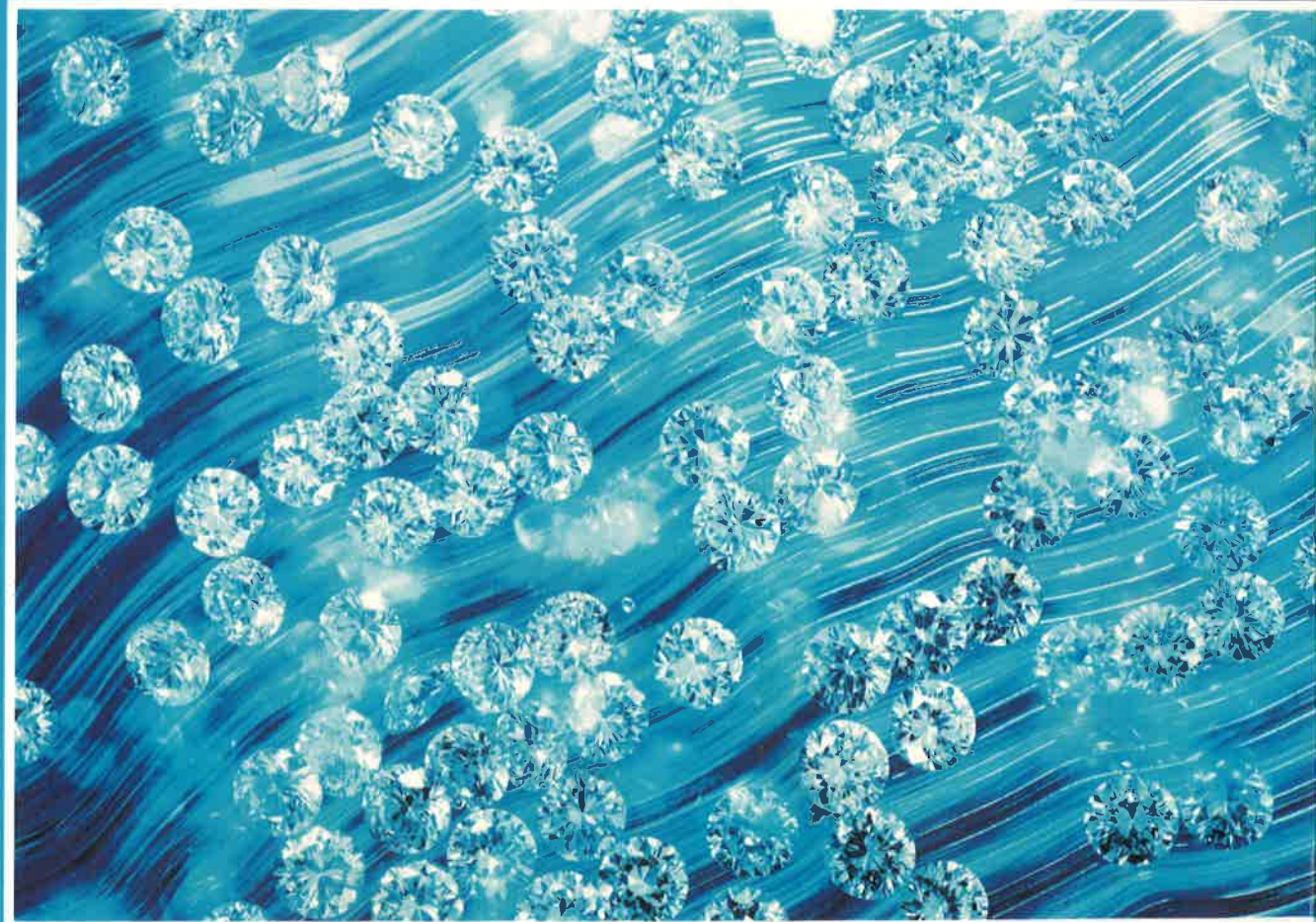


Business Environment



A. C. Fernando

CONTENTS

Preface

xxiii

Part I Fundamental Concepts 1

1. The Functioning of an Economy: Basic Concepts 3

WHAT IS AN ECONOMY? 3

ECONOMIC ACTIVITY 3

WANTS: THE BASIS OF ALL ECONOMIC ACTIVITIES 3

CIRCULAR FLOW OF ECONOMIC ACTIVITY 3

Real Flows 4

Money Flows 4

PRODUCTION 6

Definition 6

Consumers' Goods and Producers' Goods 6

UTILITY 6

GOODS 7

Free Goods and Economic Goods 7

Consumption Goods and Capital Goods 7

VALUE 7

WEALTH 7

Classes 8

Wealth and Welfare 8

CONSUMPTION 8

HUMAN WANTS 9

Formation 9

Categories 9

Characteristics 10

STANDARD OF LIVING 11

Factors Affecting the Standard of Living 11

The Standard of Living in India 11

ENGEL'S LAW OF FAMILY EXPENDITURE 12

SCALES OF PREFERENCES 12

SAVINGS AND INVESTMENT 12

Summary 13

Notes 14

Key Words 14

Discussion Questions 14

Suggested Readings 14

2. National Income 15

DEFINITIONS 15

Marshall's Production-based Definition 15

Pigou's Income-based Definition 15

Fisher's Consumption-based Definition 16

CONCEPTS IN NATIONAL-INCOME ANALYSIS 16

Personal Income 16

Personal Disposable Income 17

Per Capita Income 17

MEASUREMENT OF NATIONAL INCOME 17

The Product Method 17

The Income-received Method 17

The Consumption-Savings Method 18

A Comparison of the Three Methods 19

THE SECTORAL COMPOSITION OF NATIONAL INCOME 19

ESTIMATES OF THE NATIONAL INCOME OF INDIA 22

Post-independence Background 22

Special Features of the 1980-81 Series 23

RBI's Role in National Income Accounting 23

Advance Estimates and Quick Estimates 23

of National Income 23

DIFFICULTIES IN THE MEASUREMENT OF NATIONAL INCOME 23

NATIONAL INCOME DATA AND THE CHANGING PROFILE OF THE INDIAN ECONOMY 24

Characteristics of the Indian Economy 24

The National Statistical Commission 25

Limitations of National Income Estimation in India 25

DETERMINANTS OF THE SIZE OF A COUNTRY'S NATIONAL INCOME 25

REASONS FOR INDIA'S LOW NATIONAL INCOME 26

Economic Causes 26

Political Causes 26

Social Causes 27

Remedies 27

NATIONAL INCOME AND ECONOMIC WELFARE 27

INEQUALITIES OF NATIONAL INCOME DISTRIBUTION 28

Causes 28

Effects 29

Capital Formation and Inequalities 29

of Income 29

Steps Taken by Governments to Reduce 29

Inequalities 29

USES OF NATIONAL INCOME DATA 29

Summary 30

Notes 31

Key Words 31

Discussion Questions 31

Suggested Readings 31

3. Business and its Environment 33

MODERN BUSINESSES	34	5. The Technological Environment	56
	34	WHAT IS TECHNOLOGY?	56
	34	TECHNOLOGY AND DEVELOPMENT	56
	35	The Contribution of Technology	56
	35	Managing Technology for Development	58
	36	INTEGRATING TECHNOLOGY WITH BUSINESS	58
	36	TECHNOLOGY IN DEVELOPING COUNTRIES	59
	37	Technology Acquisition and Protection	59
	37	Technology Transfer	59
	38	The Need for Technology Transfer	59
	42	Forms of Technology Transfer	60
	42	INNOVATIONS	60
	43	VARYING RESEARCH AND DEVELOPMENT BUDGETS	61
	43	TECHNICAL COOPERATION AND INDIA'S	
	43	CAPABILITIES	61
	43	INDIA AND THE GLOBAL KNOWLEDGE MARKET	63
	44	Summary	64
	44	Notes	64
	44	Key Words	65
	44	Discussion Questions	65
	44	Suggested Readings	65
	45	6. Human Resource Development	66
	45	EVOLUTION	66
	45	WHAT IS HUMAN RESOURCE DEVELOPMENT?	66
	46	HUMAN CAPITAL	67
	46	HUMAN RESOURCE DEVELOPMENT IN INDIA	67
	47	FUNCTIONS	67
	47	HUMAN DEVELOPMENT INDEX	68
	48	Summary	69
	48	Notes	69
	48	Key Words	70
	48	Discussion Questions	70
	48	Suggested Readings	70
	49	7. India's Population and Its Impact on the Economy	71
	49	THE ECONOMIC EFFECTS OF A GROWING POPULATION	71
	49	THE ECONOMIC EFFECTS OF A DECLINING POPULATION	72
	49	FACTORS RESPONSIBLE FOR CHANGES IN THE SIZE OF POPULATION	73
	50	Birth Rate	73
	50	Death Rate	74
	50	THEORIES OF POPULATION	74
	50	The Malthusian Theory of Population	74
	50	The Optimum Theory of Population	75

FEATURES OF THE INDIAN POPULATION	79
INDIA'S POPULATION POLICY	81
The Population Policy, 1976	81
Progress under the Policy	82
The National Population Policy, 2000	83
TRENDS IN POPULATION AND FAMILY WELFARE PROGRAMME	83
THE SCORECARD	84
Summary	85
Notes	86
Key Words	86
Discussion Questions	86
Suggested Readings	86

8. Capital Formation, Savings and Investment	87
WHAT COMPRISES CAPITAL?	87
CAPITAL FORMATION	87
Growth in Capital Formation	88
Sources of Capital Formation	88
Capital Formation in India	89
CAPITAL ACCUMULATION	90
Factors Affecting Capital Accumulation	90
Capital Accumulation in Developing Countries	90
SAVINGS	92
Sources of Savings	92
Domestic Savings in India (1951-2008)	93
INVESTMENT	95
Rate of Investment and Capital Formation	95
Reasons for Low Level of Investment in India	96
Investment Commission	96
Summary	96
Notes	97
Key Words	98
Discussion Questions	98
Suggested Readings	98

Part II Economic Systems and Policies Relating to Business **99**

9. Economic System and Capitalism	101
WHAT IS AN ECONOMIC SYSTEM?	101
CAPITALISM	101
Private Property	101
Consumer Sovereignty	101
Freedom of Enterprise	102
Enlightened Self-interest	102
Profit Motive	102
Competition	102
Existence of Markets and Prices	102
Absence of a Central Plan	102
Limited Government	103

Extensive Use of Money	104
MERITS	104
Automatic Functioning	104
Greater Efficiency and Incentive for Hard Work	104
Higher Rate of Capital Formation and Growth	104
Economic Development and Prosperity	104
Optimum Utilization of Resources	104
A Just System of Reward and Penalty	105
Democratic System	105
Adaptability	105
Encouragement to Enterprise and Risk Taking	105
DEMERITS	105
Excessively Materialistic	106
Not As Productive As Other Economic Systems	106
Gives Rise to Class Conflict	106
Social Injustice and Economic Inequality	106
Ignores Human Welfare	106
Periodic Economic Instability and Unemployment	106
Precedence of Property Rights over Human Rights	106
Emergence of Monopolies	107
Misallocation of Resources	107
Malpractices	108
Summary	108
Notes	108
Key Words	109
Discussion Questions	109
Suggested Readings	109
10. Socialism	114
WHAT IS SOCIALISM?	114
FEATURES	114
MERITS	116
DEMERITS	117
Summary	121
Notes	121
Key Words	121
Discussion Questions	122
Suggested Readings	122
11. Mixed Economy	123
MIXED ECONOMY AND ITS TYPES	123
FEATURES OF THE INDIAN MIXED ECONOMY	124
Coexistence of Private and Public Sectors	124
Nationalization of Basic Industries	125
Reduction of Inequalities of Income	125
Provision of Social Welfare Measures	125
Promotion of Economic Development Through Planned Efforts	126
Resource Allocation Through the Price System and Government Directions	126
Government Control and Regulation	

ed to the Promotion
 Protection of
 the Marginalized
 Market Forces,
 ic Sector are
 istered Prices
 MIXED ECONOMY
 Economic Growth
 rces
 ivate and
 Welfare State
 nt Through
 e Growth
 Sectors
 e Private Sector
 raphic and
 blems and Inflation
 Bureaucracy
 icies in
 TION
 E GOVERNMENT
 ements in Executing
 IES IN BUSINESS
 BUSINESS IN PUBLIC
 IG
 : LEVELS
 ROWTH
 ns in Business
 GOVERNMENT
 NS

13. Economic, Monetary and Fiscal Policies	146
ECONOMIC POLICY	146
OBJECTIVES OF ECONOMIC POLICIES	146
MONETARY POLICY	148
Evolution	149
Goals and Objectives	149
Functions	149
Monetary Versus Fiscal Policy	149
The Instruments of Monetary Policy	150
Monetary Policy in Developing Countries	151
THE INDIAN MONETARY POLICY	151
Instruments of the Indian Monetary Policy	151
The Evaluation of the Indian Monetary Policy	153
FISCAL POLICY	154
Objectives	154
Instruments	156
Fiscal Policy and Economic Stabilization	156
The Evaluation of Fiscal Policy	158
Summary	158
Notes	159
Key Words	159
Discussion Questions	159
Suggested Readings	160
14. Foreign Trade Policy	161
STATEMENT OF TRADE POLICY	161
OBJECTIVES OF INDIA'S FOREIGN TRADE POLICY	161
STRATEGIES ADOPTED IN INDIA'S FOREIGN TRADE POLICY	161
PARTNERSHIP WITH PRIVATE PLAYERS	162
ROADMAP OF THE TRADE POLICY	162
INTERIM FOREIGN TRADE POLICY, 2009-10	162
FOREIGN TRADE POLICY, 2009-14	163
HIGHLIGHTS OF THE FOREIGN TRADE POLICY, 2009-14	164
INDUSTRIES' REACTION	167
Summary	167
Notes	168
Key Words	168
Discussion Questions	169
Suggested Readings	169
PART III The Economics of Development	171
15. The Economics of Development	173
THE SUBJECT AND ITS SPECTRUM	173
WHY ECONOMIC DEVELOPMENT?	174
WHAT IS ECONOMIC DEVELOPMENT?	174

COSTS AND GAINS	177
Costs	177
Gains	178
Summary	180
Notes	180
Key Words	180
Discussion Questions	181
Suggested Readings	181
16. The Economics of Underdevelopment	182
THE DEFINITION OF UNDERDEVELOPMENT	182
THE DEFINITION OF AN UNDERDEVELOPED ECONOMY	182
UNDERDEVELOPED OR DEVELOPING?	183
NON-UNIFORMITY OF UNDERDEVELOPMENT	183
CHARACTERISTICS OF AN UNDERDEVELOPED ECONOMY	184
Low Per Capita Income and Widespread Poverty	184
Excessive Dependence on Agriculture	184
Unexploited Natural Resources	185
Primary-producing Agricultural Economies	186
Population Explosion	186
Qualitatively Backward Population	187
Disguised Unemployment	187
Prevalence of Unemployment and Underemployment	188
Deficiency and Poor Capital Formation	189
Inadequate Development of Infrastructure	189
Dependence on Exports	190
Disparate Development	190
Factor Disequilibrium	190
Poor and Incompetent Administration	190
Underdeveloped and Uncoordinated Fiscal and Monetary Organizations	191
Existence of Inhibitory Social Institutions	191
THE OBSTACLES TO DEVELOPMENT	191
Poverty	191
Capital Deficiency	192
Market Imperfections	193
International Forces	194
Foreign Rule	194
Inhibiting Socio-cultural Institutions	195
Demonstration Effect	195
Overpopulation	197
Corruption	198
Summary	199
Notes	199
Key Words	200
Discussion Questions	200
Suggested Readings	201
17. Stages and Strategies of Economic Growth	204
STAGES OF ECONOMIC GROWTH	204

The Pre-conditions for Take-off	205
The Take-off	205
The Drive to Maturity	205
The Age of High Mass Consumption	206
Beyond High Mass Consumption	206
Objections to the Take-off Theory	206
BALANCED VERSUS UNBALANCED GROWTH	206
THE BALANCED GROWTH THEORY	207
The Meaning of Balanced Growth	207
CRITICAL MINIMUM EFFORT AND THE BIG PUSH	207
The Basic Postulates	207
The Balanced Growth Doctrine: Rodan's Analysis	207
Nurkse's Analysis	208
Balanced Growth: Other Viewpoints	208
How to Realize Balanced Growth?	208
The Role of the State	209
Criticism of the Theory	209
THE UNBALANCED GROWTH THEORY	210
Summary	211
Notes	212
Key Words	212
Discussion Questions	212
Suggested Readings	212
18. Role of the State in Economic Development	214
DEFECTS OF THE FREE-ENTERPRISE SYSTEM	214
THE EVOLUTION OF THE CONCEPT OF STATE PARTICIPATION IN ECONOMIC DEVELOPMENT	214
THE JUSTIFICATION AND EXAMPLES OF GOVERNMENT INTERVENTION	215
THE RATIONALE FOR STATE INTERVENTION IN ECONOMIC AFFAIRS	215
THE SCOPE OF GOVERNMENTAL ACTION	216
ROLES OF THE GOVERNMENT	216
Regulator	216
Promoter	216
Entrepreneur	217
Planner	217
THE EXTENT OF GOVERNMENT'S PARTICIPATION	217
Reasons for Governments' Participation in Development in Poor Countries	217
Areas Where Governmental Action is Vital	219
Summary	220
Notes	221
Key Words	221
Discussion Questions	221
Suggested Readings	221
19. Economic Planning: Meaning, Evolution and Features	223

SUCCESSFUL
G COUNTRIES 225

NED ECONOMY 227

ng Policy 232

NT IN INDIA 232

POLICY? 232

RESOLUTION OF 1948 233

RESOLUTION OF 1956 234

OF 1973 234

OF 1977 235

OF 1980 236

ndix I 239

POLICY OF 1991 240

reements 241

restrictive Trade 241

RIAL SECTOR 242

ence? 243

Diversification 244

olicy, 1991 249

ent Measures: 249

Reform Process 249

CONOMIC 250

250

250

A BALANCE SHEET OF ECONOMIC REFORMS 252

THE EMERGENCE OF CORPORATE GOVERNANCE 253

Summary 254

Key Words 255

Discussion Questions 255

Suggested Readings 256

22. The Indian Economy 257

A RETROSPECTIVE ON THE INDIAN ECONOMY 257

The 1950s 257

The 1960s 258

The 1970s 258

The 1990s 258

The New Millennium 259

AGRICULTURAL AND RURAL DEVELOPMENT 259

INDUSTRIAL PRODUCTION AND MANUFACTURING 261

INFRASTRUCTURE 262

THE SERVICES SECTOR 264

THE FINANCIAL SERVICES SECTOR 265

SAVINGS AND INVESTMENT 266

THE PRICE SITUATION 266

INDIA'S NATIONAL AND PER CAPITA INCOME 266

INCOME DISTRIBUTION AND POVERTY 267

THE EXTERNAL SECTOR 267

Summary 270

Notes 271

Key Words 272

Discussion Questions 272

Suggested Readings 272

PART IV Business and Society 275

23. Business and Society 277

BUSINESS: AN INTEGRAL PART OF SOCIETY 277

SOCIETY, VALUES AND INSTITUTIONS 277

THE INTERRELATIONSHIP BETWEEN BUSINESS AND SOCIETY 277

BUSINESS-SOCIETY INTERACTION 278

THE STAKEHOLDER MODEL OF BUSINESS 279

Primary and Secondary Stakeholders 279

The Concept 279

Criticisms of the Concept 280

SOCIO-ECONOMIC OBJECTIVES OF BUSINESS 280

BENEFITS OF BUSINESS TO SOCIETY 281

PROBLEMS CREATED BY BUSINESSES 283

24. Business, Labour and Government 287

LABOUR: DEFINITION AND CHARACTERISTICS 287

LABOUR EXPLOITATION 288

PROTECTION OF EMPLOYEES' INTERESTS 288

TRADE UNIONS 289

Rights of Recognized Trade Unions 290

Indian Trade Unions 291

Defects of Indian Trade Unions 291

Management Concerns 292

POST-INDEPENDENCE LABOUR LEGISLATION IN INDIA 292

Important Legislations 293

The Industrial Disputes Act, 1947 293

Problems with Indian Labour Laws 293

Summary 294

Notes 294

Key Words 295

Discussion Questions 295

Suggested Readings 295

25. Consumer Protection 297

THE RISE OF CONSUMER PROTECTION 297

THE GOVERNMENT'S ROLE 298

CONSUMER DUTIES AND RESPONSIBILITIES 299

CONSUMER PROTECTION IN INDIA 300

THE CURRENT SCENARIO 300

LEGAL PROTECTION TO CONSUMERS 303

The Consumer Protection Act, 1986 305

The Consumer Protection (Amendment) Act, 2002 306

The Prevention of Food Adulteration Act, 1954 306

Institutional Arrangements Under COPRA 307

THE THREE-TIER REDRESSAL SYSTEM IN INDIA 307

The District Forum 307

The State Commission 309

The National Commission 310

QUALITY STANDARDS 310

The Bureau of Indian Standards 311

Standards of Weights and Measures 311

VOLUNTARY ORGANIZATIONS 311

Consumer Associations or Councils 311

Consumer Cooperatives 311

Coordination at the National Level 312

OTHER INITIATIVES 312

National Awards 312

Publicity Measures 312

The Customer Service Department at RBI 312

Summary 313

Notes 314

Key Words 314

Discussion Questions 314

Suggested Readings 314

26. Investor Protection 316

A GUIDE FOR INVESTORS AND SHAREHOLDERS 318

Rights of a Shareholder as an Individual 318

Rights of a Debenture Holder 318

Shareholders' Responsibilities 318

Trading of Securities 318

Transfer of Securities 318

DEPOSITORY AND DEMATERIALIZATION 319

GRIEVANCE REDRESSAL 319

INVESTOR PROTECTION 319

Definition 320

The Need 320

RIGHTS TO INFORMATION AND OTHER RIGHTS 321

THE IMPACT OF INVESTOR PROTECTION 321

Ownership and Control of Firms 321

Development of Financial Markets 322

INVESTOR PROTECTION IN INDIA 322

SHAREHOLDER PROTECTION IN INDIA 323

The N. K. Mitra Committee on Investor Protection 323

Problems of Investors in India 323

Law Enforcement for Investor Protection 324

Grievance Redressal Mechanisms 324

Lacunae in Investor Protection 324

SEBI'S PERFORMANCE: A REPORT CARD 324

Summary 326

Notes 327

Key Words 327

Discussion Questions 327

Suggested Readings 327

27. Environmental Protection 329

THE HISTORY OF ENVIRONMENTALISM 329

PRESERVING THE ENVIRONMENT: THE ROLE OF STAKEHOLDERS 330

Public Opinion 330

Media 331

Corporations 331

Government 332

COSTS AND BENEFITS OF ENVIRONMENTAL REGULATION 332

TRADE AND THE ENVIRONMENT 332

INDUSTRIAL POLLUTION 333

India's Toxic Corridor 333

Evidence of Pollutants 333

ROLE OF CORPORATIONS 333

IMPROVING CORPORATE ENVIRONMENTAL PERFORMANCE 334

WASTE MANAGEMENT AND POLLUTION CONTROL 334

Preventing Pollution 335

Preventing Industrial Pollution 335

Innovative Business Practices 336

Environmental Audit 337

338	Benefits to Corporations	356
338	THE INDIAN MODEL	356
339	History	357
339	Clause 49	358
339	Banks and Corporate Governance	359
339	Establishment of the Serious Fraud Office	359
340	A Performance Appraisal	359
	Performance Appraisal of Indian Corporations	359
340	Impetus for the Growth of Corporate Governance in India	362
341	Summary	363
341	Notes	363
341	Key Words	364
342	Discussion Questions	364
342	Suggested Readings	364
342	29. Corporate Social Responsibility in India	370
343	CONFLICTING PERSPECTIVES	370
343	EMERGENCE	371
344	WHY SOCIAL RESPONSIBILITY OF BUSINESS?	371
345	Accountability to Society	372
345	Debt to Society	372
346	DEFINITIONS	372
346	A GROWING GLOBAL ROLE	373
347	THEORETICAL JUSTIFICATION FOR CSR	373
348	The Trusteeship Model	373
348	The Social Entity Theory	374
349	The Pluralistic Model	374
350	WHAT ARE CORPORATES EXPECTED TO DO?	374
351	PRIVATE SECTOR NEEDS THE GOODWILL OF SOCIETY	374
351	MODELS FOR IMPLEMENTING CSR	375
352	CSR AS A BUSINESS STRATEGY FOR SUSTAINABLE DEVELOPMENT	375
352	ASSESSMENT OF CSR ACTIVITY	376
353	INADEQUATE RESPONSE TO CSR IN INDIA	376
353	ADVANTAGES	376
353	SCOPE	377
353	DIFFERENT CONTEXTS IN WHICH CSR IS RELATED	377
	Protecting and Promoting Stakeholders' Interests	377
354	Social Concern and Promotion of Common Welfare Programmes	378
354	As an Act of Philanthropy	378
354	Good Corporate Governance Itself Is a Social Responsibility	379
354	Corporates in the Vanguard of Rendering Social Service	379
354	Social Responsibility is Abiding by Rules	

	Ensuring Ecological Balance	380
	Human Element Focus	380
	Improving Productivity	380
	Sponsoring Social and Charitable Causes	380
	Corporates Should Supplement State Efforts	380
	ICC'S PRACTICAL STEPS TO CSR	380
	THE INDIAN PERSPECTIVE	381
	CHANGING ATTITUDES TO CSR	381
	INDIA ON THE ETHICAL/CSR MATRIX	381
	SOCIAL RESPONSIBILITY AND INDIAN CORPORATIONS: A SCORE CARD	382
	THE FUTURE OF INDIAN CSR	383
	Summary	383
	Notes	384
	Key Words	384
	Discussion Questions	384
	Suggested Readings	385
	30. Business Ethics in India	386
	PRINCIPLES OF ETHICS	386
	Personal Ethics	386
	Professional Ethics	386
	Business Ethics	387
	WHAT IS NOT BUSINESS ETHICS?	387
	EVOLUTION	388
	NEED	388
	SIGNIFICANCE	389
	VALUES AND ETHICS IN BUSINESS	390
	The Importance of Values and Ethics	390
	The Distinction Between Values and Ethics	391
	Values, Ethics and Business Strategy	391
	Why Should Businesses Act Ethically?	391
	Ethical Decision Making	392
	ETHICAL CHALLENGES IN THE CHANGING BUSINESS ENVIRONMENT	392
	Benefits of Managing Ethics in the Workplace	393
	Characteristics of an Ethical Organization	393
	Recognizing Ethical Organizations	393
	Summary	399
	Notes	400
	Key Words	400
	Discussion Questions	400
	Suggested Readings	400
	Part V Economic Legislations	403
	31. The MRTP and the Competition Acts	405
	THE MRTP ACT, 1969	405
	Objectives	406
	Salient Features	406
	Scope	406
	Post-liberalization Relaxations	407

	THE REGULATION OF COMPETITION	408
	CORPORATE CONTROL IN COMPETITION	409
	Constraints in Developing Countries	409
	The Role of Banks	409
	Ownership Concentration	409
	THE BENEFITS OF COMPETITION	410
	Competition in the Product Market	410
	Competition in the Capital Market	410
	Encouraging Good Governance	410
	Competition is Only Part of the Solution	410
	Enforcement of Good Governance	410
	CHALLENGES TO GOOD ENFORCEMENT	411
	WHAT IS A GOOD COMPETITION POLICY?	411
	THE COMPETITION ACT, 2002	411
	Background	412
	Objectives	412
	The Competition Commission of India	412
	The Focus Areas of the Competition Act	412
	Salient Features of the Competition Commission	413
	MRTP ACT AND THE COMPETITION ACT	414
	IMPLEMENTATION	416
	Summary	416
	Notes	419
	Key Words	419
	Discussion Questions	419
	Suggested Readings	420
	32. FERA and FEMA	421
	THE FOREIGN EXCHANGE REGULATION ACT, 1973	421
	Objectives	421
	Restrictive Provisions	422
	Provisions Relating to Enforcement, Penalty and Prosecution	423
	Draconian Nature, Content and Reach	423
	THE FOREIGN EXCHANGE MANAGEMENT ACT, 1999	424
	Objectives	424
	Administration	424
	Provisions	424
	Contravention and Penalties	425
	Investigation	425
	Functions of the Directorate of Enforcement	425
	Procedural Provisions of FEMA	425
	Adjudication and Appeals	426
	Appeals Against Orders Passed Under FERA	426
	Decision of the Bombay High Court Relating to FERA	426
	Summary	426
	Notes	427
	Key Words	427

Development and	429	Committee on Public Undertakings	449
		Bureau of Public Enterprises	449
	429	POLICIES SINCE 1991	450
	429	De-reservations	450
	429	Policy Regarding Sick Units	450
	429	Memorandum of Understanding	450
	430	"Navaratnas" Among PSUs	451
	430	Disinvestment of Shares	451
	430	Under-pricing of Shares	451
	430	Squandering away Assets to Finance Deficits	451
	431	CENTRAL PUBLIC SECTOR ENTERPRISES	451
	431	ACHIEVEMENTS	453
	431	CAUSES OF POOR PERFORMANCE	455
	431	Summary	459
	432	Notes	461
	432	Key Words	461
		Discussion Questions	461
		Suggested Readings	461
Public Sector	433		
	435	36. Privatization of Public Sector Enterprises	463
	435	WHAT IS PRIVATIZATION?	463
	436	THE RATIONALE	463
	436	PRIMARY OBJECTIVES	464
	436	OTHER EXPECTED BENEFITS	464
	436	METHODS OF PRIVATIZATION IN INDIA	464
	437	THE RANGARAJAN COMMITTEE	465
	437	DISINVESTMENT IN THE PUBLIC SECTOR	465
	437	Establishment of the National Investment Fund	466
	437	The Disinvestment Commission	466
	437	The Department of Disinvestment	466
	437	The Method and Mechanism of Disinvestment	466
	437	Strong Advocacy of Disinvestment in	
		Economic Survey 2009-10	466
	438	Problems Associated with Disinvestment	468
		Summary	468
		Notes	469
		Key Words	469
		Discussion Questions	469
		Suggested Readings	470
	438		
	439	37. The Joint Sector	471
	440	THE PROPONENTS AND OPPONENTS OF THE JOINT SECTOR	471
	440	The Tata Memorandum on Industrial Growth	471
	441	Industrial Policy Resolution, 1956	471
	441	The Industrial Licensing Policy Inquiry Committee, 1969	472
	442		472
		RATIONALE	472
		OBJECTIVES	473
		FORMS AND OPTIONS	473
		TYPES	474
India	443		
	443		
	444		

Summary	476
Notes	477
Key Words	477
Discussion Questions	477
Suggested Readings	477

38. Globalization, MNCs and Foreign Capital in India **479**

FACTORS FACILITATING GLOBALIZATION	479
MNCs AND GLOBALIZATION	480
DOING BUSINESS IN A DIVERSE WORLD	480
MULTINATIONAL CORPORATIONS	481
ISSUES RELATING TO MNCs	482
ADVANTAGES OF MNCs	482
DISADVANTAGES OF MNCs	483
REGULATION OF MNCs	483
MNCs IN INDIA	484
FOREIGN CAPITAL	485
KINDS OF FOREIGN CAPITAL	485
DISTINCTION BETWEEN FDI AND FII	486
FOREIGN AID	486
RESPONSE OF FOREIGN CAPITAL	487
OTHER KINDS OF FOREIGN INVESTMENTS	488
NRI Investments	488
Global Depository Receipts	488
American Depository Receipts	488
Foreign Currency Convertible Bonds (FCCB)	489
INDIA'S POLICY TOWARDS FOREIGN CAPITAL	489
ESTABLISHMENT OF THE INVESTMENT COMMISSION	491
DISADVANTAGES OF FOREIGN CAPITAL	491
Summary	493
Notes	495
Key Words	495
Discussion Questions	495
Suggested Readings	496

39. India and Intellectual Property Rights **497**

INTELLECTUAL PROPERTY	497
The Indian Government's Initiatives	497
The Legislative Framework	497
The Indian Patent System	498
The Justice Bakshi Tek Chand Committee	498
The Justice N. Rajagopala Ayyangar Committee	499
Patent Rules	499
TRADEMARKS	499
Evolution	500
Role	500
Trademarks Legislations	500

Offences and Penalties	502
COPYRIGHT ACTS	503
Other IPRs	503
Summary	504
Notes	505
Key Words	505
Discussion Questions	505
Suggested Readings	505

Part VII Financial Systems **507**

40. Money: Functions and Value **509**

EVOLUTION	509
Animal Money	509
Commodity Money	510
Metallic Money	510
Paper Money	510
Credit Money	510
FUNCTIONS	511
Primary Functions	511
Secondary Functions	511
Contingent Functions	512
Qualities of Good Money	512
SYSTEMS OF NOTE ISSUE	513
KINDS OF MONEY	513
Legal Tender	513
Standard Money and Token Money	513
GRESHAM'S LAW	513
THE VALUE OF MONEY	514
Meaning	514
The Demand for Money	515
Supply of Money	516
Currency	517
Demand Deposits	517
THE CHANGING VALUE OF MONEY:	
THE QUANTITY THEORY	518
Assumptions	518
Criticism	518
MEASURING CHANGES IN THE VALUE OF MONEY: INDEX NUMBERS	519
Definition	519
Method of Construction	519
Weighted Index Numbers	520
Difficulties in the Construction	520
Advantages	520
Limitations	520
THE CHANGING VALUE OF MONEY:	
INFLATION AND DEFLATION	521
Inflation	521
Deflation	524
Inflation Versus Deflation	525
Summary	526
Notes	527

As a Banker, Agent and Advisor to the Government	556
Miscellaneous Functions	557
THE BANKERS' BANK	558
Supervisor of Banks	558
The Lender of Last Resort	558
The Custodian of Member Banks' Cash Reserves	558
The Bank of Central Clearance, Settlement and Transfers	559
THE CONTROLLER OF CREDIT	559
Quantitative Weapons	560
Selective Credit Control	562
<i>Summary</i>	563
<i>Notes</i>	564
<i>Key Words</i>	564
<i>Discussion Questions</i>	565
<i>Suggested Readings</i>	565
44. Financial Institutions	566
DEVELOPMENT BANKS	566
Meaning	566
Salient Features	566
THE NEED FOR FINANCIAL INSTITUTIONS	566
The Industrial Finance Corporation of India	567
The Industrial Credit and Investment Corporation of India	569
The Industrial Development Bank of India	571
The Industrial Investment Bank of India	572
The Small Industries Development Bank of India	573
State Financial Corporations	573
State Industrial Development Corporations	575
The National Small Industries Corporation	575
State Small Industries Development Corporations	575
EVALUATION OF THE ROLE OF FINANCIAL INSTITUTIONS	576
<i>Summary</i>	577
<i>Notes</i>	578
<i>Key Words</i>	578
<i>Discussion Questions</i>	578
<i>Suggested Readings</i>	579
45. The Indian Capital Market	580
THE CAPITAL MARKET	580
CONSTITUENTS	581
The Primary Market	581
The Secondary Market	581
Debt Market	583
NATURE	583
DEVELOPMENT	583
DEFICIENCIES	584
IMPACT OF GLOBALIZATION	585

<i>Summary</i>	586
<i>Notes</i>	587
<i>Key Words</i>	588
<i>Discussion Questions</i>	588
<i>Suggested Readings</i>	588

46. The Indian Stock Market	590
DEFINITION	590
ORIGIN IN INDIA	590
ORGANIZATION AND MEMBERS	591
FUNCTIONS	591
EVOLUTION	592
Traditional Stock Exchanges	592
New Types of Stock Exchanges	592
GROWTH	594
WHAT ARE SENSEX AND NIFTY?	594
Sensex	594
Nifty	596
SERVICES RENDERED BY STOCK EXCHANGES	596
LISTING OF SECURITIES	597
Advantages of Listing	597
REGULATIONS AND CONTROL	597
THE SECURITIES AND EXCHANGE BOARD OF INDIA	597
<i>Summary</i>	598
<i>Notes</i>	599
<i>Key Words</i>	600
<i>Discussion Questions</i>	600
<i>Suggested Readings</i>	600

47. The Securities and Exchange Board of India	601
THE INDIAN SECURITIES MARKET BEFORE SEBI	601
THE SECURITIES AND EXCHANGE BOARD OF INDIA ACT, 1992	602
OBJECTIVES AND FUNCTIONS	602
Powers	602
Organization	603
Strengthening of SEBI	603
The SEBI (Amendment) Bill, 2002	604
SEBI'S ROLE IN PROMOTING CORPORATE GOVERNANCE	604
PERFORMANCE RECORD	605
SEBI'S ROLE IN THE NEW ERA	605
Primary Market Reforms	606
Secondary Market Reforms	607
SHORTCOMINGS	609
The Dhanuka Committee	610
Suggestions for SEBI's Improvement	611
<i>Summary</i>	611
<i>Notes</i>	613

Part VIII The External Sector 615

48. India and the WTO 617

EMERGENCE	617
GATT: WTO's Predecessor	617
The Formation of UNCTAD	617
The Distinction Between WTO and GATT	618
OBJECTIVES	619
CORE PRINCIPLES	619
FUNCTIONS	619
ORGANIZATIONAL STRUCTURE	620
MINISTERIAL CONFERENCES	620
The First Ministerial Conference (Singapore, 1996)	620
The Second Ministerial Conference (Geneva, 1998)	621
The Third Ministerial Conference (Seattle, 1999)	621
The Fourth Ministerial Conference (Doha, 2001)	621
India's Negotiating the Doha Round	622
The Fifth Ministerial Conference (Cancun, 2003)	622
The Sixth Ministerial Conference (Hong Kong, 2005)	622
The Seventh Ministerial Conference (Geneva, 2009)	623
THE DISPUTE SETTLEMENT MECHANISM	623
The Differences Between GATT and WTO in Settling Disputes	623
The Performance of DSB in Settling Disputes	624
WTO AGREEMENTS	624
The Agreement on Agriculture	624
The Agreement on Textiles and Clothing	624
The Agreement on Market Access	625
The Agreement on Trade-related Investment Measures	625
The Agreement on Trade-related Aspects of Intellectual Property Rights	625
The General Agreement on Trade in Services	626
The Agreement on Technical Barriers to Trade	626
Plurilateral Trade Agreements	626
The Agreement on Anti-dumping	626
THE TRADE POLICY REVIEW MECHANISM	627
WTO AND THE MFN CLAUSE	627
THE WTO, THE IMF AND THE WORLD BANK	628
THE WTO AND DEVELOPING COUNTRIES	628
THE WTO AND INDIA	629
EVALUATION OF THE WTO	630
Implementation Issues	630
Benefits	631
Criticisms	631
<i>Summary</i>	634
<i>Notes</i>	635

637	Energy	643
	Infrastructure	644
637	Agriculture	644
637	Summary	644
637	Notes	645
637	Key Words	645
637	Discussion Questions	645
638	Suggested Readings	646
638	50. The International Monetary Fund	647
	ORIGIN	647
638	OBJECTIVES	647
638	MEMBERSHIP	648
638	The Members' Quota	648
	Special Drawing Rights (SDR)	648
638	THE BRETTON WOODS SYSTEM	648
639	GOLD STOCKS WITH THE IMF	649
639	BORROWING AGREEMENTS	650
639	GOVERNANCE	650
639	ORGANIZATIONAL STRUCTURE	650
640	Board of Governors	650
640	Ministerial Committees	651
640	The Executive Board	651
640	EVOLUTION	651
640	The Bretton Woods System	651
640	The Collapse of the Bretton Woods System	651
640	The Impact of the Second Amendment	651
640	STRUCTURAL ADJUSTMENT PROGRAMMES	652
641	ACCOUNTABILITY	653
641	CRITICISMS	653
641	THE INDIA-IMF RELATIONSHIP	653
642	Summary	654
642	Notes	655
642	Key Words	655
642	Discussion Questions	656
643	Suggested Readings	656
643	Index	657

PREFACE

A course on business environment, unlike other courses in economics, helps students relate to and analyse what they observe around them in terms of economic development and growth. It also gives them an excellent grounding to take sensible business decisions. It is, therefore, imperative that students clearly understand the dynamics of the interrelationship of economic concepts that accounts for a rapidly changing business environment. This can be achieved only when students are presented with the concepts of economics, against the backdrop of the latest developments in India and the world. My attempts to accomplish this in the classroom have been well received by all my students.

It is this appreciation from my students that inspired me to write this book. My students, most of whom were science and engineering graduates with no exposure to economics, impressed upon me for the need to write a book that would explain in simple and lucid language the theoretical background behind various economic problems, issues and activities. Driven by my students to undertake this mammoth task, I focused entirely on addressing their need to have a textbook that reinforces their classroom learning.

This book is designed to meet the requirements of postgraduate students of commerce, economics and management. It can also be used by students of professional programmes such as chartered accountancy, company secretary and cost and works accountancy. This book will also cater to the needs of those students who have a paper on Indian economy since it covers more than eighty per cent of the syllabus on the subject. I have tried to provide as many academic inputs as possible to ensure the book serves the interests of instructors as well.

THE ORGANIZATION OF THE BOOK

The book has been divided into eight parts with a view to offering students a convenient and logically consistent build-up of knowledge on the subject.

Part I deals with the basics of the economic environment of business. It covers the fundamentals of the functioning of an economy; national income; business and its environment; natural resources; technology and development; human resource development; the impact of India's population on the economy; and capital formation, savings and investment.

Part II explains economic systems such as capitalism, socialism, and mixed economy. Here, we also discuss the role of public policies—economic policy, monetary policy, fiscal policy and foreign trade policy—in governing business.

Part III focuses on issues relating to the economics of development and underdevelopment, the stages and strategies of economic growth, the role of the state in economic development, economic planning, the industrial and licensing policy (1951–1991), and

Part IV explores the relationship between business and society. It turns the spotlight on labour and government, consumer protection, investor protection, environmental protection, corporate governance, corporate social responsibility, and business ethics, as practised in India.

Part V provides the details of economic legislations relating to business in India such as the MRTP Act, 1969; the Competition Act, 2002; FERA, 1973; FEMA, 1999; and IDRA, 1951.

Part VI deals with the structure of Indian industry and its relation with industry-related external agencies. Here, we also study the private sector and the public sector in India, the privatization of public sector enterprises, the joint sector in Indian industry, globalization, MNCs and foreign capital in India, India and intellectual property rights.

Part VII deals with the financial system. We begin by discussing money, its functions and value, the money market and progress to scrutinize commercial banks, the functions of the central bank, financial institutions, the Indian capital market, the Indian stock market, and SEBI.

Part VIII deals with international organizations such as the WTO, the World Bank group, and the IMF. These agencies play a decisive role in the business environment of the country.

FEATURES

Written in simple and lucid language, the book presents the subject matter logically, gradually guiding the reader from elementary to complex concepts. In the early chapters, important and difficult concepts have been explained with a number of illustrations from practical life. Once the foundation has been laid, the reader is guided towards further progress with a view to taking the student through more complex economic problems and issues. The book incorporates several features that make it a student-friendly book.

Exhaustive Coverage of Concepts: Designed to serve both as a textbook and a reference volume on the subject, the book provides an in-depth coverage of all conceivable topics on the subject.

Real-world Cases: The inclusion of cases, in relevant places, presents students with snapshots from the real world. These cases have been selected to enable readers appreciate the economic problems and issues that they are likely to face as administrators and managers.

Summary: Each chapter includes a detailed summary to help students review the key points presented in the chapter.

Key Words: Key words highlight the important terms discussed in the chapter.

Discussion Questions: End-of-chapter discussion questions are designed to check the student's comprehension of concepts presented in the chapter.

Suggested Reading: Each chapter includes a list of suggested

QUESTIONS

relationship between the IMF and World Bank? How has it changed over time? Do their functions overlap? How has the IMF and World Bank's relationship with the World Trade Organization (WTO) changed over time? How has the IMF's adjustment? To what extent do IMF and World Bank's adjustment lending practices incorporate

REFERENCES

Finlayson, J. and M. Finnemore. *Rules for the World: International Global Politics*. Ithaca, N.Y.: Cornell University Press, 2001.

International Monetary Fund. *Annual Report of the Executive Board 2005*. Washington, DC: IMF, 2005.

International Monetary Fund. *Annual Report of the Executive Board 2005*. Washington, DC: IMF, 2005.

International Monetary Fund "Kosovo Becomes the International Monetary Fund's 186th Member", <http://www.imf.org/external/np/sec/pr/2009/pr09240.htm>, 29 June, 2009.

James, Harold. *International Monetary Cooperation since Bretton Woods*. Washington, DC and New York, N.Y.: International Monetary Fund and Oxford University Press, 1996.

McLellan, Elisabeth P. *The International Monetary Fund: Overview, Issues and Bibliography*. Happaug, N.Y.: Nova Publishers, 2002.

Salda, Anne C. M. *International Monetary Fund. International Organization Series, Vol. 4*. New Brunswick, N.J. and London: Transaction Publishers, 1992.

Staff reporter. "Brazil Calls For Cuba to Be Allowed into IMF", *Caribbean Net News*, 27 April, 2009, http://www.caribbeanetnews.com/cuba/cuba.php?news_id=15996&start=0&category_id=

Stiglitz, Joseph. *Globalization and Its Discontents*. New York, N.Y.: WW Norton & Company, 2002.

"World Bank—IMF Support to Dictatorships", CADTM, <http://www.cadtm.org/spip.php?article809>.

environmental considerations? How do structural adjustment policies impact the environment?

4. What is the IMF? Who owns the IMF? Who runs the IMF? Where does the IMF get its money? Who can borrow from the IMF?

IMF Articles of Agreement, Article XII Section 2(a) and Section 3(b). IMF. "Factsheet—The IMF at a Glance", <http://www.imf.org/external/np/exr/facts/glance.htm>, June 2009.

IMF. <http://www.imf.org/external/np/sec/memdir/members.htm#3>.

International Monetary Fund, *Annual Report of the Executive Board 2005*. Washington, DC: IMF, 2005.

International Monetary Fund "Kosovo Becomes the International Monetary Fund's 186th Member", <http://www.imf.org/external/np/sec/pr/2009/pr09240.htm>, 29 June, 2009.

James, Harold. *International Monetary Cooperation since Bretton Woods*. Washington, DC and New York, N.Y.: International Monetary Fund and Oxford University Press, 1996.

McLellan, Elisabeth P. *The International Monetary Fund: Overview, Issues and Bibliography*. Happaug, N.Y.: Nova Publishers, 2002.

Salda, Anne C. M. *International Monetary Fund. International Organization Series, Vol. 4*. New Brunswick, N.J. and London: Transaction Publishers, 1992.

Staff reporter. "Brazil Calls For Cuba to Be Allowed into IMF", *Caribbean Net News*, 27 April, 2009, http://www.caribbeanetnews.com/cuba/cuba.php?news_id=15996&start=0&category_id=

Stiglitz, Joseph. *Globalization and Its Discontents*. New York, N.Y.: WW Norton & Company, 2002.

"World Bank—IMF Support to Dictatorships", CADTM, <http://www.cadtm.org/spip.php?article809>.

INDEX

A

Accenture, 62
 acquired inequalities, 28–29
 Agreement on Agriculture (AoA), 624
 Agreement on Anti-dumping, 626–627
 Agreement on Market Access, 625
 Agreement on Technical Barriers to Trade, 626
 Agreement on Textiles and Clothing, 624–625
 Agreement on Trade-related Aspects of Intellectual Property Rights, 625–626
 Agreement on Trade-related Investment Measures, 625
 American Depository Receipts (ADRs), 488–489
 American Depository Shares (ADSs), 488
 AMM Foundation, 382
 animal money, 509–511
 anti-deflation measures, 525
 appellate board, 501
 Asian Paints, 382
 assets, 540
 AV Birla Group, 382
 available for sale, 530

B

backwardness, 91
 bank money, 513
 bank of issue, 555–556
 bank rate, 558, 560
 banks **advance loans**, 538
 banks **receive deposits**, 538
 banks, 537–538
 barter economy, 4
 problems faced in, 4
 Basel-II, 551
 Basix, 61
 bauxite, 54
 BHEL, 382
 bill-discounted investments, 540
 biodiversity conservation, 342
 birth rate, 73
 board
 composition of, 352
 roles of, 352
 Bombay Stock Exchange (BSE), 608
 Bowerk, B. B. 25

Brooke Bond, 382
 Brundtland Commission, 334
 BSE. *See* Bombay Stock Exchange (BSE)
 building materials, 53
 Bureau of Public Enterprises, 449–450
 bureaucracy, 117–118
 business,
 characteristics, 33, 34–37
 defined, 33
 divisions, 34
 industry and, 34
 business and corporate savings, 93
 business community, 523
 business environment, 37–46
 competition, 40
 external, 38–41
 internal, 37–38
 macro-environment, 41
 micro-environment, 39
 business ethics, 386–396
 challenges in, 392–393
 evolution of, 388
 misconception about, 387–388
 need for, 389
 significance of, 389–390
 business managers, 37

C

Cadbury Committee, 346
 call money market, 530
 call/notice money market, 530
 kinds of, 530
 capital accumulation, 90–92
 factors affecting, 90
 in developing countries, 90–92
 capital formation, 87–90
 defined, 87
 domestic sources, 88–89
 growth, 88
 in India, 89–90
 reasons for low rate, 90–91
 stages, 88
 capital goods, 7
 Capital Issues (Control) Act (CICA), 601
 capital market, 43–44, 580–581
 primary market, 581
 secondary market, 581
 capital
 defined, 25, 87
 features, 101–104
 merits, 104–105
 cash at hand, 540
 cash credit, 538
 cash reserve, 541
 central bank, 555–564
 advisor to the government, 557
 agent of government, 557
 banker to the government, 556–557
 banker's bank, 558
 central clearance, settlement and transfers, 559
 controller of credit, 559–563
 government's bank, 555–556
 miscellaneous functions, 557–558
 organization and management, 555
 central planning, 102–103
 central public sector enterprises, 451–453
 CEO
 roles of, 353
 certificates of deposit (CDs), 531
 chairperson
 roles of, 353
 CICA. *See* Capital Issues (Control) Act
 circular flow of economic activity, 3–6
 income and expenditure money flows, 4–6, 4/
 real flows, 4
 circular flow of income, 3–6
 circular flow theory, 3
 CIRSIL. *See* Credit Rating and Information Services of India Ltd
 CIS. *See* Collective Investment Schemes
 Cisco, 63
 class conflict, 103
 classless society, 116
 clause 49, 358–359
 closed oligopoly, 35
 coal mining, 54
 Colgate Palmolive, 382
 Collective Investment Schemes (CIS), 607
 collusive oligopoly, 35
 comforts, 9–10
 commerce, 34

functions, 538
 importance of, 539
 investment policies, 539–542
 process of credit creation, 542–544
 commercial bill market, 532
 commercial markets, 531
 commodity money, 510
 community services, 438
 Companies Amendment Act (2002), 357
 competition, 408–411
 benefits in, 410
 capital market, 410
 challenges to, 411
 corporate control in, 409
 enforcement of good governance, 410
 in product market, 410
 regulation of, 408–409
 Competition Act (2002), 411–414
 background, 412
 focus area, 412–413
 objectives, 412
 Competition Commission of India (CCI), 412–416
 salient features, 413–414
 competition policy, 411
 Consumer Protection Act 1986 (COPRA), 39
 consumer sovereignty, 101–102
 consumers' goods, 6
 consumption goods, 7
 consumption, 8–9
 conventional necessities, 9
 copyright acts, 503
 corporate citizenship, 348
 corporate environmental management, 338–339
 government regulation, 339
 process innovations, 339
 product differentiation, 338
 redefining markets, 339
 self-regulation, 338–339
 corporate environmental performance, 334
 corporate governance, 36, 346
 benefits for corporations, 356
 benefits for society, 355–356
 concept, 346–347
 desiderata of, 347–348
 Indian model, 356–362
 investor's performance, 355–356

- (cont.)
 354
 359
 348
 ability
 77
 y, 376
 lopment,
 1
 es on,
 73
 n India,
 d, 382
 1
 4
 79
 3
 8
 -374
 371
 0
 See also
 ation
 Ltd
- deferred payment, 511
 deficit inflation, 522
 deficit finance, 91
 deflation, 524-527
 control of, 525
 effects of, 323
 delisting guidelines, 608
 demand deposit, 517
 demand-pull inflation, 522
 demographic environment, 46
 demographic transition theory, 77-78
 department of disinvestment, 466
 deposit mobilization, 548
 deregulation, 550
 de-reservations, 450
 derivative trading, 608
 development banks, 566-567
 defined, 566
 salient features, 566
 Dhanuka Committee, 610-611
 differentiated oligopoly, 35
 direct loans, 538
 direct taxes, 17
 Directorate of Enforcement, 425
 Discount and Finance House of India (DFHI), 530
 discount rate. *See* bank rate
 disguised unemployment, 72
 disinvestment commission, 466
 disinvestment, 466
 problems associated with, 468
 disposable income, 17
 dispute settlement mechanism, 623
 division of labour, 103-104
 Doha Development Agenda (DDA), 621
 domestic savings in India (1951-2008), 93-95
 draft policy, 342
 deficiencies in, 342
 durable goods, 9
- E**
 eco-efficiency, 51
 eco-labelling, 337
 economic activity, 3
 circular flow, 3-6, 4f
 money flow, 5f
 economic balance, 336
 economic environment, 42-45
 economic goods, 7
 economic stability, 43
 economic system, 41, 42, 101
 economic welfare, 27
 economy, 3-13
 barter, 4
 changing profile of, 24, 25
- human wants and, 9-11
 population and, 71-80
 role of capital, 87
 structural equilibrium, 43
 education, 80-81
 educational environment, 45
 empowerment, 350
 Engel's law of family expenditure, 12
 Enron, 394-397
 entrepreneur, 33
 entrepreneurship, 103
 environment, 37-46, 330
 corporations, 331-332
 demographic, 46
 economic, 42-45
 environmental groups, 331
 external, 38-41
 internal, 37-38
 macro-environment, 41
 media, 331
 micro-environment, 39
 non-economic, 45-46
 public opinion, 330-334
 role of stakeholders, 330-332
 trade and, 332-333
 environmental audit, 337
 environmental management, 340
 environmental performance, 334
 Environmental Protection Act (EPA), 337
 environmental risk management, 339-340
 environmentalism, 329
 history of, 331
 industrial activity and, 334-335
 issues management, 338
 Escorts Ltd., 382
 ethical decision making, 392
 importance of, 390-391
 ethical organization,
 characteristics of, 393
 recognizing, 393
 ethics, 386-393
 benefits in workplace, 393
 business ethics, 386-393
 importance of, 390-391
 principles of, 386-387
 executive director, 353
 external environment, 38-41
 external trade, 44-45
- F**
 fair employment practices, 350
 family budget, 12
 family welfare programme, 83
 FCCB. *See* Foreign Currency Convertible Bond
- adjudication and appeals, 426
 administration, 424
 contravention and policies, 425
 investigation, 425
 objectives, 424
 procedural provisions,
 425-426
 provisions, 424-425
 FERA. *See* Foreign Exchange Regulation Act
 Ferrous minerals, 53
 Fifth Ministerial Conference (Cancun, 2003), 623
 FIIs. *See* foreign institutional investors
 financial institutions, 566-578
 evaluation of, 576
 financial instruments, 530-531
 interbank call market, 531
 money market instruments, 530-531
 financial intermediation, 549
 FIPB. *See* Foreign Investment Promotion Board
 Firm, 4
 characteristics, 4
 First Ministerial Conference (Singapore, 1996), 620-621
 Fiscal policy, 43, 524
 Fish curing, 54
 fixed income group, 523
 fixed or time deposits, 538
 Flowing water bodies, 53
 Flows
 real, 4
 money, 4-6, 5f
 foreign aid, 89, 487
 foreign capital, 485-486
 disadvantages of, 491
 India's policy towards, 489
 response of, 487-488
 Foreign Currency Convertible Bond (FCCB), 489
 Foreign Exchange Management Act (FEMA), 424-426
 Foreign Exchange Regulation Act (FERA), 421-424
 objectives, 421-422
 restrictive practices, 422-423
 foreign indirect investment, 486
 foreign institutional investors (FIIs), 607
 Foreign Investment Promotion Board (FIPB), 490
 foreign investments, 488
 kinds of, 488-489
 foreign trade, 44-45
 forest and wildlife
- forest products, 52
 forest resources, 52
 form utility, 6
 Fourth Ministerial Conference (Doha, 2001), 621-622
 India's negotiation, 622
 free goods, 7
 freedom of enterprise, 102
 free-enterprise economy, 101
 fresh water resources, 53, 342
 full oligopoly, 35
 funding operations, 639
- G**
 GAB. *See* General Arrangements to Borrow
 GATS. *See* General Agreement on Trade in Service
 GDCF. *See* Gross domestic capital formation
 GDI. *See* Gender-related Development Index
 GECIS (GE Capital International Services), 62
 Gender-related Development Index (GDI), 69
 General Agreement on Trade in Services (GATS), 620
 General Agreement on Trade in Services, 626
 General Arrangements to Borrow (GAB), 659
 gilt edged security, 530
 global business, 482-483
 global knowledge market, 63
 globalization, 479-481
 factors facilitating, 479
 MNCs and, 480
 GNP. *See* Gross national product (GNP)
 Godrej Group, 382
 gold stocks, 649
 goods, 7
 capital, 7
 consumer, 6
 consumption, 7
 defined, 7
 economic, 7
 free, 7
 producer, 6
 goods of the first order, 6
 goods of the second order, 6
 goodwill
 need for private sector, 374-375
 government
 circular flow of economic activity and, 3-6
 grants, 639
 Gresham law, 513, 514
- Gross National Product (GNP), 16
 defined, 16
 estimation, 16
 ground water resources, 53
 Gujarat Ambuja Cement, 382
- H**
 HDI. *See* Human Development Index (HDI)
 hedgers, 594
 held for trading, 530
 held till maturity, 530
 Hewlett-Packard, 62
 Hindustan Lever, 382
 household financial savings, 92
 household physical savings, 92
 household, 4, 5
 HPI. *See* Human Poverty Index (HPI)
 HRD. *See* Human resource development (HRD)
 Human capital, 67
 Human Development Index (HDI), 66, 68-69
 Human Poverty Index (HPI), 69
 Human Resource Development (HRD), 66-69
 components, 66
 defined, 66
 functions, 67-68
 formation, 9
 characteristics, 10
 classification, 9-10
 hydroelectric power, 50-51
 hydropower, 51
- limitations, 520
 method of construction, 519-520
 India corporations
 performance appraisal of, 359-362
 India National Income Committee's Report (1954), 21
 India
 capital formation, 89-90
 division of sectors, 21
 global knowledge market and, 63
 human resource development, 67
 standard of living, 11-12
 India's population policy, 81-83
 Indian capital market, 583
 deficiencies, 584-585
 development, 583-585
 nature of, 583
 regulatory framework, 586
 Indian economy
 features of, 24-25
 Indian money market, 533
 characteristics, 533-534
 Indian patent system, 498
 Indian stock market, 590-598
 defined, 590
 evolution, 592
 functions, 591-592
 growth, 592
 members, 591
 organization, 591
 origin, 590-591
 Indian Trademark Act (1999), 500
 indirect taxes, 17
 Industrial Credit and Investment Corporation of India (ICICI), 569-571
 functions of, 569
 management of, 569
 resources of, 569
 Industrial Development Bank of India (IDBI), 571-572
 functions of, 571
 management of, 571
 objectives of, 571
 recent developments, 572
 restructuring of, 572
 subsidiaries, 572
 working of, 572
 Industrial Finance Corporation of India (IFCI), 567
 critical evolution, 568
 functions, 567
 limitations, 520
- scope, 567
 subsidiary companies of, 568
 types, 567
 working of, 568
 Industrial Investment Bank of India (IIBI), 572
 functions of, 572
 Industrial Licensing Policy Inquiry Committee (ILPIC), 477
 Industrial Policy Resolution (IPR) (1956), 471-472
 industrial pollution, 333
 prevention, 335
 Industrial Reconstruction Corporation of India (IRCI), 572
 Industries (Development and regulation) Act, 1951 (IRDA), 429
 central advisory council, 429
 development council, 429-430
 objectives, 429
 inequality, 28-29
 acquired, 28-29
 effects of, 29
 inborn, 28
 measures to reduce, 29
 inflation, 521-524
 causes, 521-522
 control of, 524
 defined, 524
 effects of, 522
 features, 522
 stages of, 522
 types of, 522
 Information Technology (IT), 58
 Information Technology Agreement (ITA), 630
 Information, education and communication (IEC), 83
 Infosys, 36, 382
 infringement, 502
 innovations, 57, 60
 forms, 60
 innovative services, 551
 input suppliers, 39
 Integrated child development services (ICDS), 83
 Integrated Chip (IC), 58
 Intel India, 62
 Intellectual property (IP), 497
 India government's initiative, 397
 Indian patent system, 498
 Legislative framework, 497-498
 interbank call market, 530

- with foreign collaboration, 474-475
- Justice Bakshi Chand Committee, 498
- Justice N. Rajagopala Ayyangar Committee, 499
- K**
- know-how agreement, 59
- L**
- labour, 39
- land resources, 49
- land-owning farmers, 93
- Large Hadron Collider (LHC), 62
- legal tender, 513
- lending policies, 640
- LHC. *See* Large Hadron Collider
- liabilities, 540
- liberalization, 436-437
- increased investment, 436-437
- life-cycle assessment, 336
- life-supporting systems, 341-342
- limited government, 103
- liquid capital, 43-44
- listing of securities, 597
- advantages, 597
- regulations and controls, 597
- loans and advances, 540
- luxuries, 10
- M**
- macro-environment, 41
- major irrigation works, 49
- Malthusian theory of population, 74-75
- manganese, 54
- market discipline, 548
- marketing intermediaries, 40
- Material balance, 336
- MC. *See* ministerial conferences
- MCX. *See* Multi Commodity Exchange of India Ltd
- memorandum of understanding, 450-451
- metallic minerals, 53
- metallic money, 510
- micro-environment, 39
- minerals, 53-54
- Minimum Wages Act, The (1948), 29
- Ministerial Conferences (MC), 620
- First Ministerial Conference (Singapore, 1996), 620-621
- Second Ministerial Conference (Geneva, 1998), 621
- Third Ministerial Conference
- Fourth Ministerial Conference (Doha, 2001), 621-622
- Sixth Ministerial Conference (Hong Kong, 2005), 622-623
- Seventh Ministerial Conference (Geneva, 2009), 623-624
- Ministry of Environment and Forests (MoEF), 52
- minor irrigation works, 49
- MMMFs. *See* Money Market Mutual Funds (MMMFs)
- MNCs. *See* Multinational Corporations
- modern business, 34-37
- MoEF. *See* Ministry of Environment and Forests (MoEF)
- monetary economy, 5
- monetary policy, 524
- money at call and short notice, 540
- money flows, 4-6, 5f
- money market instruments, 530-531
- Money Market Mutual Funds (MMMFs), 532
- Money, 104
- changing value of, 518-519, 521-521
- contingent function, 512
- deflationary money, 516
- evolution, 509-511
- kinds of, 513
- legal tender, 513
- precautionary money, 515
- primary functions, 511
- qualities of good money, 512-513
- secondary functions, 511-512
- speculative money, 515-516
- supply of, 516
- transaction money, 515
- value of, 514-517
- money market, 528
- characteristics, 529
- functions of, 534
- objectives, 529
- vs. capital markets, 529-530
- moneyless economy, 4
- Montreal protocol, 331
- Motorola Inc., 62
- MRF Tyre Industries, 382
- MRTP Act (1969), 405-408
- objectives, 406
- post-liberalization relaxations, 407-408
- salient features, 406
- Multilateral Investment Guarantee Agency, 639
- Multinational Corporations (MNCs), 482-485
- advantages, 482
- disadvantages, 483
- in India, 484
- issues relating to, 482
- regulation of, 483-484
- multipurpose projects, 51
- N**
- NAMA. *See* Non-agricultural market access
- Naresh Chandra Committee (2002), 357
- national dividend. *See* national income
- National Environmental Policy (NEP), 52
- National Hydro Power Corporation (NHPC), 51
- National income Committee (NIC), 22
- national income data, uses of, 29-30
- national income, 13, 15-29
- at factor cost, 16
- changing profile of economy, 24-25
- determinants, 25-26
- economic welfare, 27
- estimation, 22-23
- features of 1980-81 series, 23
- inequalities of distribution, 28-29
- Irving Fisher's consumption-based definition, 15
- limitations in India, 25
- Marshall's production-based definition, 15
- measurement, 17-19
- consumption-savings method, 18-19
- difficulties in, 23-24
- income-received method, 17-18
- product method, 17
- Pigou's income-based definition, 15-16
- reasons of poverty, 26-27
- sectoral composition, 19-21
- National Investment Fund, 466
- National Maternity Benefit Scheme (NMBS), 83
- National Population Policy (2000), 83
- national reserves, 556
- National Statistical Commission (NSC), 25
- National Stock Exchange (NSE), 593
- Natural instincts, 9
- natural resources, 49-54
- navratanas, 451
- NCDs. *See* Negotiable Certificates of Deposits
- necessaries, 10
- necessaries for efficiency, 9
- Negotiable Certificates of Deposits (NCDs), 531
- NEP. *See* National Environmental Policy (NEP)
- Net National Product (NNP), 16
- New Economic Policy (1991), 39
- next-generation technology innovation, 60
- Nifty, 596
- NNP. *See* Net national product (NNP)
- Non-agricultural Market Access (NAMA), 623
- Non-banking finance companies (NBFCs), 530
- non-collusive oligopoly, 35
- non-economic environment, 45-46
- non-executive director, 353
- non-ferrous minerals, 53
- non-metallic minerals, 53
- North American Free Trade Agreement (NAFTA), 333
- note issue, 513
- notice money, 530
- NPHC. *See* National Hydro Power Corporation (NHPC)
- NRI investments, 488
- NSC. *See* National Statistical Commission (NSC)
- NSE. *See* National Stock Exchange
- NSIC. *See* National Small Industries Corporation
- O**
- offences and penalties, 502-503
- oligopoly, 35
- types, 35
- characteristics, 35
- open market operations, 560-561
- open oligopoly, 35
- Optimum population, 76
- Optimum theory of population, 75-77
- Oracle India Private Ltd., 62
- organization
- OTCEI. *See* Over-the-counter Exchange of India
- overdraft facility, 538
- overpopulation, 76
- Over-the-counter Exchange of India (OTCEI), 592-593
- ownership concentration, 409
- P**
- paper money, 510
- patent rules, 499
- Patents Act 1972, 499
- pearl fishing, 54
- penalty, 502
- Per capita income, 17
- perishable goods, 9
- personal disposable income, 17
- personal ethics, 386
- personal income, 16-17
- personal wealth, 8
- philanthropy, 378-379
- Place utility, 6
- planned investment, 6
- planned savings, 6
- pluralistic model, 374
- Plurilateral Trade Agreements, 626
- political organization, 46
- politico-legal environment, 45-46
- pollutants, 333
- pollution control, 334-338
- population
- age structure, 80
- as obstruction to growth, 78-79
- consequences of growing population, 71-72
- economic effects of declining population, 72-73
- factors responsible for changes in size of population, 73-74
- features of Indian population, 79-81
- Malthusian Theory of Population, 74-75
- optimum theory of population, 75-77
- state-wise variations, 79-80
- theory of demographic transition, 77-78
- unemployment caused by, 80
- Population Policy (1976), 81-83
- poverty reduction strategies (PRSs), 641
- poverty, reasons for, 26-27
- Power Grid Corporation of India
- precautionary money, 515
- price level, 519
- price stability, 43
- Prices. *See also* money
- primary dealers, 530
- primary market reforms, 606-607
- primary market, 581
- Principles of Political Economy, The*, 75
- private corporate sector savings, 92
- private property, 101
- Private sector, 435-436
- growth of corporate giants, 438
- growth of modern industry, 438-439
- importance of, 436
- need of goodwill, 374-375
- phenomenal growth of, 435-436
- problems faced by, 439-440
- role of government, 436
- sectoral growth in, 437
- socio-economic development, 438
- lack of corporate governance, 440
- privatization, 463-468
- benefits, 464
- methods of, 464-465
- primary objectives, 464
- rationale, 463-464
- producers' goods, 6
- production, 6
- defined, 6
- for exchange, 6
- form utility, 6
- place utility, 6
- time utility, 6
- productive activity, 6
- professional ethics, 386-387
- profit motive, 102
- PRSs. *See* poverty reduction strategies
- public health measures, 74
- Public Relations Officer (PRO), 40
- public sector savings, 92
- public sector, 443-459
- achievements, 453-455
- causes for poor performance, 455-459
- control, 449-450
- disinvestment in, 465-468
- growth, 447-448
- objectives, 443-444
- organization, 448-449
- public utility services, 443, 448-449
- pure oligopoly, 35
- Q**
- quantity money, 518-519
- assumptions, 518
- criticism, 518-519
- R**
- radical innovation, 60
- Rangarajan Committee, 465
- rate of savings, 25RBI
- ready forward transaction, 531
- real flows, 4
- receipts, 488
- regional stock exchanges (RSEs), 608
- repo market, 531
- Reserve Bank of India (RBI)
- prudential norms, 530-531
- role in national income accounting, 23
- resources
- forest, 52
- fresh water, 53
- land, 49
- minerals, 53-54
- natural, 49-54
- sea wealth, 54
- reverse repo transaction, 531
- rights of shareholders, 347-348
- risk management, 551
- RSEs. *See* regional stock exchanges (RSEs)
- running inflation, 522
- rural banking, 550
- S**
- SAIL, 382
- standard money, 513
- sardine oil, 54
- Satyam Computer Services Limited, 394-397
- saving, 12-13, 92-95
- household financial savings, 92
- household physical savings, 92
- private corporate sector savings, 92
- public sector savings, 92
- sources, 92-93
- savings deposits, 538
- scale of preference, 12
- scorecard, 84
- SCRA. *See* Securities Contract (Regulations) Act (SCRA)

- 2002, social obligation, 9
social overhead capital, 44
social responsibility, 379–380
as a creation of wealth, 379–380
Social responsibility, 71–72.
See also corporate social responsibility
social service, 379, 437–438
social/national wealth, 8
socialist economy
aim, 114
defined, 114
demerits, 117–118
features, 114–116
merits, 116–117
socialist society, 444
socio-cultural environment, 45
Special Action Programme, 640
Special Drawing Rights (SDR), 648
Spectramind Ltd., 62
speculative money, 515–516
SSIDCs. *See* State Small Industries Development Corporations
standard of living, 11–12
factors affecting, 11
in India, 11–12
standing water bodies, 53
State Financial Corporations, 573–575
functions of, 574
management of, 575
objectives of, 574
working of, 575
State Industrial Development Corporations (SIDCs), 573, 575
State Small Industries Development Corporations (SSIDCs), 573, 575–576
stock exchanges, 596–597
services rendered by, 596–597
Structural Adjustment Programme, 652–653
structural equilibrium, 43
systematic waste reduction audit, 335
- T**
takeover codes, 608
Tata Memorandum, 471
Tata Steel, 36, 383
tax
direct, 17
forms, 60
need, 59–60
technology
contribution, 56–58
defined, 56
in developing countries, 59–60
integrating with business, 58–59
term money, 530
term money market, 532
Texas Instruments (TI), 63
Thailand's Millennium Steel, 36
Theory of demographic transition, 77–78
Thermax, 383
Third Ministerial Conference (Seattle, 1999), 621
time utility, 6
token money, 513
trade union, 39
trademarks, 499–503
evolution, 500
features, 500
infringement, 502
offences and penalties, 502–503
registration for, 501
role, 500
trademarks legislation, 500
Trade-related Aspect of Intellectual Property Rights (TRIPS), 620
traditional stock exchanges, 592
transaction money, 515
treasury bills, 531
treasury operations, 530
trees, 52
TRIPS. *See* Trade-related Aspect of Intellectual Property Rights
trusteeship model, 373–374
TVS Group, 383
- U**
UNCTAD. *See* United Nations' Conference on Trade and Development
underpopulation, 76
unemployment, 80
Unit Trust of India (UTI), 606
United Nations Conference on Environment and Sustainable Development (1992), 329
United Nations' Conference on Trade and Development (UNCTAD), 617
United Nations' Development

- WTO Agreements, 624–627
Agreement on Agriculture (AoA), 624
Agreement on Anti-dumping, 626–627
Agreement on Market Access, 625
Agreement on Technical Barriers to Trade, 626

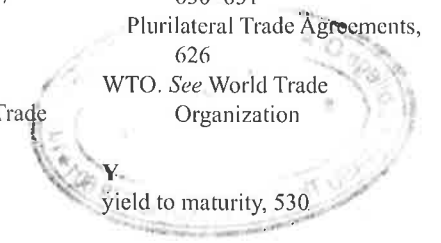
- Agreement on Textiles and Clothing, 624–625
Agreement on Trade-related Aspects of Intellectual Property Rights, 625–626
Agreement on Trade-related Investment Measures, 625

- and India, 629–630
and the MFN clause, 627
developing countries, 628–629
evaluation, 630
General Agreement on Trade in Services, 626
IMF and World bank, 628

- implementation issues, 630–631
Plurilateral Trade Agreements, 626
WTO. *See* World Trade Organization
Y.
yield to maturity, 530

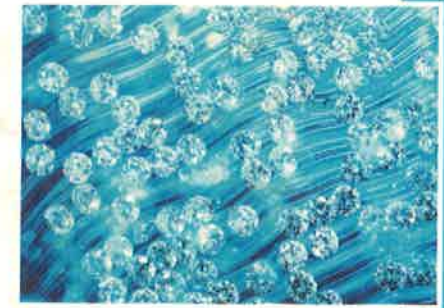
- V**
value of money, 519
value, 7
value-in-exchange, 7
value-in-use
value-in-use, 7
values, 390–392. *See also* ethics
variable reserve ratio, 561–562
voluntary pollution control, 340
India's environmental policy, 341–343

- W**
walking inflation, 522
wants. *See* Human wants
waste management, 334–338
water supply, 53
wealth, 7–8
personal, 8
security, 7
social or national, 8
transferability, 7
universal, 8
utility, 7
welfare and, 8
weighted index numbers, 520
welfare, 8
whistle-blower policy, 361
whistle-blowing, 366
Wipro Technologies, 383
world bank group, 638–644
focus, 638
functions, 638
history, 638
World Trade Organization (WTO), 479, 617
core principles, 619
dispute settlement mechanism, 623
distinction between WTO and GATT, 618–619
emergence, 617
formation of UNCTAD, 617–618
functions, 619
GATT: WTO's Predecessor, 617
ministerial conferences, 620



Business Environment

A. C. Fernando



Business Environment integrates concepts with real-world situations and the most recent data to help readers grasp complex economic concepts, a clear understanding of which is required to comprehend the various facets of the business environment. Designed to meet the requirements of commerce, economics and management students, it presents the subject matter logically, gradually guiding the reader from elementary to complex concepts.

Key Features

- ▶ Provides an in-depth coverage of all conceivable topics on the subject
- ▶ Focuses on economic development, examining the business environment from the perspective of developing economies
- ▶ Includes illustrative cases that enable readers to appreciate the economic problems and issues they will face in the real world
- ▶ Uses learning tools such as chapter objectives, detailed chapter summaries, key words and review questions to help the reader grasp the subject matter better
- ▶ Includes PowerPoint slides for instructors and a question bank for students, available on the companion site of the book

A. C. Fernando is a senior professor of economics and corporate governance at the Loyola Institute of Business Administration, Loyola College, Chennai. He is presently the director of the Loyola Centre for Business Ethics and Corporate Governance, a centre of excellence established by LIBA. He is also the author of *Corporate Governance; Business Ethics;* and *Corporate Ethics, Governance and Social Responsibility.*

Online resources available at

ISBN 978-81-317-3158-1

