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BUSINESS ENVIRONMENT

SEMESTER - 1

P.G DIPLOMA IN HUMAN RESOURCE MANAGEMENT

BLOCK - 2



KRISHNA KANTA HANDIQUI STATE OPEN UNIVERSITY

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P.G DIPLOMA IN HUMAN RESOURCE MANAGEMENT

BUSINESS ENVIRONMENT

Block 2

DETAILED SYLLABUS

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Meaning of monetary and fiscal Policy, meaning of financial market, types of financial markets, meaning of capital market, features of capital market, functions of capital market, meaning of money market, organized and unorganized money market in India, features of Indian money market, functions of money market in India

Unit 9 : Labour Environment **Page 127-146**

Concept of labour market, labour legislations, principles of labour legislations, classification of labour legislations, concept of labour welfare, concept of industrial relations, scope, objectives and need of industrial relations, meaning and definition of trade union, concept of workers' participation in management, levels and forms of workers' participation in management, VRS and golden handshakes

Unit 10 : Natural and Technological Environment **Page 147-160**

Natural environment, emerging trends in natural environment, technological environment, innovation, technology and competitive advantage, IT and Business Environment.

UNIT 11 : Economic Development **Page 161-177**

Industrial development in India, public sector in India, private sector in India, exports and imports of India

UNIT 12: Economic Planning **Page 178-192**

Definition of economic planning, features of economic planning, stages of economic planning, economic planning in India, objectives of planning in India, Planning Commission and the National Development Council, summary of Five Year Plans in India, the Twelfth Five Year Plan, NITI Aayog , Economic Survey, Union Budget

UNIT 13: Globalisation of Business **Page 193-206**

Concept and evolution of GATT, objectives of GATT, importance of GATT, different rounds of GATT, evolution, structure, objectives and functions of WTO, relevance of Uruguay Round, GATT and WTO - a comparison, evaluation of WTO, meaning, characteristics and importance of international business

UNIT 14: Multinational Corporations **Page 207-220**

Concept of MNCs, structure of MNCs, types of MNCs, objectives of multinational corporations, characteristics of Multinational Corporations, reasons for growth of Multinational Corporations, significance of Multinational Corporations, arguments in favour of Multinational Corporations, arguments against Multinational Corporations, MNCs in India

UNIT 15: Case Studies **Page 221-231**

BLOCK INTRODUCTION

This is the second block of the course 'Business Environment'. This block will introduce you to the concept of business environment as well as the ingredients of business environment. The block covers units related to social responsibilities of business, industrial policies, village and small- scale industries, patents and trademarks.

The block comprises of 7 units:

UNIT 8 : Financial Environment

Unit 9 : Labour Environment

Unit 10 : Natural and Technological Environment

UNIT 11 : Economic Development

UNIT 12 : Economic Planning

UNIT 13 : Globalisation of Business

UNIT 14 : Multinational Corporations

UNIT 15 : Case Studies

UNIT 8: FINANCIAL ENVIRONMENT

UNIT STRUCTURE

8.1 Learning Objectives

8.2 Introduction

8.3 Meaning of Monetary and Fiscal Policy

8.4 Meaning of Financial Market

8.5 Types of Financial Markets

8.6 Meaning of Capital Market

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8.12 Functions of Money Market in India

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8.14 Answers to Check your Progress

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8.1 LEARNING OBJECTIVES

After going through this unit you will be able to:

- define monetary and fiscal policy
- understand the meaning of financial market.
- explain the meaning, features and importance of capital market.
- discuss the meaning, types, features and importance of money market.

8.2 INTRODUCTION

Condition of the financial environment in a country highlights the condition of the financial markets as well as the economy of the country. Understanding the monetary and fiscal policies helps us in understanding

the financial system. The financial market in the country is divided into two broad categories i.e., capital market and money market. The money market in India is further dived into two categories i.e., organized and unorganized money market. In this Unit, we shall discuss the features, functions of financial market and its importance in the context of overall business environment.

8.3 MEANING OF MONETARY AND FISCAL POLICY

Before discussing various aspects of financial markets, let us briefly discuss monetary and fiscal policy. Fiscal policy involves the government changing tax rates and levels of government spending to influence aggregate demand in the economy. Fiscal policy is a broad term used to refer to the tax and spending policies of the federal government. Fiscal policy is the means by which a government adjusts its spending levels and tax rates to monitor and influence a nation's economy. It is the sister strategy to monetary policy through which a central bank influences a nation's money supply. Fiscal policy and monetary policy are the two tools used by the government to achieve its macroeconomic objectives. While for many countries the main objective of fiscal policy is to increase the aggregate output of the economy, the main objective of the monetary policies is to control the interest and inflation rates. Monetary policy involves changing the interest rate and influencing the money supply.

8.4 MEANING OF FINANCIAL MARKET

Financial environment is an important part of an economy, where the major participants are the business firms, investors and the market. An important ingredient of the financial environment is the financial market. Financial markets can be defined as those markets where buyers and sellers trade or buy and sell various long term and short term securities such as equities, bonds, currencies and derivatives. Financial markets have their own rules and regulations for transactions.

The Indian financial market comprises mainly of the following.

i. Credit market

ii. Money market

iii. Capital market

iv. Foreign exchange market

v. Debt market

vi. Derivatives market

Besides the above, there are also some markets like the household finance market, NBFC market, and insurance market. All these are important in the financial environment of an economy. All these markets are not yet as developed and regulated as the credit/foreign exchange/money/capital market etc. Banks have been allowed to undertake insurance business. The bank assurance market is also emerging. In this unit we shall discuss mainly the capital market and money market.

8.5 TYPES OF FINANCIAL MARKETS

Financial markets can broadly be divided into two categories.

1. Capital Markets
2. Money Markets

8.6 MEANING OF CAPITAL MARKETS

Capital market is generally understood as the market for long term funds. However, sometimes the term is used in a very broad sense to include the market for short term funds also.

Capital markets are one in which individuals and institutions, generally buy and sell long term equities and securities. Here individuals and institutions purchase and sell securities to raise funds. It is an institutional arrangement to borrow and lend money for a longer period of time. Capital market deals in ordinary securities such as shares and debentures, bonds and government securities. The funds which flow into the capital market come from individuals, the merchant banks, the commercial banks and non-bank financial intermediaries, such as insurance companies, finance houses, unit trusts, investment trusts, venture capital firms, leasing finance, mutual funds, building societies, etc. Capital markets are of two types:

i. Primary market, and

ii. Secondary market.

Primary markets are one in which new securities and issues are bought and sold. The types of issues in the primary market are listed below.

- Initial public offer (IPO) (in case of an unlisted company),
- Follow-on public offer (FPO),
- Rights offer such that securities are offered to existing shareholders,
- Preferential issue/ bonus issue
- Composite issue, that is, mixture of a rights and public offer, or offer for sale (offer of securities by existing shareholders to the public for subscription).

Secondary Market is one in which securities are bought and sold after being initially offered to the public in the primary market and/or listed on the stock exchange.

8.7 FEATURES OF CAPITAL MARKET

Some of the features or characteristics of capital markets in India are briefly stated and discussed below.

1. **Long-term investment:** Capital markets deal in securities which are of medium or long-term duration. This means that organizations, institutions and individuals invest their funds in the capital market for a long term.
2. **Government Regulations:** Capital Markets in India have to work under the regulations formed by the Government of India. For example the stock exchanges in India are regulated by the SEBI (Securities and Exchange Board of India) which is a government body.
3. **Link between the investors/ savers and borrowers:** Capital market is an important connecting link between the investors and the borrowers. Those who are interested in earning some extra income from the savings, they can invest or utilize their money in purchasing shares, debentures and other securities. On the other

hand those who want funds for running their business can get it from the capital market.

4. **Utilizes the services of intermediaries:** Intermediaries such as brokers, underwriters, depositories etc. play an important role in the capital markets by providing the role of facilitators. In addition to the intermediaries, there are some promotional bodies like training Institute of Bombay Stock Exchange, National Stock Exchange, Stock Holding Corporation etc. They inform, help and guide the investors on where to invest, when to invest, how to invest etc.

5. **Determinants of capital formation:** Capital market is a platform, which offers the investors the opportunities to invest their surplus funds in the market. The activities of the capital market are an important indication of the rate of capital formation in the country. In the developed countries, the capital markets are well developed. The pace of economic development is conditioned, among other things, by the rate of long term investment and capital formation. And capital formation is conditioned by investible funds. The capital market serves a useful purpose by pooling the capital resources of the country and making the resources available to the enterprising investors.



CHECK YOUR PROGRESS

Q.1 : What is Financial Market?

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Q.2 : What are the instruments that capital markets deal with?

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Q.3 : What are the two types of capital market?

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8.8 FUNCTIONS OF CAPITAL MARKET

Capital market plays a crucial role in the development of the economy of a country. A strong capital market is the indication of the development and strength of the economy. Well-developed capital markets help in augmenting resources by attracting funds on a global scale. Not only that, it facilitates global lending too. The Euro-currency and Eurobond markets are international finance markets in terms of both the supply and demand for funds. The Indian capital market has undergone remarkable changes in the post-independence era. The government has taken certain steps to develop the market to meet the growing requirement of capital for fast industrialization. Development of the economy has also facilitated the development of the capital market in the last few decades. There were some scams in the capital market. Handling those scams helped in adopting reformative measures. The functions of capital market can be understood with the help of the following points.

1. **Helps in mobilizing the funds and savings:** Capital market helps in mobilizing the surplus funds and savings of the people through channels of investment in a systematic manner. In the absence of this, the investors and the common people would not have got the opportunity to channelize their funds to earn handsome returns and dividends.
2. **Systematic investment of funds:** Capital market provides opportunities to the investors to utilize their funds in a systematic manner so that it can be properly utilized in various avenues available in the market. The investors can make investment in the shares of IT companies or the steel companies. Each sector has different opportunities and challenges.
3. **Helps in capital formation:** An important function of capital market is that it helps in capital formation in the country. Capital market helps in mobilizing the idle funds of the investors which is used in funding the various crucial sectors of the economy such as agriculture, industry etc. For the investments to yield high returns, it requires sound project proposals and execution by the enterprising firms.

4. **Opens up opportunities for investment:** Capital market opens up various investment opportunities to the investors. Capital markets provide many investment opportunities such as mutual funds, insurance, shares, debentures, bonds, government securities etc. Each of these instruments have different advantages and challenges. Some of them are risky. Some of them provide stable returns, but at a low rate. The investors have to look into various aspects and decide the best possible mix.
5. **Availability of funds:** Capital market helps in ensuring continuous availability of fund to both the buyers and the sellers. An investor gets easy liquid funds whenever they require it and similarly a seller can also raise funds from the market whenever a need arises in the business.
6. **Service provision:** As an important financial set up, capital market provides various types of services. It includes underwriting services, consultancy services, export finance, etc. These services help the enterprising firms to generate resources and the investors to avail the facilities provided by the institutions in the capital market.

8.9 MEANING OF MONEY MARKET

Money market is the market for short term funds as distinct from Capital Market which deals in long term funds. In simple words money market is that segment of the financial market which deals in short term financial instruments having high liquidity. The participants of the money market purchase and sell financial securities of very short term maturity and the period varies from a few days to not more than a year.

Money Market is a center for dealings, mainly of a short term monetary assets. It meets the short term requirements of the borrowers and provides liquidity or cash to the lenders. It is the place where short term surplus investable funds at the disposal of the financial and other institutions are bid by borrowers again comprising individuals, institutions and also by the government.'

8.10 ORGANIZED AND UNORGANIZED MONEY MARKET IN INDIA

Before we discuss the features of Indian money market point wise, it would be better to understand the organized and the unorganized money market in India.

The Indian Money market is divided into two broad sections. The first section is known as the organized money market and the second section is known as the unorganized money market. Brief discussions of both these sections are given below.

Organized money market:

The organized sector of the money market is divided into the following sub markets.

1. *Treasury bill market:* Treasury bills are zero risk instruments issued by the Central Government. The maturity period of the treasury bills are very short and it ranges from three months to one year. Treasury bills are issued at a price less than their face value and the difference between the issue price and the maturity value is treated as the interest earned by the investors. The buying value of the Treasury bill is determined by the bidding process through auctions.
2. *Bankers' Acceptance:* These are like bills of exchange issued by the non-banking financial companies and guaranteed by the banks, where the buyer promises to pay a fixed amount of money to the seller of the instrument after a certain period and the banker acts as a guarantor that the buyer will repay the amount. These securities come with the maturities between 30 and 180 days.
3. *Certificate of Deposit market:* These are similar to fixed deposit accounts or tem deposits where the depositor keeps his or her savings for a fixed period of time with a fixed rate of interest. Certificate of deposits are like promissory notes where the banker promises to pay a fixed amount of money specified in the certificate after a fixed period of time with interest to the bearer. These certificates are issued with maturity period of 3 months to 5 years.

4. *Repurchase Agreements (REPO):* It is a short term arrangement where the buyers and the sellers agree upon buying and selling securities at a fixed price after a fixed period. Here the seller sells the securities to the buyer with a promise that the seller will repurchase the securities after a fixed period at a fixed price. Here the buyer also promises that he will sell the securities to the seller.
5. *Commercial Papers:* Commercial papers are short term unsecured securities issued by the financial companies. These are promissory notes where the issuing companies promise to pay a fixed amount of money after a fixed period. Commercial papers are issued at a lesser price than the face value. They come with fixed maturity period ranging from 1 day to 270 days.
6. *Discount and Finance House of India (DFHI):* It was established in 1988 by RBI and is jointly owned by RBI, public sector banks and all India financial institutions which have contributed to its paid up capital. It deals in treasury bills, commercial bills, CPs, short term deposits, call money market and government securities.
7. *Money Market Mutual Funds (MMMFs):* Money Market Mutual Funds (MMMFs) were introduced by RBI in 1992 but since 2000, they are brought under the purview of the SEBI. They provide additional short-term avenue to individual investors.

Unorganized money market is another important segment of the Indian money market which caters to the short term financial requirement of the country.

A brief discussion of the various constituents of the unorganized money market is as follows.

1. *Indigenous Bankers:* Indigenous bankers may be individuals or firms which operate privately. They do not come under the purview of the Reserve Bank of India. They not only lend short term loans but also accept deposits from the public.
2. *Money Lenders:* They are one of the oldest operators in the Indian money market. They provide loans for both productive and

unproductive purposes. They are very popular in our rural India. The interest rates charged by the money lenders are very high. The borrowers are mostly poor farmers, artisans, petty traders and manual workers.

3. *Some Non - Banking Financial Companies (NBFCs)* consist of: -

(i) *Chit Funds:* Chit funds are savings institutions. It has regular members who make periodic subscriptions to the fund. The beneficiary may be selected by drawing of lots. Chit fund is more popular in Kerala and Tamilnadu. RBI has no control over the lending activities of chit funds.

(ii) *Nidhis:* Nidhis operate as a kind of mutual benefit for their members only. The loans are given to members at a reasonable rate of interest. Nidhis operate particularly in South India.

(iii) *Loan Or Finance Companies/Loan companies:* they are found in all parts of the country. Their capital consists of borrowings, deposits and owned funds. They give loans to retailers, wholesalers, artisans and self-employed persons. They offer a high rate of interest along with other incentives to attract deposits. They charge high rate of interest.



CHECK YOUR PROGRESS

Q.2 : What is the basic difference between money market and capital market?

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Q.5 : What is Treasury Bill?

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8.11 FEATURES OF INDIAN MONEY MARKET

The major features of Indian money market are stated and discussed below.

1. **Presence of large organized sector:** one of the important characteristics of the Indian money market is the presence of the large organized sector. This sector meets the short term financial requirement. Indigenous bankers and money lenders play a crucial role in the money markets in India.

2. **Lack of integration and coordination:** Indian money market has many segments but the segments do not have much of coordination and integration with one another. The Indian money market consists of segments such as the SBI and its subsidiaries, the foreign exchange banks, the co-operative banks and indigenous banks. All of them work independently. There are some common guidelines. However, there remains a big scope for improving the integration.

3. **Seasonal fluctuation of credit:** The Indian money market is seasonal in character, i.e., when the demands of the loanable funds are high; the rates of interest are very high as the availability of credit is less. But when the demand of the loanable funds is less, than the interest rates come down. The Reserve Bank of India tries to control the fluctuations in the interest rates by introducing or providing money into the market during the busy season and withdrawing the same during the slack season.

4. **Diverse rates of interest:** Another important characteristic of the money market in India is the existence of the different rates of interest for the short term credit. This is basically due to the lack of integration between the various segments in the money market and immobility of credit or funds from one segment to another.

5. **Volatility of the call money market:** The inter-bank call money market is the market for short-term funds, known as 'money at call and short notice'. Two components of this market are the call market or overnight market and short notice market. The borrowing rate in this market is known as the call money rate. This rate is determined by the market forces, that is, by the forces of demand and supply. The Reserve Bank of India tries to control the fluctuations in the

interest rates by providing additional funds in the market when the demand is very high in the call money market.

6. **Meets the short term financial requirement:** This is one of the basic characteristic of the money markets, as it always deals with very short term financial instruments and financial needs.

8.12 FUNCTIONS OF MONEY MARKET IN INDIA

A well-developed money market is the basis for an effective monetary policy. It is in the money market that the Central Bank i.e. the Reserve bank of India comes into contact with the financial sectors of the economy. The Reserve bank of India achieves its economic objectives by varying the liquidity in the market and thereby the bank influences the cost and availability of credit. Money market plays an important role in our economy. Some of the major functions of the Indian money market are:

1. Money market helps in utilizing the savings of the people. By providing various kinds of credit instruments, a money market augments the supply of funds.
2. Money market helps in proper implementation of the monetary policy of the country. The seasonal variations in the flow and demand of funds are managed. It helps to prevent wide fluctuations in the interest rates.
3. Money market helps in meeting the short term financial requirements of the government.
4. Money market helps in maintaining the liquidity in the economy.
5. A money market functions like a dam-canal-irrigation system. Like a reservoir, it collects and augments the resources so as to channelize the resources wherever required.



8.13 LET US SUM UP

- Fiscal policy and monetary policy are the two tools used by the government to achieve its macroeconomic objectives. While for many