems, bed sheets for paralysis strokes and brassieres for breast cancer. When the regulator asked the company to produce scientific evidence to support the effect of infrared rays which it claimed was present in the products, the company said it had never undertaken such studies by any recognized Indian institute. Subsequently, the regulator prohibited the sale and promotion of the products.

Case Study 1.

One of the most shocking examples of UTPs in pharmaceutical sector is that of Neeraj Clinic, Rishikesh. One RK Gupta, claiming to be a doctor, advertised with license, his clinic and claimed that he was offering a 'miraculous cure' for epilepsy. He had been duping lakhs of epilepsy patients by using a high narcotic and psychotropic content in his ultra-expensive, 'miraculous cure'. Gupta claimed to get the 'siddha' (an alternative therapy in the Indian system of medicine) from the plants in Himalayas plucked in the wee hours of the morning but was reportedly using allopathic pills bought from local companies. Ironically, way back in 2000, the Indian Medical Association had declared him a quack after it was found that he was giving his patients toxic drugs in high doses.

Additionally, in May 2003, on a complaint from a consumer, Advertising Standards Council of India (**ASCI**) had held that the advertisement was in violation of the Drugs and Magic Remedies Act, 1954 and Rajasthan Patrika,

a respectable daily newspaper wherein the advertisement had appeared, had informed ASCI that its advertisement department had been advised to withhold further advertisements of the clinic.

Yet, Gupta continued to advertise in other newspapers and also on a couple of television channels, wherein he produced “testimonials” from people who, as claimed in the advertisements, had been cured of epilepsy. It was only when a non-resident Indian, who got his medicines tested, complained through the Indian High Commissioner in Canada, that a case was registered against him under the Narcotic Drugs and Psychotropic Substances Act apart from Section 420 of Indian Penal Code, on the ground that the drugs that administered contained narcotics in high quantities. He was arrested in 2004.

5.7.2 Food Processing Sector

There has been a global concern about food safety and unfair trade practices in quality and quantity of the food products. Almost everyone has come across cases of deliberate addition of chemicals like additives and adulterants, for the purpose of disguising inferior commodities, contaminating or earning undue profits or food contamination during production, processing, packaging and storage. Such unethical and unfair trade practices are of very serious nature since they pose grave threat to consumer’s health directly. In May, the Food and Drugs Administration (FDA) officials seized 500 kg mangoes worth Rs. 25,000 that were being ripened with the use of a chemical called calcium carbide during a raid at a shop of a mango trader in Pune. Artificial ripening by using carbide is banned under the Prevention of Food Adulteration Act. The chemical, if consumed in large quantities, damages internal organs. The FDA officials destroyed the mangoes at a dumping ground, while the chemical samples were sent to a city based public health laboratory for further investigations. The most recent controversial case dealing with the unfair trade practices is the Nestle Maggi case. The government of India had filed suit of unfair trade practice against the

company under Sec12 (1)(d) in the National Consumer Dispute Redressal Commission. The issue was regarding the misleading advertisements of the product. Prior to that the Food Safety and Standards of India have asked the company to withdraw from the market the newly introduced varieties of Maggi Noodles alleging it not fit for consumption due to non-maintenance of prescribed standard of quality in them, the excess presence of lead and misleading labelling regarding the presence of MSG.

5.7.3 Insurance Sector

Insurance is an important financial services subsector catering to individuals and the number of insurance consumers is steadily increasing. With the increase in the consumers comes the issue of unfair trade practices in this sector. Insurance offers a promise that, upon a contingent event at a later date, the policyholder will get a particular benefit or reimbursement for a loss or damage. A deficiency in service would mean either a delay or a non-fulfilment of that promise. Thus, it is seen that in insurance heavy reliance is placed on the public's trust that the promises made will be delivered. Companies often lure consumers with attractive schemes, but later try to renege on their commitment. They contain many wide exclusion and exemption clauses favourable to large enterprise. The favourable terms are often in small prints which the individual never reads since it is a laborious and profitless task to discover what these terms are.

Case Study

In a significant ruling, the Central Mumbai District Forum bench came down heavily on Bajaj Allianz and directed the insurance company to pay penal and

deterrent compensation, which is rarely, if ever, done. Onkar Prasad Dixit, a senior official of Sahara Commercial Corporation, had taken a policy known as Bajaj Allianz Swarna Vishranti Pension Plan from Bajaj Allianz General Insurance on July 19, 2004 with a sum insured of Rs 26 lakh, plus bonus. In the case, although a yearly premium of Rs. 6,17,929 was payable, the insurance company offered a rebate of Rs. 18,870, thereby reducing the premium to Rs 5,99,099 to be paid every year for a period of five years. Thereafter, the insurance company was supposed to pay a monthly pension of Rs. 22,944 during the lifetime of the insured and on his demise the amount was supposed to be paid to his wife.

However, the detailed terms and conditions of the policy were not furnished to Dixit. Dixit kept paying the insurance annual premium from 2004 to August 2009 and in this was paid an additional sum of Rs. 24,832. Yet, no benefits were released by the company even upon request.

Subsequently, the company informed Dixit that it committed a mistake in stating the benefits under the policy and additionally, it also informed Dixit that the insurance plan taken by Dixit has been withdrawn upon obtaining permission from the IRDA and hence Dixit's policy automatically stood cancelled. However, the company offered to refund Rs. 29,35,599, which was little less than the premium amount paid by Dixit till now.

Subsequently, Dixit took the LIC Jeevan Akshay VII policy, and asked Bajaj Allianz to transfer the premium paid by him to LIC. Even though this was done, there was a difference in the benefits available under the LIC's policy, which had a lower annuity amount, resulting in a loss of Rs. 5,78,360 to Dixit. Finally, in November 2009, Dixit filed a complaint before the Central Mumbai District Forum.

The forum observed that the insurance company had failed to produce any proof or documents to show that the IRDA had granted permission for the withdrawal of the policy. It noted that the insurance company had misled the

consumers by offering an attractive policy, but refusing to honour its commitment, after collecting nearly Rs. 30 lakh as premium. The forum indicted Bajaj Allianz of having indulged in unfair trade practice and held that there was deficiency in service. The forum also awarded heavy compensation as a deterrent so that such unfair trade practices would not be repeated in the future.

5.7.4 Securities Market

The Indian securities market, considered one of the most promising emerging markets, is among the top ten markets of the world. The Stock Exchange, Mumbai, which was established in 1875 as “The Native Share and Stockbrokers Association”, has evolved over the years into its present status as the premier Stock Exchange in the country. At present 24 stock exchanges operate all over India. These stock exchanges provide facilities for trading securities. Securities markets provide a common platform for transfer of funds from the person who has excess funds to those who need them and is regulated by the Securities & Exchange Board of India (**SEBI**).

The major components of a security market include:

- (i) Securities-Shares, Bonds, Debentures, Futures, Options, Mutual Fund Units;
- (ii) Intermediaries-Brokers, Sub brokers, Custodians, Share transfer agents, Merchant Bankers;
- (iii) Issuers of securities-Companies, Bodies corporate, Government, Financial Institutions, Mutual funds, Banks;
- (iv) Investors-Individuals, Companies, Mutual funds, Financial Institutions, Foreign Institutional Investors;
- (v) Market Regulators-SEBI, RBI (to some extent), Department of Company Affairs.

It is pertinent to note that the stocks, bonds and other securities are not guaranteed by country’s government and can lose value because of abusive

practices by market participants and fellow investors. Regulations are of crucial importance in securities markets as the absence of conditions of perfect competition and existence of information asymmetry make it possible for certain participants to take unfair advantage of investors by exploiting regulatory inadequacy. Malpractices such as price manipulation and frauds not only cause substantial financial loss to investors but also disable the orderly functioning of securities markets and the efficient allocation of investible resources of the economy. The main areas of concern for the investor community in the security market are frauds relating to vanishing companies, price manipulation and insider trading and are discussed herein below:

Vanishing Companies

In India, in the mid-1990s, many new companies tapped the capital market and collected funds from the public through issue of shares /debentures /fixed deposits, and taking advantage of regulatory lapses in the capital market, defaulted, often leaving no trail. One finds that when it comes to regulatory enforcement, SEBI has been very lenient in its definition of fraudulent (vanishing) companies and has failed to track down the persons concerned. Only mild punishment (like debarment for just a few months to 5 years) has been meted out to those who have been traced and convicted, while the issue of attachment of assets of directors/promoters of vanishing companies in order to compensate investors, is still being examined by a central committee.

Insider Trading

Illegal insider trading on the basis of non-public price sensitive information, and using confidential information to make a profit or avoid a loss at the expense of other co-investors is cause of great concern in the Indian securities market. Even after being declared illegal more than 12 years back, the practice is still flourishing. Also, specifically in the audio advertisements on the radio or audio-visual advertisements on the television the risk related to the mutual funds or other equity documents cannot be understand fully. Most

often, the risk attached to the product is “under wraps”. Thus, the long term benefits of remaining invested in these funds over a long term horizon are lost on the investor. SEBI recently restrained entities, including individuals, from the securities market for allegedly indulging in unfair trade practices in the shares and securities.

Case study

Adjudication proceedings were initiated by SEBI against K&A Securities Private Limited, a member of National Stock Exchange and Bombay Stock Exchange in cash as well as Futures and Options segments, to inquire into and adjudge under sections 15 F(a), 15HA and 15 HB of SEBI Act, the alleged violation of the provisions of the SEBI (Stock Brokers and Sub-Brokers) Regulations, 1992, the SEBI (Prohibition of Fraudulent and Unfair Trade Practices relating to Securities Market) Regulations, 2003.

The Company was involved in several irregularities, viz. doing transactions involving receipt and payment of cash, non-segregation of funds between business account and client’s account, non-issuance of contract notes, allowing clients to trade in spite of debit balance in their accounts, providing trading terminals to sub-brokers not registered as Authorized Person, providing trading terminals to its clients, margin funding without entering into agreement with clients, accepting third party cheques from clients, dealing with unregistered sub-brokers, misleading investors by indulging into fraudulent and unfair trade practices, etc.

This way the company was fraudulently representing itself as well as the shares being sold by it to be something they were not. However, in this particular instance subsequently, the company proposed a consent notice and in pursuance of the consent terms, the company was asked to pay a sum of Rs. 12, 00,000.

5.7.5 Education Sector

Right to Education has been declared as a fundamental right in India by way of the 86th Constitutional amendment in 2002. The Right of Children to Free and Compulsory Education Act which came into effect in 2010 makes it obligatory on part of the state governments and local bodies to ensure that every child gets education in a school in the neighbourhood. India has one of the world's largest education systems spread over 1.3 million schools, more than 30,000 colleges and 542 universities. The schooling segment covers the largest population of our society as compared to any other form of education. With the unprecedented growth of education sector, the unfair practices in the sector have also increased. In India there has been an alarming increase in the number of fake universities and colleges. Such institutions do not have approval from the government and required permissions to offer courses in various streams. With the growth in the number of engineering and medical colleges, there is an increasing public concern over the unfair practices that are prevailing in the higher education system. The unfair practices in technical college and higher education institutes usually include demanding huge capitation and donation for securing admission, not recording any payments made by the students by not issuing receipts, non-transparent and suspicious means of admitting students for professional courses, poor quality of education imparted, misleading students and parents by giving advertisements which are not real in terms of the quality of education and in terms of the facilities and infrastructure provided to students. There are institutions which withhold the certificates of students to force them to make payments or to make them work without adequate compensation. In addition to this, primary schools also involve in unfair practices. Many schools recommend or instruct students to buy their books, stationeries and uniforms from a particular place. Most of the time the price charged by such recommended sellers is higher than the price in open market. Also, some times, the schools make the purchase compulsory and the students have no option but to purchase the items from the recommended sellers.

Case Study 1:

In the year 2002, a class X student, along with her father, filed a civil suit in the court of civil judge senior division against the Mercedes Benz international school, Pune for collecting 'capitation fees' under the guise of a building donation fund worth Rs. 2 lakhs over and above the annual fee of Rs. 2.75 lakhs. According to the suit the school refused to allow the student from attending classes when she refused to pay the 'capitation fee'. Such demand was requested to be declared illegal under the Maharashtra Educational Institutions (Prohibition of Capitation Fee) Act, 1987. While deciding one such case of unfair trade practices, the district forum, Chandigarh observed as follows: "It is unfortunate that in the name of education, the commercial teaching 'shops' have emerged to trap innocent, unsuspecting students to make easy money. They fleece students through flashy advertisements of providing a bright future. This is a slur on the fair and noble profession of teaching and such acts need to be condemned."

Case Study 2:

In the case of Bhupesh Khurana v. Vishwa Buddha Parishad, a case was filed in the National Commission by the students of Buddhist Mission Dental College and Hospital against Vishwa Bharati Parishad, which was running the dental college indulging in various unfair trade practices thereby causing irreparable injury to the students who took admission there based on the claims made by the university.

The Respondent had advertised in national newspaper inviting application for admission for the BDS course. It was represented in the advertisements that the college was under Magadh University, Bihar and Dental Council of India, New Delhi thereby giving clear impression that the said college is duly recognised by the Dental Council of India which is a statutory body for the purpose of running such kind of institution and also affiliated with Magadh University for the purpose of conducting the annual BDS examination and giving the degree course on completion of the course. At the time of admission, the college assured the students that it was fully equipped with library, laboratory, medical appliances and instruments, hostel

accommodation and well qualified staff. The college collected admission fees and tuition fee from the students who took admission in the college based on the misrepresentation by the college. However, no receipt for the same was provided. Huge amount was also collected by the respondent for capitation fee, college dues, etc., from the students.

It was found out later that the college was neither affiliated to Magadh University nor recognised by the Dental Council of India and was not competent to hold examinations.

The National Commission ruled that the same is gross misrepresentation and deficiency in service and is tantamount to unfair trade practice. The respondents were asked to refund the admission expense paid by the complainants at the time of the admission with interest at the rate of 12 per cent p.a. and also pay to Rs. 20,000 to each complainant as compensation.

The Consumer Protection Act, 1986

An Act to provide for better protection of the interests of consumers and for that purpose to make provision for the establishment of consumer councils and other authorities for the settlement of consumers' disputes and for matters connected therewith. Consumer Protection Act has been implemented (1986) or we can bring into existence to protect the rights of a consumer. It protects the consumer from exploitation that business practice to make profits which in turn harm the well being of the consumer and society. This right help

to educate the consumer on the right and responsibilities of being a consumer and how to seek help or justice when faced exploitation as a consumer. It teaches the consumer to make right choices and know what is right and what is wrong.

CONSUMER PROTECTION ACT, 1986



A consumer is one that buys goods for the consumption and not for the resale or commercial purpose. The consumer also hires service for a consideration.

According to the Act, a consumer's definition is who:

- buys goods or hires any service
- uses the goods or hires any service with the approval of any buyer or service provider
- Uses goods and services to earn a livelihood by self-employment.

Features of Consumer Protection Act

The important features of Consumer Protection Act, 1986 discussed below:

- a. It extends to the whole of India except the State of Jammu and Kashmir. (ii) Save as otherwise expressly provided by the Central Government by notification, this Act shall apply to all goods and services.
- b. The Consumer Protection Act covers all public, private and cooperative sector.
- c. This applies to all the goods and services until and unless Union government exempts it.
- d. Provisions of the Consumer Protection Act are compensatory in nature.

Practices to be followed by Business under Consumer Protection Act

- If any defect found the seller should remove the mentioned defects from the whole batch or the goods affected. For example, there have been cases where car manufacturing unit found a defect in parts of the vehicle usually they remove the defect from every unit or they call of the unit.
- They should replace the defective product with a non defective product and that product should be of similar configuration or should be same as the product purchased.
- Money may be refunded in specific cases where it is impossible to replace the same product to the customer.



Consumer Protection Councils

The Central Consumer Protection Council.

The Central Government **shall**, by notification, establish with effect from such date as it may specify in such notification, a Council to be known as the Central Consumer Protection Council. The Central Council shall consist of the Minister in charge of the consumer affairs in the Central Government, who shall be its Chairman, and such number of other official or non-official members representing such interests as may be prescribed. The Central Council shall meet as and when necessary, but at least one meeting of the Council shall be held every year.

Objects of the Central Council

The objects of the Central Council shall be to promote and protect the rights of the consumers such as:

- (a)** The right to be protected against the marketing of goods and services which are hazardous to life and property.
- (b)** The right to be informed about the quality, quantity, purity, standard and price of goods or services, as the case may be so as to protect the consumer against unfair trade practices.
- (c)** The right to be assured, wherever possible, access to a variety of goods and services at competitive prices.

- (d) The right to be heard and to be assured that consumer's interests will receive due consideration at appropriate forums.
- (e) The right to seek redressal against unfair trade practices or restrictive trade practices or unscrupulous exploitation of consumers.
- (f) The right to consumer education.

The State Consumer Protection Councils

The State Government shall, by notification, establish with effect from such date as it may specify in such notification, a Council to be known as the Consumer Protection Council. The State Council shall consist of the Minister in charge of consumer affairs in the State Government who shall be its Chairman and other official or non-official members representing such interests as may be prescribed by the State Government.

Features

- (a) The number of other official or non-official members, not exceeding ten, as may be nominated by the Central Government.
- (b) The State Council shall meet as and when necessary but not less than two meetings shall be held every year.
- (c) The State Council shall meet at such time and place as the Chairman may think fit and shall observe such procedure in regard to the transaction of its business as may be prescribed by the State Government.

Consumer Disputes Redressal Agencies

There exist three tier mechanisms for consumer dispute redressal under consumer protection act 1986 they are discussed below:

a) District Forum: These forums are set by the district of the state concerned in each district wherein it consists of President and two members of which one should be a woman and is appointed by the State Government. In this, the complaining party should not make a complaint more than 20 Lacs and once the complaint is filed the goods are sent for testing and if they found defective the accused party should compensate and if the party is dissatisfied can make an appeal with state commission within 30 days.

b) State Commission: This is set up by each state It consists of President and two members. Complaints should be at least 20 lacs and exceed not more than 1 crore. The goods are sent for testing and if found defective are asked for replacement or compensation. If not satisfied can make an appeal within 30 days in front of the National Commission.

c) National Commission: Consist of President and 4 members. The complaint must exceed an amount of 1 crore. The goods are sent for testing and if found defective are asked for replacement or compensation

d) Supreme Court: Cases may come from national commission or central government for redressal here.

Manner in which complaint shall be made

The procedure is explained stepwise

Step 1: A complaint in relation to any goods sold or delivered or agreed to be sold or delivered or any service provided or agreed to be provided may be filed with a District Forum by the consumer.

- (a) the consumer to whom such goods are sold or delivered or agreed to be sold or delivered or such service provided or agreed to be provided;
- (b) any recognised consumer association whether the consumer to whom the goods sold or delivered or agreed to be sold or delivered or service provided or agreed to be provided is a member of such association or not;
- (c) one or more consumers, where there are numerous consumers having the same interest, with the permission of the District Forum, on behalf of, or for the benefit of, all consumers so interested; or
- (d) the Central Government or the State Government, as the case may be, either in its individual capacity or as a representative of interests of the consumers in general.

Step 2: Every complaint filed accompanied with such amount of fee and payable in such manner as may be prescribed.

Step 3: On receipt of a complaint made under sub-section (1), the District Forum may, by order, allow the complaint to be proceeded with or rejected:

Step 4: Where a complaint is allowed to be proceeded with under sub-section (3), the District Forum may proceed with the complaint in the manner provided under this Act.

Step 5: The District Forum shall, on admission of a complaint, if it relates to any goods admitted complaint, within twenty-one days from the date of its admission to the opposite party mentioned in the complaint directing him to give his version of the case within a period of thirty days or such extended period not exceeding fifteen days as may be granted by the District Forum.

Exercise

Very short type questions

1. As per Consumer Protection Act 1986, 'unfair trade practice' includes
 - (i) falsely represents that the goods/services are of a particular standard,

quality or grade

(ii) falsely represents any re-built, second-hand, renovated, reconditioned or old goods as new goods

(iii) represents that the goods or services have sponsorship, approval, performance, characteristics, accessories, uses or benefits which such goods or services do not have

Codes:

(a) (i) & (ii)

(b) (i) & (iii)

(c) (ii) & (iii)

(d) (i), (ii) & (iii)

2. Who shall be the Chairman of the Central Consumer Protection Council

(a) The Minister in charge of consumer affairs in the Central Government

(b) The Minister in charge of consumer affairs in the State Government

(c) The Prime Minister

(d) The Speaker of Lok Sabha

The Central Council shall convene at least meeting in every year.

(a) Two

(b) One

(c) Three

(d) There is no such condition

3. Which of the following are the objects of the Consumer Protection Councils

(i) the right to be protected against the marketing of goods and services which are hazardous to life and property

(ii) the right to be informed about the quality, quantity, potency, purity, standard and price of goods or services so as to protect the consumer against unfair trade practices

(iii) the right to seek redressal against unfair trade practices or restrictive trade practices or unscrupulous exploitation of consumers

(iv) the right to consumer education

Codes:

(a) (i), (ii) & (iv)

(b) (i), (ii) & (iii)

(c) (i), (iii) & (iv)

(d) (i), (ii), (iii) & (iv)

4. Consumer means a person who buys goods for a

(a) Consideration (b) Co-operation (c) money (d) goods

5. Authorities and agencies not restricting unfair trade practice in India is

(a) District forum (b) National Commission **(c) DRTs** (d) Supreme Court

6. ASCI refers to

(a) Advertising Standard Council of India

(b) Advertising Standard Committee of India

(c) American Standard Council of India

(d) American Standard Committee of India

7. Component of security market does not include

(a) Bonds (b) Debentures (c) Options **(d) Locker deposits**

8. Consumer protection act 1986 extends

(a) Whole India (b) Whole India Except Jammu & Kashmir (c) Whole India except Pondicherry (d) Whole India except Jammu & Kashmir and Pondicherry.

Answer. 1.(d). 2. (b). 3.(d). 4. (a). 5.(c). 6.(a). 7.(d). 8.(b).

Short type questions

1. Explain false representation in the context of unfair trade practice?
2. What is Hoarding ?
3. Write a short note on MRTP Act 1969.
4. Write a short note on District Forum in restricting unfair trade practice.
5. What is insider trading ?
6. Write a short note on vanishing companies.
7. Write two features of consumer protection act 1986.
8. What are the important consumer dispute redressal agencies in India.

8. Long type questions

1. Describe the present scenario in restricting unfair trade practice in India?
2. Explain different agencies that restrict unfair trade practice in India?
3. Illustrate with example unfair trade practice in pharmaceutical sector.
4. Illustrate with example unfair trade practice in Insurance sector.
5. Illustrate with example unfair trade practice in Security market.
6. Explain consumer protection act 1986? State the manner in which complaint shall be made?

Short Questions answers

1. **Mention some important determinants of business strategies.**

The economic conditions of a country, the distribution of income and assets, political environment etc. are very important determinants of business strategies

2. What is meant by the capitalist system?

The capitalist system is one characterized by the private ownership of the means of production, individual decision making, and the use of the market mechanism to carry out the decision of individual participants and facilitate the flow of goods and services in markets.

3. What are the principal characteristics of a capitalist system?

The principal characteristics of a capitalist system are:

- (i) The factors of production—land, labour and capital—are privately owned, and production occurs at private initiative.
- (ii) Free enterprise is merely an extension of the concept of property rights.
- (iii) Consumer's sovereignty where consumers have complete freedom of choice of consumption.
- (iv) The individual is free to choose any occupation he is qualified for.
- (v) The freedom to save is implied in the freedom of consumption, for savings depend on income and consumption.
- (vi) The market mechanism is the key factor that regulates the capitalist economy.
- (vii) Competition among sellers and buyers is an essential feature of an ideal capitalist system
- (viii) The absence of a central plan.

4. What do you mean by socialism?

Socialism is generally understood as an economic system where the means of production are either owned or controlled by the state and where the resource allocation, investment pattern, consumption, income distribution, etc. are directed and regulated by the state.

5. Mention some of the salient features of a socialist system.

The salient features of a socialist system are:

- (i) The major means of production are either owned by the Government or their use is controlled by the Government.
- (ii) Existence of a central authority like the central planning agency to formulate the national plan for development and to direct resource mobilization, allocation and investment to achieve the plan targets.
- (iii) The consumers have to content themselves with what the state thinks is sufficient for them.
- (iv) The freedom of occupation is absent or restricted.
- (v) The wage rates and prices are fixed by the Government and not by market forces.
- (vi) An equitable distribution of income.

6. What is Mixed Economy ?

A mixed economy combines the best features of capitalism and socialism. Thus mixed economy has some elements of both free enterprise or capitalist economy as well as a government controlled socialist economy. The public and private sectors co-exist in mixed economies.

7. Give two determinant of economic development?

(i) Natural Resources: The availability of natural resources facilitates and accelerates economic growth and economic development. It is believed that quality and quantity of natural resources affect the rate of growth.

(ii) Human Resources: Another important determinant of economic development is the quantity and quality of human resources or the population. Other things being equal, educated and technically qualified manpower helps in achieving higher growth rate. On the other hand illiterate and unskilled population retards economic growth.

8. What is leading Indicators?

Leading indicators have the potential to forecast where an economy is headed, fiscal policymakers and governments make use of them to implement or alter programs in order to ward off a recession or other negative economic events. The top leading indicators are Stock Market, Manufacturing Activity etc.

9. Define Business Environment?

Business environment refers to the totality of all individuals, institutions and other forces that are outside a business enterprise but that may affect its functioning and performance.

10. What is environmental analysis?

Environmental analysis is defined as the process by which strategists monitor the economic, governmental, market, technological, geographic, and social settings to determine opportunities and threats to their firms.

11. What is environmental diagnosis?

“Environmental diagnosis consists of managerial decisions made by analysing the significance of the data (opportunities and threats) of the environmental analysis.”

12. What do you mean by business environment and economic environment respectively?

Business environment refers to the totality of all the factors which are external and out of control of an individual, business enterprise and their management. The most important factors are socio-economic, technological, suppliers, competitors and government.

Economic environment refers to the economic conditions such as, the nature of the economy, the stage of development of the economy, economic resources, the level of income, the distribution of income and assets etc.

13. Why are internal factors of a business enterprise regarded as controllable factors?

The internal factors are generally regarded as controllable factors because the company has control over these factors; it can alter or modify such factors as its personnel, physical facilities, organization and functional means, such as marketing mix, to suit the environment.

14. What kind of external factors influence the process of business enterprises?

The external factors are by and large, beyond the control of a company. The external or environmental factors such as the economic factors, socio-cultural factors, government and legal factors, demographic

factors, geo-physical factors, etc., influence the process of business enterprises.

15. What are the important external factors that constitute the economic environment of a business?

Economic conditions, economic policies and the economic system are the important external factors that constitute the economic environment of a business.

16. What do you mean by micro environment?

The micro environment consists of the factors in the company's immediate environment that affects the performance of the company. These include the suppliers, marketing intermediaries, competitors, customers and the public.

17. What demographic factors are relevant to business?

Demographic factors like the size, growth rate, age composition, sex composition, etc. of the population, family size, economic stratification of the population, educational, levels, language, caste, religion, etc are the factors that are relevant to business.

18. What do you mean by demarketing?

Demarketing refers to the process of cutting consumer demand for a product back to level that can be supplied by the firm. For this companies are marketing negatively to cope with the excess demand with available supply. For example Indian Oil Corporation has publicized tips on how to cut oil consumption. When the fertilizer price shot up following the oil crisis, some fertilizer companies appealed to the farmers to use fertilizers only for important and remunerative crops.

19. Mention some of the important environmental forces which drive companies towards adopting the marketing concept.

There are certain environmental forces which drive companies towards adopting the marketing concept. These forces tend to make the survival of the companies otherwise difficult. Important among these forces are: growth of consumerisms and environmentalism; demand for social justice; government regulations; and changing competitive environment.

20. What is Globalization?

Globalization is the free movement of people, goods, and services across boundaries. “ Globalization is a process in which the production and financial structures of countries are becoming interlinked by an increasing number of cross-border transactions to create an international division of labour in which national wealth creation comes, increasingly, to depend on economic agents in other countries, and the ultimate stage of economic integration where such dependence has reached its spatial limit”.

- **Bairoch & Kozul-Wright**

21. Give two features of Globalization?

Liberalisation: It stands for the freedom of the entrepreneurs to establish any industry or trade or business venture, within their own countries or abroad.

Free trade: It stands for free flow of trade relations among all the nations. Each state grants MFN (most favoured nation) status to other states and keeps its business and trade away from excessive and hard regulatory and protective regimes.

22. What are the dimensions of Globalisation?

Globalisation has social, economic, political cultural and technological dimensions. It involves all round inter-linkages among all the people of the world. Free flow of knowledge, technology goods services and people across all societies is its key feature. It attempts at making geographical

borders soft permitting all the people to develop their relations and links. Globalisation accepts and advocates the value of free world, free trade, freedom of access to world markets and a free flow of investments across borders. It stands for integration and democratisation of the world's culture, economy and infrastructure through global investments.

23. Give two positive Consequence of Globalization?

a) Free trade: Free trade is supposed to reduce barriers such as tariffs, value added taxes, subsidies, and other barriers between nations. This is not true. There are still many barriers to free trade. The problem is that the big G20 countries added more than 1,200 restrictive export and import measures since 2008.

b) Economic growth: The proponents say globalization represents free trade which promotes global economic growth; creates jobs, makes companies more competitive, and lowers prices for consumers, improvement in GDP.

24. Give two negative Consequence of Globalization?

Losing employment: The biggest problem for developed countries is that jobs are lost and transferred to lower cost countries." According to conservative estimates by Robert Scott of the Economic Policy Institute, granting China most favoured nation status drained away 3.2 million jobs, including 2.4 million manufacturing jobs.

social injustice: Multinational corporations are accused of social injustice, unfair working conditions (including slave labour wages, living and working conditions), as well as lack of concern for environment, mismanagement of natural resources, and ecological damage.

25. What is the main objectives of economic policy in 1991?

The main objective was to permit the International flow of goods and services, capital labour, technology without any restrictions.

26. What is privatisation?

Simply speaking, privatisation means permitting the private sector to set up industries which were previously reserved for the public sector. Under this policy many PSU's were sold to private sector. Literally speaking, privatisation is the process of involving the private sector-in the ownership of Public Sector Units (PSU's). The main reason for privatisation was in currency of PSU's are running in losses due to political interference. The managers cannot work independently. Production capacity remained under-utilized. To increase competition and efficiency privatisation of PSUs was inevitable.

27. What are the factors aiding globalisation

a) Technology: The integration of technology in India has transformed jobs which required specialized skills and lacked decision-making skills to extensively-defined jobs with higher accountability that require new skills, such as numerical, analytical, communication and interactive skills. As a result of this, more job opportunities are created for people.

b) Economic Reforms: The 1991 reforms in India have led to greater economic liberalisation which has in turn increased India's interaction with the rest of the world.

28. Explain briefly Socio-Cultural Impact on Indian Society?

Nuclear families are emerging. Divorce rates are rising day by day. Men and women are gaining equal right to education, to earn. Globalisation has aided in the explosion of information on the web that has helped in greater awareness among people. It has also led to greater need for specialisation and promotion of higher education in the country. It has

been estimated that by 2050 more than 50% of India's population will live in cities. The boom of services sector and city centric job creation has led to increasing rural to urban migration.

29. How E-commerce works?

When a consumer wants to buy a certain product, he goes to the website and selects the product he wants to buy. Once the product is selected, the consumer transaction is moved to the online transaction server where he places an order. The information is exchanged over a secure channel through a private gateway to a processing network. The networked banks accept or reject the transaction. After acceptance of transaction, the company distributes the product through distribution channels. Cash on delivery is also provided by the company. All this happens in just a matter of seconds. E-commerce is very secure due to the SSL (Secure Socket Layer) technology.

30. What are the major benefits of E-commerce?

The major benefits of E-commerce are:

- **secure** - more secure than a cheque.
- **fast** - the transactions take not more than a few seconds
- **continuous** - the purchases can be made 24/7
- **convenient** - ease of purchasing
- **reduced cost** - Reduction of Marketing and Advertising Costs

31. What are the various applications of E-commerce?

Following are a few products where E-commerce can be used:

Electronic products, books, music, financial services, entertainment, travel services, tickets, information etc.

32. Explain the term "web hosting"?

Web hosting is a way to gain a presence on the internet. The web hosting company should be capable of providing you with the level of service that you need to maintain your Web Store.

33. Explain in brief B2B, B2C, C2B and C2C?

B2B (Business-to-Business)

In B2B, companies transact with each other. This includes the companies selling their product to wholesalers, distributors, etc

B2C (Business-to-Consumer)

This is usually when average businesses transact with the customer. This is done through the shopping cart software's and the amount involved in the transactions is usually low.

C2B (Consumer-to-Business)

In this, a consumer places the product on the net. The companies willing to buy this product bid for it. The consumer can then decide, depending upon the bid, which company to sell it to.

C2C (Consumer-to-Consumer)

These kinds of transactions are usually done at an individual level. Payments can be done with the help of online systems like PayPal.

34. What are the types of E-commerce applications available in the IT Industry?

Business to Business (B2B), Business to Customers (B2C), Customers to Customers (C2C) ,Customers to Business (C2B) Etc...

35. What Is online shopping application and give some examples?

Online Shopping Application provides business gateway between Product vendors and Customers. Example: Walmart, amazon etc...

36. What Are The Possible Drawbacks Of Electronic Commerce?

The possible drawbacks of E-commerce is virus, Increased vulnerability to fraud, difficulty protecting intellectual property, risks to confidentiality, customs requirements, regulations, credit card fraud, security, trust problems, and constant availability.

37. What do you mean by consumerism?

Consumerism is the movement seeking to protect and inform consumers by requiring such practices as honest packaging and advertising, product guarantees and improved safety standards.

38. Give two rights of the consumer?

Rights of the consumer are :

(a) Right against exploitation by unfair trade practices.

(b) Right to protection of health and safety from the goods and services the consumers buy or are offered free.

39. What is false representation ?

i) Falsely suggestion regarding quality, standard, quantity, grade, composition, style or model of goods or services

ii) False representation regarding approval, performance, characteristics, accessories of goods or services.

iii) False or misleading representation concerning the need or the usefulness of goods or services.

iv) Materially misleads about the prices at which such goods or services are available in the market.

40. Name the authorities and agencies countering unfair trade practice in India?

Authorities countering unfair trade practice in India are District forum, State commission, National commission and the Supreme Court.

41. What is PLA (Permanent Lok Adalat)?

The word Lok Adalat means people's court. It is strictly not a court in the conventional sense because Lok Adalat cannot adjudicate on facts by application of law. It is a forum where dispute between the parties are resolved by conciliation and participation.

42. Explain Vanishing Companies in Indian context?

In India, in the mid-1990s, many new companies tapped the capital market and collected funds from the public through issue of shares /debentures /fixed deposits, and taking advantage of regulatory lapses in the capital market, defaulted, often leaving no trail. One finds that when it comes to regulatory enforcement, SEBI has been very lenient in its definition of fraudulent (vanishing) companies and has failed to track down the persons concerned. Only mild punishment (like debarment for just a few months to 5 years) has been meted out to those who have been traced and convicted, while the issue of attachment of assets of directors/promoters of vanishing companies in order to compensate investors, is still not up to the mark.

43. What is Insider Trading ?

Illegal insider trading on the basis of non-public price sensitive information, and using confidential information to make a profit or avoid a loss at the expense of other co-investors is cause of great concern in the Indian securities market. Even after being declared illegal more than 12 years back, the practice is still flourishing. Also, specifically in the audio advertisements on the radio or audio-visual advertisements on the television the risk related to the mutual funds or other equity documents cannot be understood fully. Most often, the risk attached to the product is "under wraps". Thus, the long term benefits

of remaining invested in these funds over a long term horizon are lost on the investor. SEBI recently restrained entities, including individuals, from the securities market for allegedly indulging in unfair trade practices in the shares and securities.

44. Give two features of Consumer Protection Act, 1986?

- i) It extends to the whole India except the state of Jammu and Kashmir.
- ii) This act applies to all goods and services until and unless Union government exempted it.

45. Explain Central Consumer Protection Council?

The Central Government shall, by notification, establish with effect from such date as it may specify in such notification, a Council to be known as the Central Consumer Protection Council. The Central Council shall consist of the Minister in charge of the consumer affairs in the Central Government, who shall be its Chairman, and such number of other official or non-official members representing such interests as may be prescribed. The Central Council shall meet as and when necessary, but at least one meeting of the Council shall be held every year.

Sample Question Paper

Model Set- 1

Very Short type questions

10*1=10

1. Purpose of every economy is to satisfy (a) **Satisfy human wants** (b) Exploit other nation (c) Increase economic activities (d) Liberalize economy.

2. In modern economies _____ is used as medium of exchange. (a) Coins (b) Bonds **(c) Money** (d) Foreign currency
3. Globalization has social, economic, cultural, political and _____ dimensions. **(a) technological** (b) tactical (c) terminal (c) regulating
4. SEZ refers to **(a) Special Economic Zone** (b) Special Energy Zone (c) Specific Economic Zone (d) Special Earth Zone
5. under ETOP
- Environmental threat and opportunity are analysed.**
 - Profit maximisation and environment threat are analysed.
 - Loss minimisation and environmental opportunity are analysed.
 - Environmental threat, opportunity, profit & loss analysed.
6. Too much information relating to business creating _____ in decision making.
- Positive effect (b) delay (c) Willingness (d) Positive impact.
7. Which of the following is not an important E- Commerce business models?
- Business to Business (b) Business to Consumer (c) Consumer to Consumer **(d) Producer to Consumer**
8. B2C business model sells its product directly to
- Customer** (b) Businessman (c) Producer (d) Supplier
9. Which of the following are the objects of the Consumer Protection Councils
- the right to be protected against the marketing of goods and

services which are hazardous to life and property

(ii) the right to be informed about the quality, quantity, potency, purity, standard and price of goods or services so as to protect the consumer against unfair trade practices

(iii) the right to seek redressal against unfair trade practices or restrictive trade practices or unscrupulous exploitation of consumers

(iv) the right to consumer education

Codes:

(a) (i), (ii) & (iv)

(b) (i), (ii) & (iii)

(c) (i), (iii) & (iv)

(d) (i), (ii), (iii) & (iv)

10. Consumer means a person who buys goods for a

(a) Consideration (b) Co-operation (c) money (d) goods

Short type questions (answer any ten)

10*2=20

1. What is an economy?
2. What is the main characteristic of economy?
3. State any two features of business environment.
4. Mention the different types of business environment.
5. What is Globalization?
6. Give two features of globalization
7. Define two features of E-commerce?
8. Distinguish between traditional commerce and E-commerce?

9. Give one disadvantage of E-commerce?
10. What is E-marketing?
11. What is insider trading ?

Medium type questions (answer any six)

6*5=30

1. State some features of capitalistic system?
2. Discuss demerits of capitalistic economy system?
3. Explain the effect of political environment in the normal functioning of business enterprises.
4. Why should a business enterprise be socially responsible?
5. Bring out the limitations of business environment.
6. State key principle of business ethics.
7. Illustrate with example unfair trade practice in Security market.

Long type questions (answer any four)

10*4=40

1. What is business environment? How is the study of business environment relevant to a manager?
2. What is Globalization? What are the main drivers of globalization? Discuss them in brief.
3. Consumers are exploited in India time to time. Discuss the statement.
4. Define Capitalism and describe its features.
5. Describe in brief the economic environment of business.
6. Measures adopted in new economic policy 1991?
7. Illustrate with example unfair trade practice in Insurance sector.

Model Set-2

Very Short type questions

10*1=10

1. 'Laissez fair' economic policy refers to **(a) Leave free** (b) good food (c) Fair price (d) Private property.
2. In capitalistic economy consumers are
(a) Seller (b) Buyer (c) Slaves **(d) King**
3. Ethics refers to

- (a) Character (b) morality (c) attitude (d) Cohesiveness
4. In SWOT analysis 'O' refers to
(a) Observation **(b) Opportunity** (c) Oath (d) Optimality.
5. Globalization is the free movement of people, goods, _____ across the globe.
(a) Funds **(b) Services** (c) Technologies (d) Dividend
6. WTO stands for
(a) **World trade organisation** (b) World tariff organisation (c) World Tiffin organisation (d) World technological organisation.
7. Which of the following is not a mode of Non-cash payment.
(a) Debit Card (b) Credit Card (c) NEFT/RTGS **(d) Payment in Coin**
8. Communication of transaction in E-Commerce is made with
(a) **Asynchronous way** (b) Synchronous way (c) Traditional way (d) Smooth way
9. Authorities and agencies not restricting unfair trade practice in India is
(a) District forum (b) National Commission **(c) DRTs** (d) Supreme Court
10. ASCI refers to
(a) **Advertising Standard Council of India**
(b) Advertising Standard Committee of India
(c) American Standard Council of India
(d) American Standard Committee of India

Short type questions (answer any ten)

10*2=20

1. Give two determinant of economic development?
2. What is the meaning of economic development?
3. List the various elements of non-economic environment of business.
4. What is meant by the term 'ethics'?
5. What is Management Information System(MIS)?
6. Explain the socio cultural impact of Globalization?
7. What is "Consumerism"?
8. Write short note on WTO?
9. What is E-commerce?
10. Write a short note on MRTP Act 1969.
11. Write a short note on District Forum in restricting unfair trade practice.

Medium type questions (answer any six)

6*5=30.

1. State some features of socialistic economy?
2. How does demographic environment of business influence the business activities?
3. Explain micro environment of Business.
4. What is business environment?
5. Evaluate the impact of business environment in success / failure of the firm
6. Give the advantage of E-commerce?
7. Explain with graph B2B and B2C model?

Long type questions

10*4=40

1. Point out the important characteristics of macro environment and distinguish it from micro environment.
2. Define Unfair Trade Practice. Discuss the provisions in the MRTP act for controlling Unfair Trade Practices.
3. State the features of economy?

4. Explain SWAT analysis.
5. Explain factors aiding Globalization?
6. Explain important E-commerce applications?
7. Explain different type of electronic payment system? Give advantages of electronic payment system?
8. Explain consumer protection act 1986? State the manner in which complaint shall be made?

Model Set-3

Very Short type questions

10*1=10

1. Under socialist economy all the resources are controlled by
(a) public **(b) Government** (c) MNCs (d) All of these
2. Key indicator for determining development of a country **(a) Per capita income** (b) Rate of tax (c) Production (d) Foreign exchange reserve
3. Economic condition does not include
(a) **Technological environment** (b) Economic systems (c) Economic policies (d) Distribution of income.

4. The objective of business lies with (a) Increase the value of the firm with profit (b) Economic objective and Labour policy (c) Social responsibility towards different stake holders **(d) Economic objective of business and social responsibility of business.**
5. Which of the following factors does not aid globalization?
(a) Technology **(b) poverty** (c) Transportation (d) MNCs
6. World bank working towards the
(a) Political and cultural development **(b) Social and economic development** (c) political and economic development (d) Social and cultural development.
7. EDI refers to
(a) Electronic Data Interchange
(b) Electronic Device Interchange
(c) Energy Data Interchange
(d) Energy Device Interchange
8. E-Commerce refers to the_____ exchange of business.
(a) **Paperless** (b) Priceless (c) Painless (d) Puzzled
9. Component of security market does not include
(a) Bonds (b) Debentures (c) Options **(d) Locker deposits**
10. Consumer protection act 1986 extends
(a) Whole India (b) Whole India Except Jammu & Kashmir (c) Whole India except Pondicherry (d) Whole India except Jammu &

Short type questions

10*2=20

1. Explain two leading indicators?
1. 2. Explain two lagging indicators?
2. State two positive consequence of Globalization.
3. What is privatization?
4. Write two benefits of Globalization?
5. What is E- learning
6. Explain mobile commerce?
7. Define electronic payment system?
8. Give two advantages of electronic system?
9. Explain false representation in the context of unfair trade practice?
10. What is Hoarding ?

Medium type questions

6*5=30

1. State some features of mixed economy?
2. Distinguish between economic development and economic growth?
3. Discuss the macro environment of business.
4. Explain the impact of Globalization?
5. Describe the present scenario in restricting unfair trade practice in India?
6. Explain different agencies that restrict unfair trade practice in India?
7. Illustrate with example unfair trade practice in pharmaceutical sector.

Long type questions (answer any four)

10*4=40

2. 1. What is social responsibility? How can business combine its social responsibility with that of profit making objective?

3. 2.What are the functions of World Trade Organization in promoting World Trade?
4. Discuss the merits and demerits of socialistic economy system?
5. 4.What is meant by social responsibility of business? State the responsibilities of business towards the community.
6. Explain the risk involved and security requirement in electronic system?
7. Describe EDI layered architecture?
8. What is M-Commerce? Explain different internet marketing techniques?

Suggested Reading

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*****THE END*****