L&BE-Unit-2 **ECONOMIC ENVIRONMENT**

All those economic factors which influence directly or indirectly on the functioning of business unit business depend on the economic environment for all the needed inputs. Economic factors that influence the business unit currently these factors include ask national product corporate profits inflation rate employment balance of payment interest rate consumer income

Characteristics or features of economic environment.

***1.* Mass poverty and low per capita income:** per capita income in India is low compared to other developing countries. it is a one of the lowest in the world. the extent of poverty can be derived from the poor quality of food, clothing, housing, education and medical facilities in the country all indicates a low standard of living.

2. Low standard of living and high poverty: due to low per capita income. Most of the people of India do not have the basic necessities of life. The standard of living of the people is a very low nearly 39% of the total population of the countryis below the poverty line and there is a mass chronic poverty.

3. Dominance of agriculture: agriculture provides employment to about two-third of the total working population in India the population. Presently 58% of labor force is estimated to be engaged in this sector. This is an indication of an economic progress on structural changes that is gradually taking place.

4. Unequal distribution of income: according to World Bank in its world development report 2002 state that a large portion of income 33.5 1% receivedby 10% of rich population and low portion of income 3.5% received by 10% of poorest population.

5. Existence of rich resources: India has rich resources are in a form of renewable and nonrenewable resources

Renewable resources are:-water, forest, Sun, air. etc..

Non Renewable resources: - Minerals, petroleum, LPG etc...

6. Inadequate capital formation: Rich resources does not helps to developmentof economy development's of a country's economy defect of the effective and full utilization of resources which needs capital and Technology know-how dueto the lack of capital Indian economy is reflected in the low rate of production and consumption of steel cement and electricity etc..

7. Unemployment and underemployment: Unemployment occurs when a person who is actively searching for employment is unable to find work. Under employment may be defined as a situation in which workers are employed below their education or skill level, or their availability. Unemployment is often used as a measure of the health of the economy.

8. Technological backwardness: technological backwardness has been the continues to be a characteristic feature of the Indian economy although some changes in techniques have taken place in certain selected segment of the economy.

i) The rate of technological growth in India has been between 0.7% and 1.1%.
ii) According to a 2007 World Bank report. India had only 119 R&D researchers per
Million populations.

9. **Infrastructure inadequacies:** Facilities are a continued to be inadequate in a relation to the demands being made on it by the process of economic growth.

10. **Dualistic economy:** The totally traditional and completely modern economy co-exists in India. In agriculture we find the latest technology at work along withthe primitive techniques also well-embedded and firmly rooted.

Factors affecting Economic Development :

These factors classified into 3 types

- Economic Factors.
- Non economic factors.
- Other factors.

A. **Economic factors**

1. **Natural factors:** It is an important instrument of economic development. In the initial stages of development all the less developed economies have to depend upon the availability of natural resources like land, water, forest, minerals etc, many countries found certain Resources like minerals as a source of foreign exchange earnings which in turn develop the country.

2. **Capital formation:** The process of economic development depends to a significant extent on capital formation. As the rate of capital formation increases,it exerts an interacting and cumulative effect on the economy of the country leading to a growth in natural income.

3. **Technological process:** Technology refers to that type of advanced machinery which is used to manufacture products. Technology had led to greater output, shorter working hours the creation of a host of skilled jobs in design, maintenance and engineering safer working conditions production of new and better goods of standardized quality with more efficient use of raw materials,decline of superstition and traditional etc.

4. **Infrastructure:** It determines economy hospital, banking, insurance, education,power, electricity. In this way affected economic factors.

5. **Size of market and investments:** Economic development depends on the size of the market and investment. Increases in the purchasing power of the people created the demand for consumer good choices increases the size of the market and investment

B. **Non-economic factors:**

These factors are not related to production or cost of production. Some of thenon-economic factors are.

1. Ability to develop and apply science in the activities

2. The propensity to decept innovation

3. Searching for New products
4. The propensity to have less children.
5. Incrimination to consume less income and have more for investment
6. Incrimination to work behind the expected target income

C. Other factors:

Other factors are more influence to economic development; they are classified into 3 categories.

1. Political system: Uncertainty of political system that be affected stability tothe economic development consistency .In this system more influence on economic development.

2. Social system: Several religions in India such as Hindi, Muslim, Christians, Jains, bodh, Parci etc, coordination is more important between among the religions and adopt family planning to less children that's help decrease population. In this way social system affects economic development.

3 Luck: Luck important to any matter profit and losses to the government depends on luck. Luck fact functioning of the economic development government introducing new polices based on luck.

Economic Resources:

Economic development depends on economic resources They are classified intocategories. They are as follows:

- Natural resource
- Industry resources
- Technology resources

1. Natural resources:

Countries which are high in natural resources have the scope for advances in Industrialization Natural resources consist of mineral resources, energy resources, forest, resources, mineral resources and water resources

a. Land and Soils: India is the 7th largest country in the world in case of landBefore Russia, Canada, China, Australia are largest countries in having land. In India total geographical area is 32,87,702km north to south 3214 km, east to west 2933 km Land is classified into 2 types:

1 Agricultural land
2 Non-agricultural land

b. Water resources: To economic development is successfully done there mustbe water resource we helps irrigation, water is generation of electricity Water may be classified as. 1. Surface water2 Ground water

C. Forests: In India 676.5 Sq km or22.5% of forest. A forest provides rawmaterials wood Industries, paper industries and Other industries etc..

D. Minerals: Most surpluses from the minerals in India such as: Mining minerals, iron, Silver, Aluminum, coal etc..

2 Industry resources

The above-mentioned natural resources are all industrial resources. Industrialdevelopment depends on some factors like:

a Entrepreneurship: Entrepreneur is a person who take risks and respond of enterprise and also coyotes' factors of production to the surprise he is a entrepreneur Factors of production like land, labor, capital, raw materials, and factors industry are creation of new industries and use sources of the industries

b. Capital: Blood is more important to human body capital is more important to industries and smooth running of the business who invest investment and capital investors.

c. Infrastructure: Infrastructure are effect of fact of Industrialization, main infrastructure are transportation, banking communication

d. Innovations: Searching for new things, Innovations assigned a very important role in industrial development Innovation include the following introduction of Invention, introduction of new management techniques, development of new product development of new process, development new market etc.

3. Technology resources: The Industrial revolution was possible only due to technological revolution countries which give high priority to research and development are the ones which have shown tremendous advancement in technology.

Economic Systems

Meaning: An economic system is a mechanism with the help of which the government plans and allocates accessible services, resources and commodities across the country. Economic systems manage elements of production, combining wealth, labor, physical resources and business people. An economic system incorporates many companies, agencies, objects, models, as well as for deciding procedures.

Types of Economic Systems:

- **Capitalist Economy-(Free economy/Market economy)** In a capitalist system, the products manufactured are divided among people not according to what people want but on the basis of Purchasing Power—which is the ability to buy products and services. This means an individual needs to have the money with him to buy the goods and services. The Low-cost housing for the underprivileged is much required but will not include as demand in the market because the needy do not have the buying power to back the demand. Therefore, the commodity will not be manufactured and provided as per market forces.

- **Socialist Economy- (Communism/Command economy/Planned economy)** This economy system acknowledges the three inquiries in a different way. In a socialist society, the government determines what products are to be manufactured in accordance with the requirements of society. It is believed that the government understands what is appropriate for the citizen of the country; therefore, the passions of individual buyers are not given much attention. The government concludes how products are to be created and how the product should be disposed of. In principle, sharing under socialism is assumed to be based on what an individual needs and not what they can buy. A socialist system does not have a separate estate because everything is controlled by the government.

- **Mixed Economy** – A "mixed" economy system is a mix combination between socialism and capitalism. a market economy where there is some government intervention although the degree of intervention is important in ascertaining the effectiveness of the price mechanism. The mixed economy refers to such an economic system wherein two the sector exist and function for achieving national objectives. The two sectors are the public sector and private sector. Both these sectors exist and function for achieving national objectives. Both these sectors make the economic system of the country. In fact the mixed economy is the glad combination of private enterprise with government enterprise on the one side there is freedom of enterprise, private ownership and profit earning. On the other side there is government guidance and control so as to stop evil economic, pressures. An order to remove the impact of the capitalistic economy, mixed economy has been introduced. It prevails in most of the countries of the world.

  ADVANTAGES: Mixed economy is help in increasing national production in the country. Both public and private sectors work hard to bring about more production. The problems created by free enterprise and too much public control are solved through mixed economy. It provides freedom of enterprise ownership and profit earning as well as social welfare and political freedom. And all the national recourses are utilized under mixed economy.

  DISADVANTAGES: Mixed economy is half way house. It is not helpful in access optimal use of national resources. The mixed economy suffers from the disadvantages of both the capitalism and the socialism. Mixed economy seldom achieved progress. It suffers from continues back wardness. Under mixed economy use without thought of different types occurs in the economy.

Difference between Capitalist, Socialist and Mixed Economy

Basis	**Capitalist Economy**	**Socialist Economy**	**Mixed Economy**
Ownership of Property	Private ownership	Public ownership	Both public and private ownership
Price Determination	Prices are determined by the market forces of demand and supply	Prices are determined by the central planning authority.	Prices are determined by central planning authority and demand and supply.
Motive of Production	Profit motive	Social welfare	The profit motive in the private sector and welfare motive in the public sector.
Role of Government	No role	Complete role	Full role in the public sector and limited role in the private sector

Competition	Exists	No competition	Exist only in the private sector
Distribution of income	Very Unequal	Quite Equal	Considerable inequalities exist.

New Economic Policy/Economic reforms

LPG concept:

Liberalization, Privatization and Globalization This Copy established in July 1991

LIBERALIZATION

Liberalization refers to there is no legal restrictions to enter in to foreign market
i.e. no rigid rules and regulations to do business in foreign country.

It means removal of all the trade barriers to enter in to foreign market from thegovernment.
In other words liberalization refers to a relation of previous government restriction, usually in such areas of social political and economic policy Liberalization is one of the ways of improving the efficiency of Public Sector Units (PSUs)

Objectives of liberalization:

- To improve our performance.
- Accelerate the rate of industrial development.
- To ensure better utilization of capacity.
- To achieve economies of scale.
- To reduce and in some cases to remove the procedural impediments.
- To Work towards the development of backward areas.
- To ensure export promotion and substitution of import.
- To increase competitiveness and ensure healthy competition in industries.

Impact of liberalization to India/Impact of LPG on Indian Business
The main impact and achievement of liberalization policy are as follows.
1. **Private and foreign investments:** The liberalization as given on enormous to private and foreign investment in the industrial sector the expansion plans of many Indian corporate both in the private and public sector are very impressive priority sector have been receiving massive investment liberalization over 80% of the foreign investment have been in the priority sector.
2. Increased turnover: Many industries have been witnessing huge output

growth in their turnover. Several of the industries which are witnessing output are it industry luxurious goods, vehicles, car, as the India market is big, it generates employment opportunities to many Indians.

***3.* Improved competitiveness and industrialization:** Under the liberalization the industry has become more strong and competitive both in the national as well as international markets. In the last few years, the sales as well as profit of the Indian companies have increased to a large expert

***4.* Foreign investment: T**o accelerate the growth rate of Indian economy a substantial set up in investment was required domestic savings were not sufficient in our country but liberalization helped in boosting foreign direct investment in India.

PRIVATIZATION:

Privatization is the process of transferring an enterprise or industry fromthe public sector to the private sector. The transfer of ownership, property or business from the government to the private sector is termed privatization. It refers to transformation of public ownership or management to the private sector. In other words it means converting public companies in to private companies. These companies are controlled and directed by the private ownership.

Objectives Privatization

The main objectives of privatization are as follows:

- ***A.*** To improve the performance of the PSU's so as to lessen the financial burden ontaxpayers.
- ***B.*** To reduce government interference in the economy.
- ***C.*** To promote greater private initiative.
- ***D.*** To promote wider share ownership.
- ***E.*** To development of the capital market.
- ***F.*** To promote competition and reward efficiency.
- ***G.*** To reduce the administrative burden on the state.
- ***H.*** To increase the size and dynamism of the private sector.
- ***I.*** To promote increased efficiency.
- ***J.*** To encourage and facilitating private sector investments from both domesticand foreign sources.
- ***K.*** To reduce the threat of the losses.
- ***L.*** To provide improved quality and services to the customers.

Advantages of privatization

1) **Increase the competition and decrease monopoly:** Monopoly means mono-single, poly-seller: single seller in the market public sectors is only seller in the market at olden days after privatization several people operating market in manyways. It reduces monopoly of PSU's.
2) **Reviving sick units:** after the privatization many public sick units are Revival

andrestructuring. the privatization may help in reviving sick units which are liabilitiesof the public sectors.

3) **Efficient management:** whiniest management in private sectors. Private sectors are increase more work and it take well-skilled, well talents and it adopt new products and searching for new thing.
4) **Rapid industrial growth:** It could help in solve the fiscal crises of the state in lightof a new industrial democracy. Privatization invests more money and it achieve high industrial growth and it also influence on economy.
5) **Increase in efficiency of PSU's:** It is a main advantage of Privatization. It means a competition between public sector and private sector. Public sectors are competition from private sectors and also increase efficiency of PSU's.
6) **Encouragement of innovation and investments:** privatization encourages innovation. Innovation means searching for new and adopts new ideas techniques. Privatization also encourages investments. Investors are investing more investment and, it helps developing on industries.
7) **Promotes globalization:** Privatization helps to globalization it encourages the nosiness people to go globalization.

Disadvantages of Privatization:

1. **Increase the efficiency of PSU's:** Privatization improves efficiency but not sufficiency. Privatization involves efficiency industry, but it is not going on ingood manner.

2. Fiscal imbalances: Private sectors are not contributed government and it also not contributed nation income. Private sectors are improved self-reliance and encourage individual development.

3. Privatization Presupposes the Prevalence of Country Conditions: It concentrates only achieve profit or growth. Privatization breaks prevalence conditions. Privatization will expand competition.

4. Revenue maximization: This is a main disadvantage of Privatization. Revenuemeans income it involves decrease and increase income. There is no advantage.

5. Greater concentration of assets: Privatization concentrates only on asset instead of providing services to the society.

6. Need cooperation of Labor force: Public sectors are achieving some more benefits but private sectors are achieving more and more benefits and it providelack of coordination.

7. Leads to more competitions: It is started that the Privatization of enterprises that produce tradable in competitive or potentially competitive sectors.

GLOBALISATION:

Meaning of Globalization: Globalization refers to the integration of economics and societies all over the world. It involves technological, economic, political and cultural exchanges made possible largely by advances in communication, transportation andinfrastructure. According to Anthony McGrew defines "globalization is a process whichgenerates flows and connections, not simply across nation-states and national territorial boundaries but between global regions, continent and civilizations". according to R.J Holton define "globalization represents the triumph of capitalist world economy tied together by a global division of labor".

Nature of globalization

- **Liberalization:** it stands for the freedom of 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. Eachstate grants MFN (most favored nation) status to other states and keeps its business and trade away from excessive and hard regulatory and protective regimes.
- **Globalization of economic activity:** economic activities are be governed both bythe domestic market and also the world market. It stands for the process of integrating the domestic economy with world economies.
- **Liberalization of import export system:** it stands for liberating the import export activity and securing free flow of goods and services across-borders.
- **Privatization:** 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.
- **Increased collaborations:** encouraging the process of collaborations among the entrepreneurs with a view to secure rapid modernization, development and technological advancement.
- **Economic reforms:** encouraging fiscal and financial reforms with a view to givestrength to free world trade, free enterprise, and market forces.

Challenges of international business

1. **compliances and regulations:** whether you are small business shipping homemade handbags through a website of consulting firms offering your services to multinational corporations, you must understand the and follow various rules and regulations that govern your goods and services. You must comply with that tax laws and the different countries as well as statutory exportregulations.
2. **Culture and Language:** One of the advantages of a global economy is that more small businesses compete competitively. However, few small businesses are prepared to handle the customer service calls from China, Vietnam and other emerging markets key to the success of a global competitor.
3. **Environmental Impact:** Recycling is rapidly becoming a common practice in moot U.S. compass as business leader realize the impact their behavior on global environment issues You may be challenged to incorporate successful recycling program because they may be cost-prohibitive or just inconvenient
4. **Technology and Communication:** One of the biggest challenges facing globally competitive marketplaces in communication issues that crop up when technology doesn't keep up in every next When your company relies on disparate systems that can't communicate with and other, your bookkeeping

get a boggeddown, and orders slow or case.

5. **Cost**: This is one of the key factors that will drive you and your company towards international business. You must calculate all possible costs that maybe incur. How do you get the products delivered in the most economical way? This is the question that you must find the most accurate answer for At the endof the day if the total cost will be more than your expectation you may reconsidertaking the risk of opening your door to international business
6. **Payment Methods and Currency Rate:** These are other obstacles that the small business owner must address before accepting or placing international orders. Countries may have different payment methods that are locally popular bat may not be commonly used internationally. In order to secure your business always selects the about in for you. The currency exchange rate sale of importance. Youmust be aware of the currency exchange rates at the time of buying or selling products.
7. **Choosing the Right Shipping Method:** How to ship the cargo in a timely, safe and cost-effective fashion? Which option led be best for you and your goods: Air, LCL or FCL? These questions may seem complicated if you are new to the shipping industry. When getting started you Want to reduce the risk and work with 3PL's as they have the logistics experience knowledge, and software a small company does not have, and they cost less than hiring employees with such expertise.

Strategies for going global

1.Severe competition in home market: Competition may become may a driving force behind globalization Market does not normally motivate companies to seek business outside the home Market. Until the liberalizations which started in July 1991, the Indian economy was highly protected market.

2.Limited home market: The domestic companies go global because of limited home market: example Automobile (Suzuki) company Japan is achieving more profit and sales in other Countries when compare to their home country.

3.Political stability v/s political instability: The government policies and regulations may also motivate globalization. Many Countries government give a number of incentives and other positive support to global Companies to invest in their country. Similarly, few countries political environment is Not stable in thosecountries doing business is very difficult

4.Availability of technology and managerial competency: Globalization helps in transfer of technology. Human resource and capital from surplus to the needed place by this way they achieve the business objectives.

Example:-Suzuki had joint venture with Maruthi car company India because the technology and managerial competence

5.High cost of transformation: The American based oil companies have started their branches in oil extraction Countries because of high cost of transformation due that many countries they started Their business in foreign countries to reduce cost of transformation

6.Nearness to raw materials: The European companies and American based companies started their branches in Foreign countries where raw material in available in order to reduce transportation cost and smooth flow of the operation.

7.Availability of human resources: The companies like BPO, KPO and other it companies enter in to India because Availability of human resource in that way many companies go global to make use of Human and natural resources.

8. Achieve high rate of profit: The domestic companies mainly go global because to achieve high rate of profit. Domestic market is limited and more completion inthose case firma prefers global to achieve profits.

Example: automobile (Suzuki) company Japan is achieving more Profit and sales in other countries when compare to their home country.

***9.* Expanding of production capacity:** In many countries market is very limited the multinational companies like Toyota, Automobiles, Pepsi, shell, Microsoft, generalelectrical, McDonald have huge Production capacity but the domestic market is limited so they move to global market And increase production, sales and high rate of profits.

***10.* Liberalization:** Liberalization is the process of eliminating unnecessary control and restrictions on the smooth functioning of business enterprises. Abolishing industrial licensing requirements in most of the industries.

***11.* Increase market share:** Global business has certain spin-off benefits to global business may help the Company to improve its domestic business. Global business, thus, becomes of Gaining better market share domestically. Further, exports may have pay-off for the Internal market too by offering the domestic market better products

***12.* Avoid tariffs and import quotas:** The global companies take into consideration of tariffs and quotas before entering Into any foreign countries. Example: china announced less tariff to global companies Because of that, international trade has increased

***13.* Monopoly:** In some cases, global business is a corollary of the monopoly power which a firm enjoys internationally. Monopoly power may arise from suchfactors as monopolization of certain resources, patent rights, technological advantage, product differentiation etc**.** Such monopoly power need not necessarily be an absolute one but even a dominant Position may facilitate globalization.

Advantages of globalization

***1.* Easy growth in technology:** Globalization helps in the movement of technology from advanced countries to the Developing countries, so we the latter implementthem in their own countries as part of developing program.

***2.* Flow of capital:** A country suffering from need or adequacy of capital can befinanced by a country, which has got surplus of it, through globalization. Thus ithelps in free flow of capital from one Country to another.

***3.* Wider market:** Expand the market free flow of capital along with the technology helps the developing Countries to boost up their industries in their countries.

***4.* Increasing living standards**: Further globalization reduces prices and there byenhances consumption and living standards of people in all the countries of theworld.

***5.* Increasing job opportunities:** A shift in the manufacturing facilities from one country to another country, where it is Available at low cost and other similar reasons, provides employment opportunities in the Country where it has been shifted.

6. Effects on economic growth from inflation is reduced: Global competition and imports keep a lid on prices, so inflation is less likely to Derail/harm economic growth.

7. Optimum and proper utilization of resources: Human resources natural resources and capital resources to provide contributes towards the balanced human development across the globe.

8. More products availability: Different countries are rich in different factors of production like raw materials, cheap Labor, good climate conditions, technologyetc. And create more products.

9. Decreases the discrimination among the nations: It builds good relationship between among the nations.

10. Increase unity among the nations: Results of globalization like balanced industrial, social and economic development of the World nations.

11. Division of labor and specialization or more products availability: To Promote talent and division of lab our different countries in export different products Example: Kenya specialist in tea. Brazil specialist in coffee. Japan specialist in automobile. India famous in textiles.

12. Cultural transformation or exchange: Cultural exchange is possible through globalizations it is reduces the physical distance and Pave the way for exchangeof views, opinions, ideas and thoughts etc.

Disadvantages of globalization

1. Government policy and procedure: government policy and procedures in India Are among the most complex, confusing and cumbersome in the world. Government policy and the bureaucratic culture in India in this respect are not That encouraging.

2. High cost: high cost of many vital inputs and other is generally other factorslike Raw materials and intermediaries, power, finance, infrastructural facilities like Port, etc., tend to reduce the international competitiveness of the Indian business.

3. Poor infrastructure: infrastructure in the country is generally inadequate and inefficient and therefore, very costly, this is a serious problem affecting the Growth as well as competitiveness.

4. Obsolescence: the technology employed, modes and style of operation, etc.,in generally, obsolete and these seriously affect the competitiveness.

5. Resistance to changes: there are several socio-political factors whole resist Change and this comes in the way of modernization and efficiency improvement. Technological modernization is resisted due to fear of unemployment.

6. Poor quality image and supply problem: due to various reasons the quality of many products is poor. Even when the quality is good, the poor quality Image India has become a handicap.

7. Trade barriers: although the tariff barriers to trade have been progressively reduced, thanks to the GATT/WTO, the non-tariff barriers have been increasing particularly in the developed countries. Further, the trading blocs .could also adversely affects India's business.

8. Small size and lack of experience: because of the small size and the low level Of resources in many cases Indian firms are not able to compete with the giants of Other countries. Even the largest of the Indian companies are small compared to The multinational giants.
9. Takeover of national firms: there are a large number of cases of takeover of National firms by foreign firms. In some cases, the domestic firms had to handover the majority of equity to foreign partners of joint ventures due to their inability to Bring in additional capital.

Fiscal policy

Fiscal policy refers to "the policy of the government regarding its revenues, expenditure and borrowings". It consists the taxation and expenditure policy of the government. Fiscal policy is a concerned with the raising of government revenues and incurring of government expenditure. According to **Reem Heakal** fiscal policy is the means by which government adjusts its spending levels and tax rates to monitor and influence a nation's economy.

Objective of fiscal policy

1) **To achieve desirable price level:** the stability of general prices is necessary for an economic stability. The maintenance of desirable price level has a good effect on a production, employment and the national income. Fiscal policy should be used to remove the fluctuations in price level so that ideal level is maintained.
2) **To achieve desirable consumption level:** a desirable consumption level is important for political, social and economic consideration. Consumption can be affected by expenditure and tax policies of the government. Fiscal policies should be used to increase welfare of the economy through consumption level.
3) **To achieve desirable employment level:** the efficient employment level is most important in determining the living standard of the people. It is necessary for political stability and for maximization of production. Fiscal policy should achieve this level.
4) **To achieve desirable income distribution:** the distribution of income determines the type of economic activities the amount of savings. In this way it is related to price, consumption and employment. Income distribution should be equal to the most possible degree. Fiscal policy can achieve equality in distribution of income.
5) **increasing capital formation:** in underdeveloped countries deficiency of capital is the main reason for underdevelopment. Large amounts are required for industry and economic development. Fiscal policy can divert resources

and increase capital.

6) **Degree of inflation:** in underdeveloped countries, a degree of inflation is requiredfor economic development. After a limit, inflationary be used to get rid of this situation.
7) **Consumption level:** it important for political, social and economic considerations. Consumption can be affected by the expenditure and tax policies.

Impact of fiscal policy on business (or) role of fiscal policy

- The development of various regions sectors and industries
- Government often uses tax incentives or disincentives to encourage discouragecertain activities.
- Tax incentives can also help in an increasing demand
- The government control as well as state offer different fiscal incentives and encourage industries
- Progressive increases in indirect taxation
- fiscal policy can encourage the investment create jobs for your long-term economic growth

Fiscal Policy Instruments

- 1.Reduction of Govt. Expenditure
- 2. Increase in Taxation
- 3. Imposition of new Taxes
- 4. Wage Control
- 5.Rationing
- 6. Public Debt
- 7. Increase in savings
- 8. Maintaining Surplus Budget

Other measures

- 1. Increase in Imports of Raw materials
- 2. Decrease in Exports
- 3. Increase in Productivity
- 4. Provision of Subsidies
- 5. Use of Latest Technology
- 6. Rational Industrial Policy

Fiscal policy refers to the policy of the government regarding taxation, public expenditure and public debt. Fiscal policy is that part of the government policy, which is concerned with raising revenue through taxation and other means. It is related to deciding the level and pattern of expenditure.

Union budget:

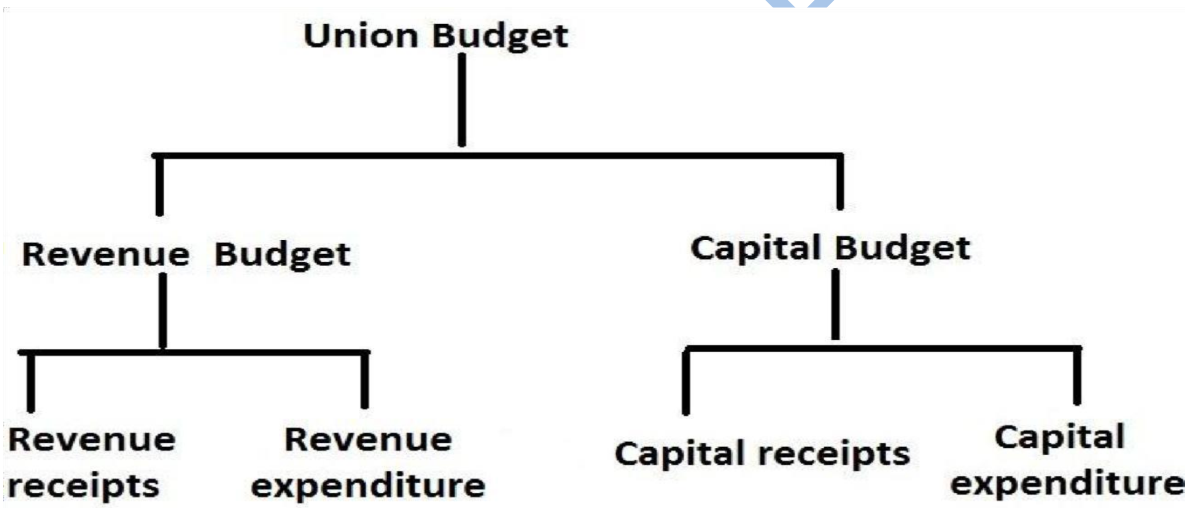
The fiscal policy operates through budget. Budget is an estimate of government expenditure and revenue for the financial year. The budget is presented to the parliament yearly by the Union Finance Minister. Budget approval is a big exercise without budget, no tax can be levied, no expenditure can be incurred and government can spend only on approved items.

State budget:

Every state government also prepares and presents a budget in the state assembly. According to the provisions of the constitution, our central government and state governments have been preparing annual budgets. They are placed before parliament. And respective state assemblies every year. The budgets are approved. The governments spend and raise revenues as stipulated in the yearly budgets.

Components of union budget:

Budget can be divided into revenue budget and capital budget. It is shown in the below chart:



Revenue Budget: It deals with revenue receipts and revenue expenditure. Revenue receipts include receipts from taxes, interest receipts and dividends and profits. Revenue expenditure is mainly on government administration.

Capital budget: Statement of all capital expenditure and capital receipts. Capital receipts include market loans, external aid, deposits and provident funds. Capital expenditure includes payment for imports, external debt-servicing etc.,

Monetary policy

Monetary policy is the macroeconomic policy laid down by the central bank. It involves management of money supply and interest rate.

In India monetary policy of the RBI is aimed at managing quantity of money in order to meet the requirements of different sectors of the economy and to increase pace of economic growth.

Monetary policy also known as **credit policy** or called **RBIs money management policy.** In India the RBI implements the monetary policy through open market operations, bank rate policy, reserve system, credit control policy. Using any of these instruments will lead to changes in the interest rate or the money supply in the economy.

Monetary policy refers to the use of instruments under the control of central bank regulate the availability. Cost and use of money and credit

According to **R.P Kent** define the management of expansion and contraction of the volume of money in circulation for explicit purpose of attending a specific objective such as full employment.

Objectives of monetary policy

a. **Rapid economic growth**: it is the most important objective of monetary policy. The monetary policy can influence economic growth by controlling real interest rate and its resultant impact on the investment.
b. The RBI provide easy credit policy by reducing interest rate the investment level in the economy can be encouraged the increased investment can speed up economic growth. faster economic growth is possible if the monetary policy succeeds in the maintaining income under price stability.
c. **Price stability:** all the economics suffer from inflation and deflation; it can also be called as price instability. Both inflations are harmful to the economy. It tries to keep the value of money stable. It helps to reducing the income and wealth inequality.
d. **Exchange rate stability:** exchange rate is the price of home currency expressed in terms of any foreign currency. If this exchange rate is very volatile leading to frequent ups and downs in the exchange rate. Monetary policy aims at maintaining the relative stability in the exchange rate.
e. **Balance of payment equilibrium:** many countries like India suffer from the disequilibrium in the bop. The RBI through its monetary policy tries to maintain the equilibrium in the balance of payment.BOP has 2 aspects
   i. balance of payment surplus
   ii. balance of payment deficit
f. **Full employment:** the concept of full employment was in much discussed offer Keynes's publication of the 'general theory' in 1936. Full employment stand for a situation in which everybody who wants jobs get job. monetary policy encouraged and help in creating a many jobs in a different sectors of the economy.
g. **Neutrality of money:** Economists such as Wicksted Robertson have always considered money as a passive factor. According to them money should pay only a role of medium of exchange and not more than that.
h. **Equal income distribution:** many economics used to justify the role of the monetary policy is maintaining economic equality.

Impact of monetary policy on business

a. **Control inflation:** the primary impact of monetary policy is on inflation. The goal of monetary policy is control to inflation or the value of currency. when inflation rises the RBI wants to raise the interest rates. High inflationmakes a cost of goods sold higher.

b. **Interest rate:** monetary policy directly impacts on interest rate. The central banks raises or lower the prime rate or interest rate the central bank loans money to other banks has a tool to impact the economy. Interest rate charged on loans, credit cards and any other financial vehicles that is tiedto a prime rate.

c. **Business cycle:** the monetary policy is minimizing the speed and severityof these expansion and contractions to maintain the steady growth or decrease a negative contraction.

d. **Spending:** monetary policy impacts the amount of money spent in an economy. When you central bank decreases interest rates, more money is typically spend in an economy. This increase in spending can equate to better overall health for a economy. Likewise, when interest rate increased, spending declines, this curtails inflation.

e. **Employment:** employment level relates to the health of an economy. When inflation is low and an economy is stable or in an expansionary phase, employment levels are higher than when inflation is high and an economyis in a contraction phase. Changes in monetary policy that maintain economic stability and minimize inflation tend to keep unemployment low.

Credit control measures of monetary policy: The credit control measures can be broadly classified to two categories.

- Quantitative measures (or) general credit controls
- Qualitative measures(or) selective credit controls

A. Quantitative measures (or) general credit controls: -

a. **Bank rate policy:** the bank rate is the official interest rate at which RBI rediscounts the approved bills held by commercial banks. For controlling the credit, inflation and money supply, RBI will increase the bank rate. current bank rate is 6%.

b. **Open market operations:** OMO the open market operations refer to directsales and purchase of securities and bills in the open market by reserve bank. The aim is to control volume of credit.

c. **Cash reserve ratio:** cash reserve ratio refers to that portion of total deposits in commercial bank which it has to keep with RBI as cash reserves. The current cash reserve ratio is 4%.

d. **Statutory liquidity ratio:** it refers to that portion of deposits with the of deposits with the banks which it has to keep with itself as liquid assets (gold, approved govt. Securities etc.) The current SLR is 19.5%. If RBI wishes to control credit and discourage credit it would increase CRR&SLR

B.Qualitative measures (or) selective credit controls: -

Qualitative credit is used by the RBI for selective purposes. Some of them are

a. **Margin requirements:** this refers to difference between the securities offered and amount borrowed by the bank.

b. **Consumer credit regulation:** this refers to issuing rules regarding down payments and maximum maturities of installment credit for purchase of goods.

c. **Guidelines:** RBI issues oral, written statements, appeals, guidelines, warnings etc. to the banks.
d. **Rationing of credit**: the RBI controls the credit granted / allocated by commercial banks.
e. **Moral suasion:** psychological means and informal means of selective credit control.
f. **Direct action:** this step is taken by the RBI against banks that don't fulfill conditions and requirements. RBI may refuse to rediscount their papers or may give excess credits or charge a penal rate of interest over and above the bank rate, for credit demanded beyond a limit.

INDUSTRIAL POLICY OF INDIA

Introduction

Indian economy pursued planned phases, which was arguably characterized by self-sustainability. The environment was sufficiently related with ideologies which were focused on import substitution, inward oriented growth, and controls and subsidies.

Industrial Policy

There are different aspects of industrial policy which affect industrial investment and production.

 Industrial licensing policy which regulates and controls the setting up of new industrial units and their expansion.

 Policy related with control of monopolies and economic concentration.

 Policy related with the import of technology.

 Whole range of financial and fiscal policies.

Industrial Policy in India

Industrial Policy 1948

The Government of India announced its Industrial Policy Resolution (IPR) on April 6, 1948 where by both public and private sectors were involved towards industrial development. Accordingly, the industries were divided into four broad categories:

(a) **Exclusive State Monopoly**-This includes the manufacture of arms and ammunition, production and control of atomic energy and the ownership and management of railway transport. These industries were the exclusive monopoly of the Central Government.

(b) **State Monopoly for New Units**-This category included coal, iron and steel, aircraft manufacture, ship building, manufacture of telephone, telegraphs and wireless (apparatus (excluding radio receiving sets) and mineral oils. New undertakings in this category could henceforth be undertaken only by the State.

(c) **State Regulation**-This category included industries of such basic importance like machine tools, chemicals, fertilizers, non-ferrous metals, rubber manufactures, cement, paper, newsprint, automobiles, electric engineering etc. which the Central Government would feel necessary to plan and regulate.

(d) **Unregulated private enterprise**-the industries in this category were left open to the private sector, individual as well as cooperative.

Industrial Policy 1956

In India, industrial policy had been chalked out with the framework of the Industrial Policy Resolution, 1956 (IPR, 1956). It has been known as the 'Economic Constitution of India'. The same put stresses on:
o The development of heavy and machine-building industries;
o The expansion of the public sector;
o The establishment of a large and growing Co-operative sector; and
o Encouragement to the diffusion of ownership and management in the private sector.

New Industrial Policy- 1991

Industrial policy refers to rules, regulations, principles, policies and procedures laid down by the government for regulating, developing and controlling industrial undertaking in the country.

Salient features of new industrial policy- 1991

a. **Promotion of industries in rural areas:** in order to remove the regional imbalances, under this industrial policy various provisions have been made to encourage industries in rural areas
b. **Reservation of small-scale industries:** the policy has stated that the government should keep giving assistance to small scale industries, the limit for small scale industries have been reduced from Rs. 3 crores toRs.1crore since December 1999
c. **Abolition of industrial licensing:** the new industrial policy abolished all industrial licensing irrespective of the level of investment except for certain industries related to security and strategic concerns, and social reasons now there are only 6 industries for which licensing is compulsory as amended in February 1999. These are alcohol, cigarettes, hazardous chemicals, drugs and pharmaceuticals, electronics, aerospace and defense equipment's, and industrial explosives.
d. **MRTP act:** in the industrial policy 1991, major changes have been made in the MRTP act. the new industrial policy also states that the government will undertake review of the existing public enterprises in low technology, small -scale and non-strategic areas.
e. **Free entry to foreign investment and technology:** the government is committed to promote increased flow of foreign direct investment (facilities better technology, modernization, exports and for providing products and services of international standards.

Impact of new industrial policy 1991 (nip)

1. **Raising income:** the first important role is the industrial development provides asecure basis for rapid growth of income. The empirical evidence suggests a close correspondence between the high level of income and industrial development. In the industrially developed countries.
2. **Changing the structure of the economy:** in order to develop the economy underdeveloped countries need structural changes through industrialisation. History shows that in the process of becoming developed economy the share of the industrial sector should rise and that of the agricultural sector decline. This is

only possible through deliberate industrialization.

3. **Meeting high income demands:** beyond certain limits, the demands of the people are usually for an industrial product alone. After having met the needs of food, income of the people are spent mostly on manufactured goods. This means the income elasticity of demand for the manufactured goods is high and that of agricultural products is low

4. **Overcoming deterioration in the terms of trade:** underdeveloped countries like India need industrialisation to free themselves from the adverse effects of fluctuations in the price of primary product and deterioration in their terms of trade. Such countries mainly export primary products and import manufactured goods. The prices of primary products have been falling or are stable whereas the prices of manufactured products have been rising.

5. **Employment generation:** underdeveloped countries like India are characterized by surplus labor and rapidly growing population. To absorb all the surplus labor it is essential to industrialize the country rapidly. It is the establishment of industries alone that can generate employment opportunities on the acceleratedrate.

6. **Bringing technological progress:** research and development is associated with the process of industrialisation. The development of industries producing capital goods that is machine, equipments etc.. Enables a country to produce a variety of goods in large quantities and at low costs, make for technological progress and change in the outlook of the people.

7. **Strengthening the economy:** industrialisation of the country can provide thenecessary elements for strengthening the economy. They are: -
    - Industrialisation makes possible the production of goods like railways,dams, etc...Which cannot be imported?
    - industrialization can change the comparative advantage of the country to suit its resources and potentialities of manpower.
    - Through industrialisation the requirements for the development ofagriculture can be met.
    - Industrialisation is needed to provide for the country's security.

Objectives of new industrial policy

1. Rapid industrialization of the country.
2. Increase employment opportunities in private sectors.
3. Improve balance of payments promoting exports.
4. Ensure profitability in the public sector.
5. Encourage entrepreneur.
6. Invite foreign capital for industrialization and boost export.
7. To encourage research and development to bring in new technology.
8. To link Indian economy with global economy.
9. Increase competition of the industry.
10. Rapid development of infrastructure, road, electricity.

Advantages of new industrial policy

1. Financial stability.
2. Upgrading the technology of production.

3. Free flow of capital.
4. Increasing factors of production.
5. Increasing in per capita income.
6. Increasing in foreign trade.

Limitations of new industrial policy

1. Dominance of Multinational Firms.
2. Unsuitable and Inferior Foreign Technology.
3. Unemployment.
4. Dilution of the Public Sector.
5. Social Problems
6. Increase Crimes.
7. Industrial Sickness
8. Increase in Corruption.

Industrial Licensing Policy

- ✓ Industrial licensing has been abolished for all projects except for a short list of industries (Distillation, Cigars, tobacco, electronic aerospace and defence equipment, arms and ammunitions, industrial explosives, hazardous chemicals, drugs and pharmaceuticals)
- ✓ Only three industries groups (due to security and strategic concerns such as atomic energy, substances noted by the Department of Atomic Energy) will be reserved exclusively for the public sector.
- ✓ In projects where imported capital goods are required, automatic clearance will be given in the following cases: Where foreign exchange availability is ensured through foreign equity, If the CIF value of imported capital goods required is less than 25 per cent of the total value of plant and equipment, up to a maximum value of Rs 2 Crore.
- ✓ There is no requirement of obtaining industrial approvals from the Central Government for location not falling within 25 Kms. of cities having population of more than one million.
- ✓ Industries of non-polluting nature such as electronics, computer software and printing can be located within 25 Kms. of the periphery of cities with more than one million population. Other industries are permitted only if they are located in designated industrial areas.
- ✓ The mandatory convertibility clause will no longer be applicable for term loans for the financial institutions for new projects.
- ✓ All existing registration schemes will be abolished.
- ✓ Entrepreneurs will henceforth only be required to file an information memorandum on new projects and substantial expansion.
- ✓ The system of phased manufacturing programmes run on an administrative case-by-case basis will not be applicable to the new projects.
- ✓ The exemption from licensing will apply to all substantial expansions of existing units.

New Industrial Policy 1991 and Public Sector

New Industrial Policy brought a new approach to public enterprises. It seeks to control the role of public sector to provision of physical and social infrastructures and to areas where security and strategic considerations highlights.

Following four principles guided the new policy framework

i) Partial disinvestment of equity of PSUs and bring them to open scrutiny.
ii) PSUs can acquire more funds from public in the form of equity rather than depending on government.
iii) In most sectors, public enterprises have to face competition from private entities.
iv) Effective steps have to be taken to ensure institutional relationships between the PSUs and Govt.

Promotional and regulatory controls:

Promotional measures are of a positive nature, and include such activities as expansion of public sector establishment and operation of development banks, revival of sick units, encouragement to small-scale units, and removal of regional imbalances, provision of incentives and subsidies and export promotion.

Regulatory measures ensure orderly development of industries with the least wastage of resources. Regulatory measures include direct controls and indirect controls. Direct controls like the industries (Development and Regulation) Act, the competition act, the companies act, the foreign exchange management act and price and distribution controls, labor laws. Indirect controls like monetary policy and fiscal policy.

Economic Planning

Planning in India dates back to the 1930s. Even before independence, the colonial government had established a planning board that lasted from 1944 to 1946. Private industrialists and economists published three development plans in 1944. Thus, even before independence, planning was not totally new to the economy.
India's leaders adopted the principle of formal economic planning soon after independence as an effective way to intervene in the economy to foster growth and social justice. The Planning Commission was established in 1950. Responsible only to the Prime Minister, the commission is independent of the cabinet. The Prime Minister is the chairperson of the commission, and the Minister of State with independent charge for planning and program implementation serves as its Deputy Chairperson.
A staff drafts national plans under the guidance of the commission; draft plans are presented for approval to the National Development Council, which consists of the Planning Commission and the Chief Ministers of the States. The council can make changes to the draft plan. After the council's approval, the draft is presented to the cabinet and subsequently to Parliament, whose approval makes the plan an operating document for Central and State Governments.

Brief View of Five Year Plans

1) ***First Five-Year Plan*** (FY 1951-55) attempted to stimulate balanced economic development while correcting imbalances caused by the World War II and India's partition. Agriculture, including projects that combined irrigation and power generation, received priority.
2) ***Second Five-Year Plan*** (FY 1956-60) emphasized industrialisation, particularly of basic, heavy industries in the public sector, and improvement of the economic infrastructure. The

plan also stressed social goals, such as more equal distribution of income and extension of the benefits of economic development to the large number of disadvantaged people.

3) ***Third Five-Year Plan*** (FY 1961-65) aimed at a substantial rise in national and per capita income while expanding the industrial base and rectifying the neglect of agriculture in the previous plan. The third plan called for national income to grow at a rate of more than 5 % a year; self-sufficiency in food grains was anticipated in the mid-1960s.

   Economic difficulties disrupted the planning process in the mid-1960s. In the 1960s, India faced two wars – one with China in 1962 and then with Pakistan in 1965. This come as a huge set back to the economy as defense expenditure increased sharply and there was negative impact on industrial and agriculture growth. During the 1965 war, foreign aid was also reduced. All this resulted in a hike in prices. Three annual plans guided development between FY 1966 and FY 1968 while plan policies and strategies were re-evaluated.

4) ***Fourth Five-Year Plan*** (FY 1969-73) called for a 24 % increase over the third plan in real terms of public development expenditures. The public sector accounted for 60 % of plan expenditures, and foreign aid contributed 13 % of plan financing. Agriculture, including irrigation, received 23 % of public outlays; the rest was mostly spent on electric power, industry, and transportation. Although the plan projected national income growth at 5.7 % a year, the realized rate was only 3.3 %.

5) ***Fifth Five-Year Plan*** (FY 1974-78) was drafted in late 1973 when crude oil prices were rising rapidly; and rising prices quickly forced a series of revisions. The plan was subsequently approved in late 1976 but was terminated at the end of FY 1977 because the new government had different priorities and programs. The fifth plan was in effect only one year, although it provided some guidance to investments throughout the five-year period. The economy operated under annual plans in FY 1978 and FY 1979.

6) ***Sixth Five-Year Plan*** (FY 1980-84) was intended to be flexible and was based on the principle of annual "rolling" plans. It called for development ₹expenditures of nearly 1.9 trillion (in FY 1979 prices), of which 90 % would be financed from domestic sources, 57% of which would come from the public sector. Public sector development spending would be concentrated in energy (29%), agriculture and irrigation (24%), mining (16%), transportation (16 % and social services (14 %). The plan called for a 5.1 % a year growth in GDP, a target that was surpassed by 0.3 %. Only about 10 % of the poor rose above the poverty level.

₹7) ***Seventh Five-Year Plan*** (FY 1985-89) envisioned a greater emphasis on the allocation of resources to energy and social spending at the expense of industry and agriculture. In reality, the main increase was in transportation and communications, which took up 17% of public-sector expenditure during this period. Total spending was targeted at nearly 3.9 trillion, of which 94% would be financed from domestic resources, including 48% from the public sector.

8) ***Eighth Five-Year Plan*** was launched in April 1992 and emphasized market-based policy reform rather than quantitative targets. Total spending w₹as planned at 8.7 trillion, of which 94 % would be financed from domestic resources, 45 % of which would come from the public sector. Government documents issued in 1992 indicated that GDP growth was expected to increase from around 5 % a year during the seventh plan to 5.6 % a year during the Eighth Plan. However, in 1994 economists expected annual growth to be around 4 % during the period of the Eighth Plan.

9) ***Ninth Five-Year Plan*** was launched during the 50th year of India's Independence. The Ninth Five-Year Plan, adopted by the National Development Council, had given priority to agriculture and rural development with a view to generating adequate productive

employment and eradication of poverty; accelerating the growth rate of the economy with stable prices; ensuring food and nutritional security for all, particularly the vulnerable sections of society; providing the basic minimum services of safe drinking water, primary health care facilities, universal primary education, shelter, and connectivity to all in a time bound manner; containing the growth rate of population; ensuring environmental sustainability of the development process through social mobilization and participation of people at all levels; empowerment of women and socially disadvantaged groups such as Scheduled Caste, Scheduled Tribes and Other Backward Classes and Minorities as agents of socio-economic change and development; promoting and developing people's participatory bodies like Panchayat Raj institutions, co-operatives and self-help groups; and strengthening efforts to build self-reliance. These very priorities constitute the objectives of the Ninth Plan.

10) ***Tenth Five Year Plan*** was only the first phase of the ten-year road map. It was felt that the Prime Minister's vision could be realized through targeting a growth rate of 8% during the Tenth Plan period and 9.3 % during the Eleventh Plan, and by focusing attention on the growth of employment intensive sectors. Tenth plan aims at an indicative growth of 8% in GDP. For the period of 2002-2007 economic growth is not the only objective of national planning. Over the years, development objectives are being defined not just in terms of increases in GDP or per capita income but more broadly, in terms of enhancement of human well being.
11) ***Eleventh Five Year Plan*** (2007-2012) India's centralized planning process is governed by seven cardinal policy objectives: growth; social justice & equity; modernization; self-reliance; food; productivity and employment. These would continue to be the guiding principles for the Eleventh Plan (2007-12) which commences from 1st April, 2007.
12) 12^{th} Five Year Plan was started in 2012. In India, a large number of people expects much especially by those who are underprivileged. The Twelfth plan must address the high expectations of different sections in society. The global economy muddles through unexpected failures in different sectors and unfavorable decline in total production. Macro economic imbalances threaten the country especially after 2008 global economic crisis. The policy challenge in the plan is two-fold. One is to reverse the observed deceleration in growth by ensuring investments quickly as possible. Constraints here are related with infrastructural availability. At the same time there is a challenge that demands the leveraging of strength to its real growth. The plan recognizes that the objective of development is broad based improvement in the economic and social conditions of our people. The plan had a target of 9 percent average growth of GDP over the plan period. Sub sectors that are important for inclusiveness are agriculture (4 percent) and manufacturing (10 per cent).

Indian Economy

Indian economy is termed as the developing economy of the world. Some features like low per capita income, higher population below poverty line, poor infrastructure, agriculture based economy and lower rate of capital formation, tagged it as a developing economy in the world.

Salient Features of Indian Economy

1. Low per Capita Income: India's per capita income is very less as compare to developed countries. As per the estimates of the Central Statistics Office (CSO), the per capita net national income of the country at current prices for the year 2015-16 is estimated to attain the level of Rs. 93231/-. The per capita net national income at constant prices (2011-12) for the year 2015-16 is estimated to attain the level of Rs. 77, 431/-. 2014-15. ……Rs. 72889/-
2. Agriculture Based Economy: Agriculture and allied sectors provide around 14.2% of Indian GDP while 53% of total Indian population is based on the agriculture sector.
3. Over population: in every decade Indian population get increased by about 20% . During the 2001-11 population increased by 17.6%. Currently India is adding the total population of Australia every year. India is the possessor of around 17.5% population of the whole world.
4. Income Disparities: a report released by Credit Suisse revealed that the richest 1% Indians owned 53% of the country's wealth, while the share of the top 10% was 76.30%. To put it differently, in a manner that conveys the political economy of this stunning statistic, 90% of India owns less than a quarter of the country's wealth.
5. Lack of Capital Formation: Rate of capital formation is low because of lower level of income. Gross domestic capital formation was 23.3% in 1993-94 increased up to the level of 38.1% in 2007-08 but declined up to 34.8% in 2012-13.
6. Backwardness of Infrastructural Development: As per an recent study, 25% of Indian families don't have reach of electricity and 97 million peoples don't have reach of safe drinking water and 840 million people in India don't have sanitation services. India needs 100 million dollar for infrastructural development up to 2025.
7. Market Imperfections: Indian economy doesn't have good mobility from one place to other which hinders the optimum utilization of resources. These market imperfections create the fluctuations in the price of commodities every year.
8. Economy is Trapped in the Vicious Circle of Poverty: Prof. Ragner Nurkes says that 'a country is poor because it is poor'. It means poor countries are trapped in the vicious circle of poverty.
9. Use of Outdated Technology: It is very clear that Indian production technique is more labor oriented in nature. So it increases the cost of production of the products made in these countries.
10. Traditional Set Up of Society: Indian societies are trapped in the menace like casteism, communalist, male dominated society, superstitions, lack of entrepreneurship, and '*chalta hai attitude' of the peoples*. These all factors hindered the growth of the country as a whole.

Problems Facing Indian Economy

Since 1991, the Indian economy has pursued free market liberalization, greater openness in trade and increase investment in infrastructure. This helped the Indian economy to achieve a rapid rate of economic growth and economic development. However, the economy still faces various problems and challenges, such as corruption, lack of infrastructure, poverty in rural areas and poor tax collection rates.
1. Unemployment
Despite rapid economic growth, unemployment is still an issue in both rural and urban areas. The fast rate of economic growth has left unskilled workers behind, and they have struggled to find work in growing industries. In 2017, the official unemployment rate was just below 5%. However, a report by the OECD found over 30% of people aged 15-29 in India is not in employment, education or training (NEETs). Live mint reported on March 6, 2017. With, little if any government welfare support for the unemployed, it leads to dire poverty.
2. Poor educational standards

Although India has benefited from a high % of English speakers, (important for call centre industry) there is still high levels of illiteracy amongst the population. It is worse in rural areas and amongst women. Over 50% of Indian women are illiterate. This limits economic development and a more skilled workforce.

3. Poor Infrastructure

Many Indians lack basic amenities lack access to running water. Indian public services are creaking under the strain of bureaucracy and inefficiency. Over 40% of Indian fruit rots before it reaches the market; this is one example of the supply constraints and inefficiency's facing the Indian economy.

4. Balance of Payments deterioration.

Although India has built up large amounts of foreign currency reserves, the high rates of economic growth have been at the cost of a persistent current account deficit. In late 2012, the current account reached a peak of 6% of GDP. Since then there has been an improvement in the current account. But, the Indian economy has seen imports growth faster than exports. This means India needs to attract capital flows to finance the deficit. Also, the large deficit caused the depreciation in the Rupee between 2012 and 2014. Whilst the deficit remains, there is always the fear of a further devaluation in the Rupee. There is a need to rebalance the economy and improve the competitiveness of exports.

5. High levels of private debt

Buoyed by a property boom the amount of lending in India has grown by 30% in the past year. However, there are concerns about the risk of such loans. If they are dependent on rising property prices it could be problematic. Furthermore, if inflation increases further it may force the RBI to increase interest rates. If interest rates rise substantially it will leave those indebted facing rising interest payments and potentially reducing consumer spending in the future

6. Inequality has risen rather than decreased.

It is hoped that economic growth would help drag the Indian poor above the poverty line. However, so far economic growth has been highly uneven benefiting the skilled and wealthy disproportionately. Many of India's rural poor are yet to receive any tangible benefit from India's economic growth. More than 78 million homes do not have electricity. 33% (268million) of the population live on less than $1 per day. Furthermore with the spread of television in Indian villages the poor are increasingly aware of the disparity between rich and poor. (3)

7. Large Budget Deficit

India has one of the largest budget deficits in the developing world. Excluding subsidies, it amounts to nearly 8% of GDP. Although it is fallen a little in the past year. It still allows little scope for increasing investment in public services like health and education.

8. Rigid labor Laws

As an example Firms employing more than 100 people cannot fire workers without government permission. The effect of this is to discourage firms from expanding to over 100 people. It also discourages foreign investment. Trades Unions have an important political power base and governments often shy away from tackling potentially politically sensitive labor laws.

9. Inefficient agriculture

Agriculture produces 17.4% of economic output but, over 51% of the work force is employed in agriculture. This is the most inefficient sector of the economy and reform has proved slow.

10. Poor tax collection rates.

According to the Economist, India has one of the poorest tax to GDP rates in the whole world. India's tax revenue as a % of GDP is just 12%. Compared to an EU average of 45%. This poor tax collection rate reflects widespread corruption, tax avoidance and complicated tax rates. In 2017, Narendra Modi has sought to improve tax collection rates and reduce complications through the introduction of a general sales tax (GST) which involves a single tax rate – rather than tax rates applied multiple times at different stages of production. (Modi's tax gamble at Economist)

11. Business difficulties

According to the World Bank, the ease of doing business in India is poor. India ranks 130/190. Big issues for companies include

- Ease of enforcing contracts
- Dealing with construction contracts
- Paying taxes
- Trading across border

12. Inequality within regions

India's economic growth has benefitted some regions more than others. Technological hubs, such as Delhi and Mumbai have attracted higher-paying jobs. This has attracted an inflow of most mobile and skilled workers; this has created congestion in these super-cities but failed to address the poverty of rural areas, especially in the northeast

Political environment

Political environment refers to the influence exerted by legislature, executive and judiciary. Democracy has these three institutions. These three political institutions shape, direct and control business activities. Legislature decides a specific course of action.

Executive (also called as Government) implements whatever decided by legislature (parliament and state assembly). Judiciary is the "watch dog" to see that legislature and executive work in public interest within the boundaries of constitution.

A typical businessman interacts more with the executive. Politics determine economic and business policies. " The two most powerful institutions in society today are business and government; where they meet on common ground, amicably or otherwise together they determine public policy, both foreign and domestic for a nation"– DIMOCK.

Factors consisting of political environment:

a. Political system: Political systems include the democracy and autocracy. In democracy, the government is of the people, by the people and for the people. Democratic systems offer equal rights and opportunities to the people.

Autocracy is a government by the autocrats. People's fundamental rights are abandoned by the rulers. No freedom is given to the political organs of legislature, executive, judiciary and press.

b. Political institutions: The national and regional parties, their structure, and their style of functioning etc., constitute the political systems. In our country, the congress has been the national level political party for many years. Of late, many regional parties like DMK, Telugu Desam, Praja Rajyam, Trinamul Congress have become state level. Political parties yielding considerable influence on state issues.

c. Political ideologies of the parties: Commitment to socialism, capitalism, communism, large industries vis-à-vis small industries, domestic industries vis-à-vis small industries, domestic industries vis-a-avis multinational corporations are some of the political ideologies of the parties. The priorities of the political parties shift according to their ideology. For some time, the then Janata party did not favor the entry of MNCs into our country. Since 1991, the reforms regime set-in under the prime ministership of the late Sri P.V. Narasimha Rao, of congress party. The party embarked upon LPG

(Liberalization, Privatization and Globalization). These favoured Indian companies to acquire global perspective and FDI inflows pour in to the country. MNCs opened up their units in our country.

d. Political stability: This is marked by the continuance of same party in power for a fairly longer period. Evenif a new political party assumes power, it may continue to implement the same policy of the earlier party. Eg: Reforms regime of Late Sri P.V. Narasimha Rao government of congress party continued after the congress party lost power at central and state levels. This ensured stability of economic reforms in our country.

e. Strength of opposition and political nature of parties: A strong opposition party is a pre-requisite in democracy. It puts a check on the ruling party in ensuring a safe-secure-and-clean administration. But, in practice, opposition parties are losing their stature sometimes in questioning the secure of propriety of the ruling party. Political stability and opposition unity affect business environment.

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Impact/influence/NEXUS/Interface:

a. Political environment influences the legal and governmental factors which in turn affect businesses.
b. It is the political ideologies of the late Smt. Indira Gandhi that resulted in vast role for public sector; banks nationalization, 20-point programme. The Janata party industrialization-policy banned the entry of MNCs into our country. The successive policy statements of different governments at central and state level did not favor the growth of industrial sector to the extent desired. Again in July 1991, the congress government under the prime minister ship of late Sri P.V. Narasimha Rao embarked on "reforms-regime" embarking on liberalization-privatization-globalization of the economy.
c. Political stability and opposition may affect business environment. Investment policies of businesses, choice of location of businesses depend on political stability. Foreign direct investment can be attracted, when there is political stability.
d. Politics- business NEXUS is always existent throughout the world. Stable government policies, efficiency and timely action by the civil servants, greater understanding among different ministries etc., have an influence on business.
e. The political system comprises of capitalism, welfare capitalism, socialism, communism and mixed economy. Capitalism is pro-private business. Businesses are directed by market mechanism, least influenced by government factors. In socialist political system, businesses are run and closely controlled by state. In communism, businesses are like government departments. In a mixed system, side-by-side, public and private ownership exist.
f. The government plays the roles as a regulator of business, as a promoter of business, as an entrepreneur and as a planner of business activities.
g. In our democracy, three political institutions. Role of legislature on business is considerable. Executive has responsibilities to business and business owes many responsibilities/obligations to government. Judiciary is increasingly becoming activist.

Political institutions under democracy

The political system under democratic set-up comprises three vital institutions viz., Legislature, Executive and Judiciary.

Legislature: Legislature is the most powerful political institution. It is vested with the powers of policy- making, law making, budget approving, executive control, and acting as a mirror of public opinion. Parliament (LOK SABHA) and state assemblies.

Executive: Executive is also called the 'state and government'. It is the centre of political authority. It has powers to govern those it serves. The government controls the structure and functioning of the society. The government implements whatever decided by the legislature central and state governments.

Judiciary: Judiciary determines the manner in which the work of the executive has been fulfilled. Judiciary sees that the exercise of authority conforms to the general rules laid down by legislature. It may declare that a particular order issued is, in fact, ultra vires. It also settles the disputes between private citizens; between citizens and governments.

Impact/influence of the political institutions on business:

a. The influence of legislature on business is considerable. Legislature decides the type of business activities the country should have; their ownership; their size of operations; their earnings and other related factors.
b. A typical business person interacts more with Executive. Captains of business should consider the government as a big-brother who is wiser and more matured. Business involvement in political activities generates varied arguments. Captains of business involve in political activities by funding parties or by contesting elections. Tata's supported political activities. They financed a number of organizations in Mumbai. Birla's run newspaper, finance political candidates and parties. Thus, the NEXUS between business and politics is an established fact. Business units make monetary contributions to political parties.
c. No business can function and survive without governments help. Government establishes and enforces LAWS. Peaceful atmosphere is ensured by the law enforcement bodies. Government provides a system of money and credit by means of which transactions can be affected. Government provides infrastructural facilities, such as transportation, power, finance, trained personnel and civic amenities. Many developed countries use protectionist measures like QUOTAS and TARIFFS to protect domestic industries.
d. India follows a common law. It is based on the cumulative wisdom of judges' decisions on individual cases. Tradition plays a major role in common law countries like US, Canada,England, Australia, New Zealand, India etc., In common law countries, contracts, torts and agency are controlled by collections of principles deduced from specific disputes resolved in an adversary process. CIVIL LAW is codified legal system. It is based on a detailed set of laws which makeup a code.

The power of the JUDICIARY to settle legal disputes affects business considerably. Judicial activism refers to the review power vested with the courts and its scope varies with the width of power conferred on courts.