



UGC-NET

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COMMERCE

NATIONAL TESTING AGENCY (NTA)

PAPER – 2 || VOLUME – 1



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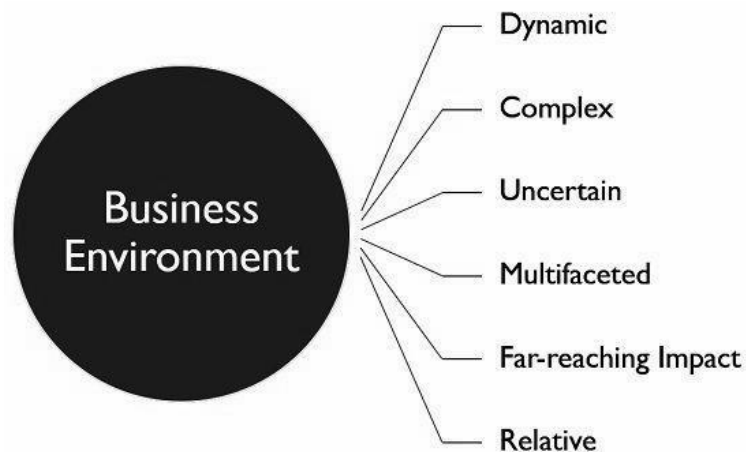
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UNIT - 1

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

Salient Features of Business Environment

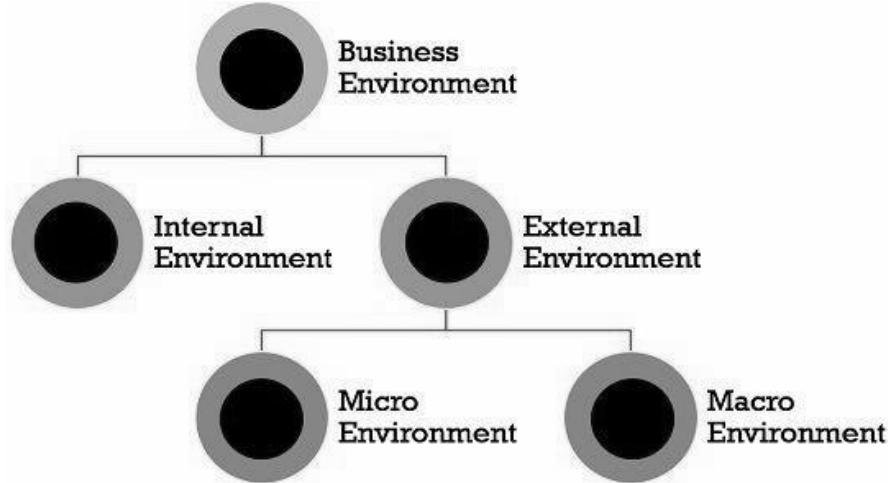
The salient features of the business environment are given hereunder:



1. **Dynamic**: The environment in which the business operates changes continuously because there is a wide variety of factors that exist in the environment, causing it to change its shape and character.
2. **Complex**: There are many forces, events and conditions that constitute business environment, arising from various sources. So, it is a bit difficult to understand the relative influence of a particular factor, on the operation of the organisation.
3. **Uncertain**: Uncertainty is an inherent characteristic of the business environment because no one can predict what is going to happen in future.
4. **Multi-faceted**: A single change in the business environment, can be viewed differently by different observers because their perceptions vary.
5. **Far-reaching Impact**: The survival, growth and profitability, of a business enterprise, depends largely on the environment in which it exists. A small change in the environment has a far-reaching impact on the organisation in different ways.
6. **Relative**: The notion of a business environment is relative since it varies from one location to another.

Components of Business Environment

The Business Environment is broadly classified, into two categories:



1. **Internal Environment:** The factors which exist within the organisation, imparting strength or causing weakness to the organisation, comes under internal environment. It includes:
 - * Value System
 - * Vision and Mission
 - * Objectives
 - * Corporate Culture
 - * Human Resources
 - * Labor Union
2. **External Environment:** External Environment consists of those factors which provide an opportunity or pose threats to the business. It is further classified as:
 - * **Micro Environment:** The immediate periphery of the business that has a continuous and direct impact on it is called Micro Environment. It includes suppliers, customers, competitors, market, intermediaries, etc. which are specific to the business.
 - * **Macro Environment:** Macro Environment, is one such environment that influences the functioning and performance of every business organisation, in general. It comprises of the demographic, socio-cultural, legal, political, technological, and global environment.

All business enterprises, functions within an environment, called as the business environment. An individual business firm survives and grows within the periphery of its environment.

A firm is only a part of a big environment, and so there are only a few factors which are under the control of the firm.

So, the firm has no other option, but to respond and adapt accordingly. If business persons possess a good understanding of the business environment, they can easily recognise, analyse and react to the forces that affect the firm.

Dimensions of Business Environment

As we learned that there are various forces that affect the business environment like suppliers, customers, investors, competitors, etc. Now let's understand the general forces that affect and shape the business environment. There are five general dimensions of the business environment.

Economic Environment

- * The Rate of Inflation: The simplest way to understand inflation is to see it as rising prices. If the economy is in the state of boom. Where business is flourishing and everyone is earning good amount of money which results in the increase in purchasing power of the consumer. This means that producer is able to sell his commodity at a high price in the market. Whereas, in a state of depression in the economy, the purchasing and investing power of the customer falls down. As the firm can't influence the general factors of business environment, it has to change itself in order to survive the change. And producer has to re-establish the prices of his commodity for people to afford it.
- * Demand and Supply: When business identifies a profitable opportunity they are observing the existence of a potential demand for the product. And businesses which can foresee potential profits have an incentive to increase production. Demand and the supply of a commodity in the market influence the business environment enormously. This factor is based on the demand of a commodity in the market and the producer's ability to produce it on time.
- * Economic Policies: Government seek out to control the business environment in order to meet a range of objectives. These include stability and predictability, health and safety. Local, state and national policies affect the planning and operations of business deeply. Economic policies are drafted to direct the economic activities. They include import-export, employment, tax structure, industry, public expenditure, public debt, foreign investment, etc.

Social Environment

- * Culture and Traditions: In India, culture and traditions influence a majority of business. Traditions mean the social practices that have passed down from one generation to another. For example, Diwali, Christmas and Eid. These festivals prove to be a profitable period for electronics, sweets, greeting cards and restaurant businesses. The business should plan its strategies according to the traditions and social practices of a country.
- * Social Trends: Social trends in a society are proportional to the demand for the product. The example of the social trend is health and fitness. The products such as diet foods, diet drinks and fitness centres have given a new face to the industry of health and fitness.
- * Values: Values can be called as the standard society keeps about itself. Such as freedom, social justice and equal opportunities.

Legal Environment

The legal environment includes the laws passed by the government as well as the decisions rendered by the various commissions and agencies at every level of the government. It's important that every business must function according to the law of the area in which it wishes to operate.

Not obeying the rules can result in legal trouble for the business. In India, business firms are required to have complete knowledge of acts like Companies Act 1956, Consumer Protection Act 1986, Industrial Disputes Act 1947, and Competition Act 2002 and so on. For example, it is mandatory for tobacco companies to print 'smoking is harmful' on its products.

Technological Environment

The primary forces that are responsible for the improvement in the scientific field and new innovations being introduced in the market for improving the quality of goods and services and techniques for operating business more efficiently are known as technological factors in the business environment.

Just like two sides of the same coin, technological changes are threats to some organisations and opportunities for other. The introduction of Television was a major blow to the industry of Radio and Cinema industry. Mobile phones have snatched the market from Telephones.

These days, the online food delivery businesses are emerging in the market which is using smartphone technology that is 'Apps' to order food online. This is a major

change in the food industry business and has affected the restaurant industry tremendously.

New innovations are occurring in medicine, telecommunications and biotechnology. Recent advancement in the market of Autonomous cars example Driverless cars is proving to be a major threat to the business of self-driving car industry.

Political Environment

This factor consists of external factors such as political stability and peace in the country. The foresight of the ruling party and its perspective towards business. Needless to say, the political environment is easily the most important dimension of the business environment.

As it decides what is the ideology of the party which is dominant in the country. For example, after globalisation India let foreign companies enter Indian market for giving a boost to different industries such as the food processing industry, the technological industry.

Businesses function with the nature and the framework of the political party. The components of a political environment consist of the constitution of the country, political stability, political ideology, political outlook on business sectors, the extent of government intervention and degree of politicisation of business and economic issues.

Introduction to Consumer Protection

A consumer is the one who assumes to be treated like a King as they bring business to the seller. Previously "*consumer was asked to beware*" but these days fingers have been pointed to seller "*let seller be beware*" as due to policies introduced, government laws, consumer protection, NGO and the increased competition in the market.

Consumer Protection is a term given to a practice wherein we need to protect the consumer from the unfair practice, educating them about their rights and responsibilities and also redressing their grievances.

Why do Consumers need to be Protected?

There are n number of products in the market which are injurious to the health of the consumer, adulteration, false weights, monopoly and unfair trade practice are some of the issues that need to be tackled and are to be addressed to protect the consumer against it.