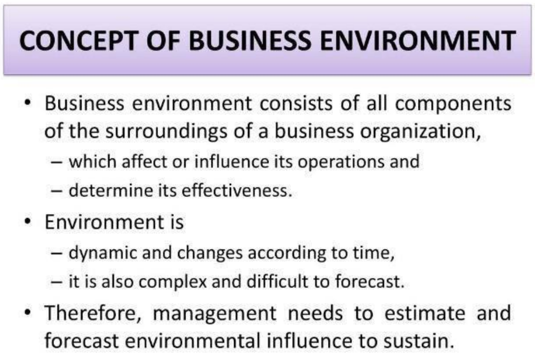
Unit -1

1.Explain about concept, significance and nature of business environment?

Business organisation has to interact and transact with its environment. Hence, both the business and environment are totally interrelated and mutually interdependent. Business environment refers to those aspects of the surroundings business enterprise, which affect or influence its operations and determine its effectiveness.

According to Keith Davis, "Business environment is the aggregate of all conditions, events and influence that surrounds and affect it".

According to Andrews, "The environment of a company as the pattern of all external influences that affect its life and development".

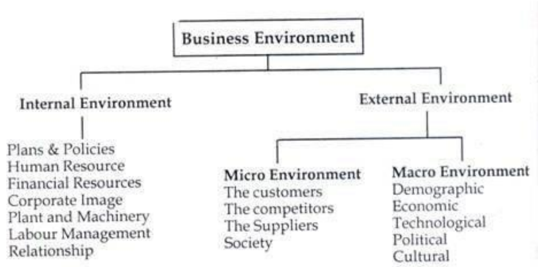


Significance of Business Environment

1. Customer Focus

2. Strategy Formulation 3. Public Image 4. Continuous learning 5. Giving Direction for Growth 6. Change Agent

2.explain Elements of business environment ?and changing dimensions of business environment?



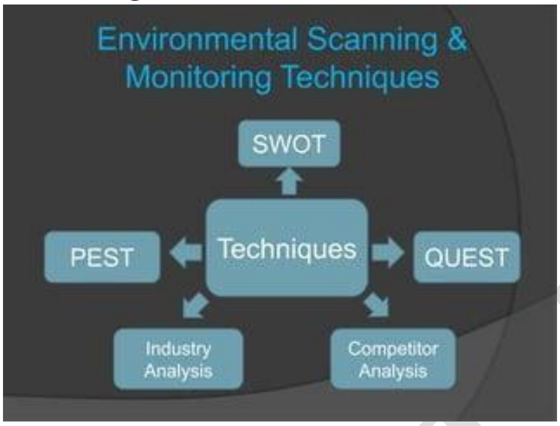
Environment which lies within the origin is known as internal environment. Internal factors are generally regarded as controllable factors. Internal environment includes internal factors of the business. It includes plans and policies, human resource, financial resource, corporate image, plant and machinery, labourmanagement relationship, promoter's vision etc. The components of internal environment are controllable.

According to William Glueck and Jauck, "In environment there are several factors which constantly bring opportunities and threats to the business firm. It includes social, economic, technological and political conditions".

Changing dimensions of business

environment

3.Techniques of environmental scanning and monitoring ?



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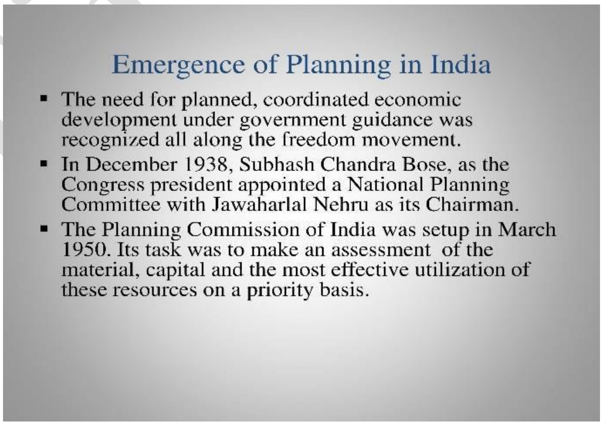
1.SWOT Analysis:-This method was created in the 1960s by Albert Humphrey of the Stanford Research Institute, during a study conducted to identify why corporate planning consistently failed. Since its creation, SWOT has become one of the most useful tools for business owners to start and grow their companies.

2.PESTLE:- A PESTLE analysis or PESTEL analysis (formerly known as PEST analysis) is a framework or tool used to analyze and monitor the macro-environmental factors that may have a profound impact on an organization's performance. This tool is especially useful when starting a new business or entering a foreign market. It is often used in collaboration with other analytical business tools such as the SWOT analysis and Porter's Five Forces to give a clear understanding of a situation and related internal and external factors.

3.QUEST Analysis:- B. Nanus proposed QUEST. It is a four-step process that uses scenario writing for environmental scanning. Following are the four steps involved in this technique: • Strategy planners first observe the events and trends of the organization. • Then, from that observation they broadly consider important issues, which may affect the organization, using environment appraisal. • Summarizing these issues, their effects and different scenarios to show the implementation of these strategies, creates a report.

UNIT-2

4. Explain planning in India?



NITI Aayog

NITI Aayog or the National Institution for Transforming India is a policy think tank of the Indian government which provides inputs regarding the different programmes and policies of the government. NITI Aayog gives relevant advice to the centre and state governments as well as to the Union territories.

This institution was formed in the year 2015 through a resolution of the Union cabinet and is chaired by the Honourable Prime Minister of India and the Chief Ministers of all states and Union territories along with the legislatures and Lt. Governors of other Union Territories.

Objectives of NITI Aayog

1) To provide strategic and technical advice to the Central and State governments in the formulation of a wide range of policies

2) To foster Centre-State coordination as well as inter-ministerial coordination at the Union level

3) To strengthen cooperative federalism

Functions of NITI aayog

1) Cooperative and Competitive Federalism

Replace one-way flow of policy from centre-state.

Systematic and structured interactions b/w the Union and State Govts..

2) Shared National Agenda

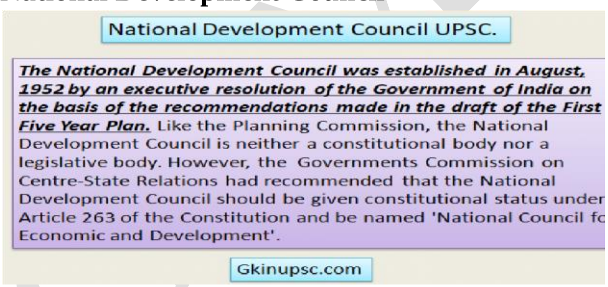
Evolve a shared vision of national development priorities and strategies, with the active involvement of States

Active participation of PM & CM

3) Decentralized Planning

Restructure the planning process into a bottom-up model

National Development Council



History of National Development Council

The National Development Council is an important organization for India's decisionmaking, policy-making, and planning system. The NDC promotes cooperative federalism and serves as a tool to ensure that policy and decision-making are truly national in nature.

- In 1946, the planning advisory board under the chairmanship of K.C Neogi had recommended setting up an organization that would include the representatives of the provincial states and provinces.
- The planning commission in its first fiveyear plan drafted a National Development Council for a vast country like India to facilitate the involvement of states in making policies and implementing the policies of the government.
- Accordingly, the NDC was established on August 6, 1952, by an executive resolution of the Government of India on the recommendation of the first fiveyear plan of the Planning Commission.

NDC Objectives

The objectives of the National Development Council are as follows:

.to ensure the cooperation of states in the execution of the plan.

- to promote basic economic policies in all important fields.
- to maintain balance and rapid development throughout the country
- to strengthen and mobilize the efforts and resources of the nations in support of the plan.

National Development Council Functions

On the recommendation of the Administrative Reform Commission in October 1967, The National Development Council was reconstituted, and its functions were redefined and are as follows:

- To prescribe the roadmap for the formulation of the national plan To acknowledge the national plan as prepared by the erstwhile Planning Commission.

- Advisement of the national plan as prepared by the National Development Council and considering important questions about how the social, economic, and political policies are affecting national development
- To review national plans regularly and recommend them in the event of any issues that arise before achieving the national development goals and objectives.
- It also recommended measures for the achievement of aims and targets of the plans of the centre and state governments which are outside the national plan.
- The National Development Plan plays an important role in bridging the Central Government, State Government, and Planning Commission.
- This, in addition to the national plan, also helps with problems such as national security threats, food crises, land reform, or in the case of natural calamities such as earthquakes, tsunamis, etc.

5. **explain about economical environment of business ?**

The economic environment of the business is one of the external factors that can influence strategy and decision-making in the business context. Economic factors are important because they are directly related to goods, services, and consumers. They also have a huge impact on how the business is able to operate in its country of origin and partner with other businesses in different countries. **elements of economic environment 1.Gross Domestic Product (GDP)**

Gross Domestic Product is the total value of all products and services produced in a country. Therefore, the growth of GDP signifies that the economy of a country is stable and improving. It also means that people have more disposable income that, in turn, leads to increased demand for products and services. It evaluates the financial worth of final goods and services— those that are purchased by the end user— produced in a country over a specific time period (say a year). It includes all of the output generated within the country. GDP also includes non-market production, for example, education services which are provided by the government itself.The GDP growth rate measures the economic reports and amount of a country 's economic growth (or contraction). Faster growth in the gross domestic product (GDP) expands the overall size of the economy and strengthens fiscal conditions.

2.Unemployment

A high level of unemployment in a country means that such an economy is not using its resources to its full potential. At the same time, it would negatively impact individual disposable income that will result in lower demand. It affects the commercial aspect of an economy significantly. This phenomenon is markedly noticed in the existing economic environment in India. The individuals not only lose income but also face other hurdles financially as well as mentally. Government expenses extend further than the provision of benefits to the loss of worker output, which eventually reduces the gross domestic product (GDP) which in turn leads to economic issues and then poverty. It will lead to lower GDP growth and fall in tax revenue for the government.

3. **Inflation**

When the overall prices of goods and services increase in a given period, it is known as inflation. It happens when even though the prices of goods and services are rising the general income level of consumers stays the same. Therefore, individuals have less money at their disposal. Small businesses and cottage industries are also affected as prices of raw goods and labour increase, resulting in smaller profit margins. The propensity for the price level to rise over time is referred to as inflation. Inflation boosts prices and has the potential to reduce the purchasing power of consumers. People buy more than they need to avoid paying higher costs tomorrow, which drives up demand for products and services. Suppliers are unable to keep up. Worse still, neither can salaries. As a result, most individuals are unable to afford common products and services. Inflation reduces the value of pensions and savings.

3.Government Policy

Government policies also play a huge role in influencing the economy of a country. Government policy can have a major influence on the economic environment. This can include fiscal or monetary policy. An example of monetary policy is a reduction in interest rates on bank loans which encourages consumers' demand for loans. An example of fiscal policy would be when the government decides to reduce income tax. Both of these policies attempt to gradually increase individual disposable income and encourage consumers to spend more, thus boosting commercial activities.It can influence interest rate, taxation and a rise, which tends to increase the borrowing cost. Consumers will spend less if the interest is higher but if the interest rate is lower it might attract investments. In general, a government's active role in responding to the economic circumstances of a country is for the purpose of preserving important stakeholders' economic interests.

4.Reforms in the Banking Sector

The banks are considered to be one of the most crucial aspects of the Indian economy. As a consequence, any reforms in this sector will have a huge impact on the economy. The banking sector plays a vital role in the betterment of the economy. By boosting the quality of financial services and increasing money accessible, banking sector openness may directly improve growth.

5.Role of the Public and Private Sector

India has a mixed economy where both the private and public sector plays a significant role. While the public sector plays a valuable role in carrying out plans and reforms, developing infrastructure and building a strong industrial base, the private sector is responsible for generating employment opportunities. About 80% of the population is working in either organised or unorganised private sectors. The public sector promotes economic development at a rapid pace by filling gaps in the industrial structure. It reduces the disparities in the distribution of income and wealth by bridging the gap between the rich and the poor. Agriculture and other activities like dairying, poultry come under the private sector. It plays an important role in managing the entire agricultural sector

UNIT-3

6. What are the Problems of Growth in Business Environment?

The various different problems of growth in a business environment are as follows:

1. **Unemployment**
2. **Poverty**
3. **Social Injustice**
4. **Inflation**
5. **Parallel Economy**

Unemployment

Unemployment is an important issue in the growth of the business. It basically locks people in poverty by generating economic

growth in future, as people lose skills and become unemployable. It continues to vary, with an uneven amount of wealth owned by a small marginal population affecting social stability.
Growth becomes enough as direct policy measures are required to handle the underlying structural and demographic issues irritating the world's labour markets.

Poverty

Poverty is the term used to describe when a person is unable to meet their basic needs due to mainly economic constraints. The basic needs of a person are clean water, adequate food, shelter, health, and education. When a person does not have these basic needs due to economic constraints, they are considered to be living in poverty.
Recognizing that economic growth represents the single best answer to poverty, most governments and the development community have focused their efforts on creating the right conditions for growth

In other words, rapid and sustained poverty reduction requires that all people in a country contribute to and benefit from economic growth. It also requires that economic growth be sustainable not only over time but with regard to natural resource deployment, so the needs of future generations can be met as well as those of today. This is our definition of sustainable development.

Social Injustice

Social Justice in its essence is the culmination of a number of overarching themes and values with practices for the general good of all of society. It represents inclusive growth and fair play for every section of society with a focus on protecting the weaker groups of the population.

In India and in the developing world, social discrimination and injustice cannot be seen and understood as in the more developed world. This part of the world faces a large set of problems that have arisen from social injustice and the violation of human rights, sometimes out of necessity and simply due to ignorance

Inflation

Inflation is the annual rate of increase in the price level. "Inflation" is commonly understood as a situation of a substantial and rapid general increase in the level of prices and consequent deterioration in the value of money over a period of time. The behaviour of general prices is measured through price indices.

The trend of price indices reveals the course of inflation or deflation in the economy. As Lerner says, "a price rise which is unforeseen and uncorrected is inflationary".

parallel Economy

Parallel Economy known as the underground, informal, or parallel economy, the shadow economy includes not only illegal activities but also unreported income from the production of legal goods and services, either from monetary or barter transactions. Parallel Economy connotes the functioning of an unsanctioned sector in the economy whose objectives run parallel, rather in contradiction with the aroused social objectives.

The business provides social needs, goods, and services to the public to satisfy the demand of the consumer. Business activities also have become a major contributor to environmental destruction. The activities are consuming resources and processes in manufacturing need to be developed in order to save the environmentally sustainable development planning.

7.explain about industrial policy, fiscal and monetary policies ?(or)explain about government policies?

Industrial Policy

Industrial Policy is the set of standards and measures set by the Government to evaluate the progress of the manufacturing sector that ultimately enhances economic growth and development of the country.

The government takes measures to encourage and improve the competitiveness and capabilities of various firms.

Objectives of Industrial Policy

1. To maintain speedy growth in productivity.
2. To create more employment opportunities.
3. Utilize the available human resources better
4. To accelerate the progress of the country through different means
5. To match the level of international standards and competitiveness

Importance of Industrialization

Industrialisation is the first and foremost requirement of rapid economic development of a country. The industrialisation is not only helpful in the development of industries but it also promotes agriculture, trade, transport, foreign trade, services and social sectors of the economy. It increases employment opportunities, national income, per capita income and living standard of the populace. Therefore, an industrial policy is required to establish healthy traditions of industrialisation and to guide, regulate and control (if required) industrial development. The industrial policy of a country is influenced by the ideology ' and principles of the concerned government. The industrial policy helps the country making it self-sufficient and prosperous by preparing a structure and basis of industrial development. Hence, the industrial policy of the govt. must be well defined, clear and progressive. Moreover, it should be adhered to and implemented earnestly.

Fiscal Policy

The purpose of fiscal policy is to implement artificial measures to prevent an economic collapse and to promote healthy and steady **economic growth**. Fiscal policies can be either **expansionary** or **contractionary**

1.**Business tax policy**: Taxes that businesses pay to the government affects its profits and investment spending. Lowering taxes increases both aggregate demand and business investment opportunities.

2.Government spending: Aggregate demand is increased by the government's own spending.

3.Individual taxes: Taxes on individuals – such as income tax – affect their personal income and how much they can spend, injecting more money back into the economy.

Fiscal policy typically needs to be altered when an economy is running low on aggregate demand and unemployment levels are high.

Types of fiscal policy

1. **Expansionary fiscal policy**
2. **Contractionary fiscal policy**

How fiscal policy affects businesses

1. Investment opportunities

2. Slower growth

3. Taxation changes

4. Unemployment rates

Monetary Policy

A major factor in a nation's economy is its monetary policy, which determines the amount of money circulating throughout the economy. In the United States, the Federal Reserve sets monetary policy, which influences economic activity by controlling the country's money supply and credit. The Federal Reserve controls monetary policy by altering rates of interest and changing the amount of money banks must have in their reserves.

The Federal Reserve Act of 1913 officially gave the Federal Reserve power over the country's monetary policy. Since then, monetary policy's importance has increased tremendously.

The goals of monetary policy, as stated in the Federal Reserve Act of 1913, are to encourage the following:

- Maximum employment
- Stabilized prices
- Moderate long-term interest rates

When implemented correctly, monetary policy stabilizes prices and wages, which, in turn, increases available jobs and long-term economic growth. U.S. monetary policy plays a significant role not only in the economy as a whole but also in specific decisions consumers make, such as buying a home or car, starting and expanding a business, and investing money.

The Board of Governors of the Federal Reserve System and the Federal Open Market Committee (FOMC) determines monetary policy. The key to setting monetary policy is finding the perfect balance – letting the money supply grow too rapidly increases inflation, but allowing it to grow too slowly stunts economic growth.

Types of monetary policy

There are two main kinds of monetary policy: contractionary and expansionary.

- **Contractionary monetary policy:** This type of policy is used to decrease the amount of money circulating throughout the economy, typically by selling government bonds, raising interest rates, and increasing the reserve requirements for banks. The government uses this method when it wants to avoid inflation.
- **Expansionary monetary policy:** This type of monetary policy can increase the economy's money supply through decreasing interest rates, lowering reserve requirements for banks, and the purchase of government securities by central banks. This policy helps lower unemployment rates as well as stimulate business activities and consumer spending. The overall goal of this policy is to fuel economic growth, but it can also have an adverse effect, occasionally leading to hyperinflation.

UNIT -4

8.Explain about changing dimensions of legal environment in India?

The legal environment means the rules and regulations which are framed forregulating the business. Framing the laws, whether it is to safeguard the interestof consumers, wages and prices, safety and health at work, location of plant orto channelize the investments or to preserve the environment and ecologicalbalance, all this constitute legal environment.

The laws framed by the government or the actions initiated by the governmentaffect the strategic choice of business. It may increase or curtail businessopportunities. For example, providing subsidies to small-scale industries andagriculture helps them to prosper and helps them to withstand competition fromlarge industries.

According to Salmond, “Legal environment may be defined as principlesrecognised and applied by the state in the administration of justice”

Legal environment in India

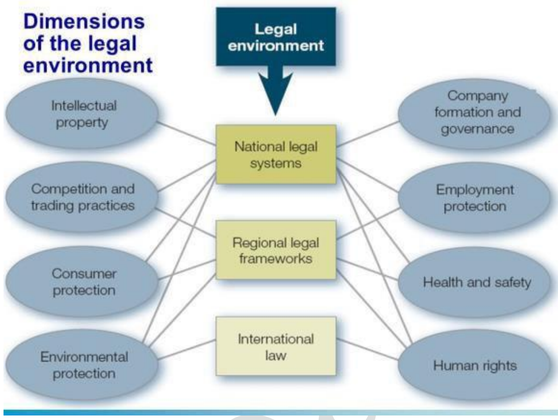
Legal environment can be divided into 2 parts

a)Pre-independence period: The economic – legal history of India dateback to the time of British. This period was essentially marked by thedrain of wealth. During the period, the Indian contract Act was passed in1872. The main purpose of passing the Act was to promote and regulatethe business, as this Act clarifies the formation of contract between thetwo individuals and consequences of breach of contract already made.

b)Post – independence period: After getting independence in 1947, Indiastarted marching towards economic development. For this purpose, thefollowing legislations and provisions came into existence

1.Regulation of public sector: It was envisaged by Nehru that it will bethe public sector which would carry the Indian economy tocommendable heights as the private initiative could not be expected inhighly capital intensive industries. The ID &R Act came into existence asto regulate production in desired direction and for efficient utilization ofscarce resources of the country.

2.Regulation of commerce and Trade: For a vibrant and prosperouseconomy, there should be an effective system of justice and fair play. Inmodern India, there are a host of regulations that regulate commerce andtrade. Few of these (including pre-independence period) are enumeratedbelow :



9. Explain FEMA, corporate governance and social responsibilities of business?

Foreign Exchange Management Act (FEMA)

foreign Exchange Management Act, 1999 (FEMA) came into force by an act of Parliament. It was enacted on 29 December 1999. This new Act is in consonance with the frameworks of the World Trade Organisation (WTO). It also paved the way for the Prevention of Money Laundering Act, 2002 which came into effect from July 1, 2005. This topic would be of importance in the IAS Exam for both Prelims and Mains.

FEMA

It is a set of regulations that empowers the Reserve Bank of India to pass regulations and enables the Government of India to pass rules relating to foreign exchange in tune with the foreign trade policy of India.

Main Features of Foreign Exchange Management Act, 1999

1. It gives powers to the Central Government to regulate the flow of payments to and from a person situated outside the country.

2. All financial transactions concerning foreign securities or exchange cannot be carried out without the approval of FEMA. All transactions must be carried out through "Authorised Persons."
3. In the general interest of the public, the Government of India can restrict an authorized individual from carrying out foreign exchange deals within the current account.
4. Empowers RBI to place restrictions on transactions from capital Account even if it is carried out via an authorized individual.
5. As per this act, Indians residing in India, have the permission to conduct a foreign exchange, foreign security transactions or the right to hold or own immovable property in a foreign country in case security, property, or currency was acquired, or owned when the individual was based outside of the country, or when they inherit the property from individual staying outside the country.

Corporate Governance

Corporate Governance has succeeded in attracting a good deal of public interest because of its importance for the economic health of corporation and the welfare of society, in general. However, the concept of corporate governance is defined in several ways because it potentially covers the entire gamut of activities having direct or indirect influence on the financial health of the corporate entities. As a result, different people have come up with different definition, which basically reflect their special interests in the field. The best way to define the concept is perhaps to list a few of the different definitions rather than mentioning just one or two.

Definitions

Adolf Berle has defined social responsibility as "the manager's responsiveness to public consensus" (www.bharatpetroleum.com).

Koontz and O'Donnell have given the definition of social responsibility thus: "The personal obligation of the people as they act in their own interests to assure that the rights and legitimate interests of others are not infringed" (Hindu business line, 1998).

Corporate Governance can be defined as a systematic process by which companies are directed and controlled to enhance their wealth generating capacity. Since large corporations employ vast quantum of societal resources, we believe that the governance process should ensure that these companies are managed in a manner that meets stakeholders aspirations and societal expectations. (Chartered Secretary, Oct, 1997).

Social Responsibilities of a Business

Meaning of Social Responsibility

An organization's obligation to make decisions and perform them for the benefit of society and its values is known as social responsibility. It is assumed under social responsibilities that the businesses will respect the values and aspirations of society and try their best to fulfill these aspirations and accomplish their business goals. In simple terms, it is the responsibility of an organization to be a responsible member of society and work towards its betterment. However, according to critics, social responsibility practices are exact opposites of the major motive of a business's existence. Social responsibility in business is also known as Corporate Social Responsibility (CSR). For example, a factory not disposing of its chemicals and waste in the water bodies, improving working hours and conditions of the employees, donating part of the firm's profits to educational services for poor children, etc. Social responsibilities performed by the companies not only help society, but also help the business gain a positive image and build its brand in the market. It motivates the employees of the firm to work hard, as they feel good to be a part of an organization that works well for society and respects its values.

Need for Social Responsibility

Although an organization exists with the aim of maximizing profits; however, it should not be its sole motive and should commit to society. An organization needs social responsibility because of the following reasons:

- **Changing expectations of society:** Today's world has changed a lot compared to the past years. Now, society expects different things from a business besides the supply of goods and services. As society provides companies with different resources like labour, natural resources, etc., it expects something good in return for their welfare.
- **Reputation:** Companies spend a lot of money on brand building and a good image in society. To do so, an organization can also perform socially responsible practices that will it result in profitability, increased sales, sustainable growth, a good image and attraction of talent.
- **Avoidance of government interference:** Government has enacted various laws, putting moral and legal pressure on the companies to perform socially responsible activities. If the company fails or avoids these practices, the government will interfere in the business. Therefore, to avoid such interference by the government, companies need to perform their social responsibilities.
- **Long-term self-interest:** Practicing socially responsible practices not only helps society, but also proves to be beneficial for the companies in the long run. It means that if a company has an image in the market as a brand or firm that serves society besides earning a profit, it will build the company's image and will be good for its self-interest.
- **Contribution to social problems:** Businesses create some of the social problems, like pollution, inequality, discrimination, unsafe workplace, etc. Therefore, it is those firms' duty and obligation to perform socially responsible activities to solve these social problems and make society better and safe.
- **Better environment for business:** Businesses use natural resources for their daily activities of the business and usually degrade the environment in the process. Therefore, business organizations need to avoid environmental degradation caused by them. It not only benefits society, but also gives firms a chance to grow their business in a healthy and safe environment.
- **Growth of Consumer:** The consumer of the present world is more educated and aware of their rights and powers as compared to the past. They know when a business is engaged in unfair trade practices, giving them bad quality goods and services, charging more price, etc., and what measures they can take for the same. Therefore, organizations need to work with social responsibility to retain existing customers and attract more.
- **Optimum utilization of resources:** One of the aims of businesses while producing and selling goods and services to customers is optimum utilization of resources. As we know that with the increase in population, resources have become scarce, and we need to save them for future generations. Therefore, business organizations need to make optimum utilization of resources and work with social responsibility. **Types of Social Responsibilities**

1. Economic Responsibility

As we know, a business organization is an economic entity; therefore, economic responsibility is its primary social responsibility. In simple terms, economic responsibility means producing goods and services according to the needs and wants of the customers and selling them the same at a profit. It means that the organizations should understand whether the customers are demanding quality or price and then provide them with the same. Earning profit is a responsibility of the business as it ultimately increases the incentives of the employees. Therefore, the economic growth of an organization affects society as a whole.

2. Legal Responsibility

It is the duty and responsibility of an organization to legally abide by the rules, laws, and regulations while performing business activities. As the authorities enact these laws for the good of society, an organization following these rules is a socially responsible firm. Besides, an organization performing activities as per the laws gets no interference from the government. Legal responsibilities include paying taxes on time to the government, keeping its books of accounts and financial statements clean and accurate, etc.

3. Ethical Responsibility

It is the behaviour expected from the business organizations' by society; however, it is not codified in the law. Therefore, there is no legal obligation on the companies to perform ethically responsible activities. Ethical responsibility is beyond the laws and includes fair trade practices, respecting the religious sentiments of people, maintaining and protecting the environment, etc. It also means that a business should not get involved in black marketing, adulteration, fraud, etc. **4. Discretionary Responsibility**

It is a philanthropic responsibility and is completely voluntary. It includes charitable services, providing education facilities to poor people, helping the people affected by floods or other natural calamities, donating to healthcare facilities for those who cannot afford them, etc. The management of an organization is responsible for avoiding speculative activities and safeguarding its capital investment by undertaking healthy business ventures only that can provide them with good ROI(Returns on Investment).

UNIT-5

10.explain about foreign investment and types of foreign investments?

Foreign investment involves capital flows from one country to another, granting the foreign investors extensive ownership stakes in domestic companies and assets. Foreign investment denotes that foreigners have an active role in management as a part of their investment or an equity stake large enough to enable the foreign investor to influence business strategy. A modern trend leans toward globalization, where multinational firms have investments in a variety of countries.

Foreign investment occurs when domestic companies invest in foreign companies to gain stakes, and seek active participation in their day-to-day operations and key strategic expansion. For example, if an American company invests in an Indian company, it will be a foreign investment.

Types of Foreign Investment

There are two types of foreign investments–

1 – Foreign Direct Investment (FDI)

When a company, **financial institution**, or individual invests in foreign countries and owns more than 10% of a company's stake, it is referred to as a **foreign direct investment**. It gives the investor controlling power and influence over the companies' operations and processes. Another way of gaining foreign direct investments is opening plants, factories, and offices in another country.

There are two types of foreign direct investment:

1 – Horizontal Investment

When an investor establishes a similar type of business in a foreign country or when two companies of the same industry (operating in different countries) merge, it is known as horizontal investment. A company pursues this kind of investment to gain market share and become a global leader.

2 – Vertical Investment

It refers to when a company of one country acquires or merges with a firm in another country, irrespective of their business fields. For example, a manufacturing business of one country acquiring the supplier of **raw materials** for production of another country. A company indulges in this type of investment to remove the dependency on others and achieve **economies of scale**.

2 – Foreign Indirect Investment

When a company, financial institution, or an individual invests in another country by buying stocks of companies trading in the foreign stock exchange, it is known as foreign indirect investment. However, the said investment should not cross over 10% of the stock in a single company.

Advantages of Foreign Investment

- Employment creation is a significant advantage of foreign investment as it increases manufacturing activities and improves the **service sector**.
- It provides exclusive market access in another nation.
- It enhances a country's infrastructure and helps develop the backward area by setting up industries or plants.
- It also helps in improving the technologies and operational practices by sharing knowledge.
- When manufacturing is boosted by foreign investment, exports rise.
- An increase in income and job opportunities occurs. Furthermore, an increase in wages enhances a nation's per capita income.

Disadvantages

Disadvantages of foreign investment are as below:

- It poses a risk or causes a hindrance to domestic investments.
- Fluctuation in exchange rates can make foreign investment risky.
- It depends on the political environment, foreign policies and regulations that keep changing in a country.
- The domestic company can lose its control over business and the profit earned.

- The motive of gaining market share through foreign investments may cause domestic and small traders to incur massive losses.

11.Discuss about multinational corporations and favourable and harmful effect of the operations of MNCs on Indian economy?

A multinational corporation (MNC) is a company that has business operations in at least one country other than its home country.
By some definitions, it also generates at least 25% of its revenue outside of its home country.

Generally, a multinational company has offices, factories, or other facilities in different countries around the world as well as a centralized headquarters which coordinates global management.

Multinational companies can also be known as international, stateless, or transnational corporate organizations or enterprises. Some may have budgets that exceed those of small countries.

Characteristics of a Multinational Corporation

- A worldwide business presence
- Typically, large and powerful organizations
- Business conducted in various languages
- A complicated business model and structure
- Direct investments in foreign countries
- Jobs created in foreign countries, potentially with higher wages than found locally
- Seeks improved efficiencies, lower production costs, larger market share
- Has substantial expenses associated with navigating rules and regulations of foreign countries
- Pays taxes in countries in which it operates
- Reports financial information according to International Financial Reporting Standards (IFRS)
- Sometimes accused of negative economic and/or environmental impacts in foreign markets
- Sometimes accused of negative economic impacts in home country due to outsourcing jobs

Advantages of Multinational Corporations

1 Broader Market Base

By opening establishments or offices in several countries, multinationals increase their chances of reaching out to customers on a global scale, a benefit which other companies limited to regional offices and establishments do not have. The access to more customers gives them more opportunities to develop and cater their products and services that will fit the needs of potential customer

2 Cheaper Labor

One of the advantages of multinational corporations is the opportunity to operate in countries where labor is not as expensive. This is one of the perks that smaller companies do not enjoy. Multinationals can set up their offices in several countries where demand for their services and products are high while cheaper labor is available.

3 Job Creation

When international companies set up branches in other countries, employees and members of the team are locals. That said, more people are given employment opportunities especially in developing countries.

4 Tax Cuts

Multinationals can enjoy lower taxes in other countries for exports and imports, an advantage that owners of international corporations can take at any given day. And although not all countries can have lower tariffs, there are those that give tax cuts to investors to attract more international companies to do business in these countries.

Disadvantages of Multinational Corporations

1 Threat to Local Businesses

Another disadvantage of multinationals in other countries is their ability to dominate the markerk. These giant corporations can dominate the industries they are in because they have better products and they can afford to even offer them at lower prices since they have the financial resources to buy in bulk. This can eat up all the other small businesses offering the same goods and services. Chances are, local businesses will suffer and worse, close down.

2 Potential Abuse of Workers

Multinational companies often invest in developing countries where they can take advantage of cheaper labor. Some multinational corporations prefer to put up branches in these parts of the world where there are no stringent policies in labor and where people need jobs because these multinationals can demand for cheaper labor and lesser healthcare benefits.

3 Loss of Jobs

With more companies transferring offices and centering operations in other countries, jobs for the people living in developed countries are threatened. Take the case of multinationals that create offices in developing countries for their technical operations and manufacturing. The jobs given to the locals of the host country should be the jobs enjoyed by the people where the head office is located. Multinational corporations have both advantages and disadvantages since it creates jobs but can also end up in the exploitation of workers, among other things. And since they are most likely to stay, it's best to create policies to make globalization equitable.

Negative effects of MNCs

From the global point of view, MNCs may actually combine leading to an anticompetitive resources allocation and territorial allocation of markets. Their market power may serve as an effective barrier to the entry of competitors. This could lead to growing concentration and monopolization in world markets. So far, however, the evidence, suggests that markets have become less concentrated through time. Given their weight, they are sometimes in a position to wield substantial to wield substantial policy making influence in host as well as home countries.

The role of MNCs in developing countries has been subject to severe criticism. Some points of criticism are cited below:

1. MNCs exploit local labor and resources by paying relatively lower prices and lower taxes than local firms while obtaining high profits that are largely repatriated.
2. MNCs employ transfer prices (artificial prices) in transfers between subsidiaries that minimize total taxes for the MNCs and increase their global profits. By over pricing imports and under invoicing exports that are booked through subsidiaries in tax free ports, MNCs can repatriate more profits than are permitted by host countries.
3. MNCs use scarce local capital to finance their subsidiaries rather than bring needed capital into the host country, thus acting as a drain on host country's resources.
4. MNCs Involvement often results in the lack of development of local R & D

transfer to host countries of technology they do not need, the use of capital intensive technology that reduces jobs, and the increase in psychological dependence on MNCs.

5. Competition from MNCs affects local industry adversely.

6. MNCs produce non-essentials for the host country and usually set up only a part of a productive process, thus affording little opportunity for the creation of linkages in the host countries and only limited increase in employment.

7. The foreign financing needed to cover existing balance of payments deficits and to finance local investment, limits the host country's ability to import the required inputs for industrialization.

8. Severe restrictions are imposed on the use of technology.

9. MNCs discourage competition among their subsidiaries and prefer some market sharing formula.