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BBA Semester VI Calicut University

Business Environment

Course Code: BBA6FV110 • Module 2 Notes

1. Economic Environment and Indian Economy Overview

The economic environment consists of all macroeconomic factors—such as economic systems, growth rates, inflation, income distribution, employment levels, and currency stability—that determine market purchasing power and cost of operations in a nation.

Nature and Structure of the Indian Economy

The Indian economy is a developing, fast-growing **Mixed Economy** characterized by specific structural features:

- **Coexistence of Public and Private Sectors:** Strategic sectors (defense, railways, atomic energy) operate alongside private corporate enterprise and foreign multinationals.
- **Sectoral Composition Shift:** Transition from an agrarian-dominated economy to a services-driven economy (Services contribute ~54% of GDP, Industry ~28%, Agriculture ~18%).
- **Demographic Dividend:** Over 65% of India's population is below the age of 35, providing a massive labor supply and growing domestic consumer market.
- **Informal Sector Dominance:** A large unorganized workforce operating alongside a highly modernized digital corporate economy.

2. Micro and Macroeconomic Factors Affecting Business

Business operations are continuously influenced by shifts in microeconomic market variables and aggregate macroeconomic indicators.

Key Micro vs. Macro Factors Matrix

Factor Category	Specific Variables	Direct Impact on Business Operations
Microeconomic Factors	Market Demand, Price Elasticity, Competitor Pricing, Supplier Bargaining Power, Customer Preferences.	Determines product pricing strategy, profit margins, sales volume, and unit input costs.
Macroeconomic Factors	GDP Growth Rate, Inflation (CPI/WPI), Interest Rates, Exchange Rates, Balance of Payments (BOP).	Determines aggregate market demand, cost of capital, export competitiveness, and raw material import costs.

Inflation and Balance of Payments Dynamics

Understanding critical macroeconomic indicators for business strategy:

- **Demand-Pull vs Cost-Push Inflation:** Demand-pull inflation increases corporate pricing power, while cost-push inflation (rising energy/raw material prices) compresses operating profit margins.
- **Balance of Payments (BOP):** Tracking Current Account (trade balance) and Capital Account flows to anticipate rupee currency fluctuations and trade policy interventions.

3. Political Institutions and Government Structure

The political environment comprises political stability, government ideology, constitutional framework, and institutional governance structures that establish the legal operating rules for businesses.

The Three Organs of State (Trias Politica)

1. The Legislature (Parliament / State Assemblies)

Responsible for enacting business legislation, tax statutes, labor laws, and corporate acts (e.g., Companies Act 2013, Consumer Protection Act 2019).

2. The Executive (Cabinet / Ministries / Regulators)

Responsible for enforcing laws, implementing economic policies, issuing notifications, and managing regulatory bodies (SEBI, RBI, CCI, GST Council).

3. The Judiciary (Supreme Court / High Courts / NCLT)

Responsible for interpreting statutes, resolving commercial disputes, enforcing contract rights, and upholding constitutional validity of government acts.

Center-State Federal Dynamics

Constitutional division of legislative powers (Union List, State List, Concurrent List) requiring businesses to navigate both central and regional state regulations.

4. Macroeconomic Policies and 1991 LPG Reforms

Government economic policies dictate the monetary supply, fiscal expenditure, trade openness, and industrial licensing rules of a country.

Impact of Key Macroeconomic Policies

Policy Framework	Primary Regulating Authority	Key Business Influence
Fiscal Policy	Ministry of Finance (Government of India)	Corporate tax rates, GST tax slabs, capital expenditure allocations, and budget deficits.
Monetary Policy	Reserve Bank of India (RBI)	Repo rate, Cash Reserve Ratio (CRR), commercial bank lending rates, and inflation control.
EXIM (Foreign Trade) Policy	DGFT / Ministry of Commerce & Industry	Import tariffs, export subsidies, Special Economic Zones (SEZs), and trade agreements.
Industrial Policy	DPIIT / Ministry of Commerce	Ease of doing business, Make in India incentives, Production Linked Incentive (PLI) schemes.

The 1991 LPG Reforms in India (New Economic Policy)

Faced with a severe Balance of Payments crisis in 1991, India introduced landmark structural economic reforms based on Liberalization, Privatization, and Globalization (LPG):

- **Liberalization:** Abolished Industrial Licensing (Licensing Raj), deregulated interest rates, removed price controls, and replaced the restrictive MRTP Act with the modern Competition Act 2002.
- **Privatization:** Reduced public sector monopolies, initiated disinvestment in State-Owned Enterprises (PSUs), and opened sectors (telecom, aviation, banking) to private capital.
- **Globalization:** Reduced import tariffs, abolished quantitative import restrictions, opened India to Foreign Direct Investment (FDI) and Foreign Institutional Investment (FII), and integrated with the World Trade Organization (WTO).