



ECONOMIC AND SOCIAL ENVIRONMENT

M.S.-3

**Chapter Wise Reference Book
Including Solved Sample Papers**

By: Namrata Gupta M.Com.

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CONTENTS

ECONOMIC AND SOCIAL ENVIRONMENT

Question Bank – (Previous Year Solved Question Papers)

<i>Question Paper—Exam Held in February-2021 (Solved)</i>	1
<i>Question Paper—June, 2019 (Solved)</i>	1-3
<i>Question Paper—December, 2018 (Solved)</i>	1-4
<i>Question Paper—June, 2018 (Solved)</i>	1
<i>Question Paper—December, 2017 (Solved)</i>	1
<i>Question Paper—June, 2017 (Solved)</i>	1
<i>Question Paper—December, 2016 (Solved)</i>	1-2
<i>Question Paper—June, 2016 (Solved)</i>	1
<i>Question Paper—December, 2015 (Solved)</i>	1-2
<i>Question Paper—June, 2015 (Solved)</i>	1-2
<i>Question Paper—June, 2014 (Solved)</i>	1-4

<i>S.No.</i>	<i>Chapterwise Reference Book</i>	<i>Page</i>
--------------	-----------------------------------	-------------

ECONOMIC AND SOCIAL ENVIRONMENT

1.	Economic Environment of Business	1
2.	Socio-cultural and Politico-legal Environment	10
3.	Changing Role of Government	26

STRUCTURE OF INDIAN ECONOMY

4.	Structural Dimensions of Indian Economy	31
5.	Structure of Indian Industry	37
6.	Public Sector in India	40
7.	Private Sector in India	44
8.	Small Scale Industry in India	48
9.	Sickness in Indian Industry	54

<i>S.No.</i>	<i>Chapter</i>	<i>Page</i>
<u>PLANNING AND POLICIES</u>		
10.	Planning Goals and Strategies	59
11.	Evolution of Industrial Policy	65
12.	Regulatory and Promotional Policy Framework	69
<u>EXTERNAL SECTOR</u>		
13.	India's Foreign Trade	77
14.	India's Balance of Payments	84
15.	India's Export-Import Policy	91
16.	Foreign Capital and Collaborations	101
17.	India's External Debt	105
<u>ECONOMIC REFORMS SINCE 1991</u>		
18.	Industrial Policy of 1991	109
19.	Economic Reforms: Liberalisation, Globalisation and Privatisation	119
20.	Financial Sector Reforms	123
21.	Fiscal Sector Reforms	129
22.	Economic Reforms and Social Justice	133
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**Sample Preview
of the
Solved
Sample Question
Papers**

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QUESTION PAPER

*Exam Held in
February – 2021*

(Solved)

ECONOMIC AND SOCIAL ENVIRONMENT

M.S.-3

Time: 3 Hours]

*[Maximum Marks: 100
(Weightage 70%)*

Note: There are two sections A and B. Attempt any three questions from Section A. Section B is compulsory.

SECTION A

Q. 1. How does economic environment of business exercise a strong influence on the non-economic environment? Discuss with examples.

Ans. Ref.: See Chapter-1, Page No. 2, 'Economic Environment', Page No. 3, 'Economic and Non-Economic Environment', 'The Interaction Matrix' and Page No. 9, Q. No. 9.

Q. 2. Explain the meaning of industrial sickness. Briefly identify the factors responsible for industrial sickness.

Ans. Ref.: See Chapter-9, Page No. 55, Q. No. 1 and Page No. 54, 'Factors Responsible for Industrial Sickness'.

Q. 3. Write a note on Consumer Protection Act, 1986. Explain the Rights of Consumers and the procedure involved in filing a complaint in case of problems faced by a consumer.

Ans. Ref.: See Chapter-2, Page No. 17, 'Consumer Protection Act, 1986'.

Q. 4. Explain India's Balance of Payment (BoP) from 1950-51 to 1985-90. During this period, how did issues relating to BoP occupy the centre stage in terms of India's micro-economic environment?

Ans. Ref.: See Chapter-14, Page No. 84, 'Introduction' and 'Importance of Balance of Payments'.

Q. 5. Discuss the major Economic Reforms of 1991 that took place in India. How was the process of reforms in agriculture neglected? Explain.

Ans. Ref.: See Chapter-19, Page No. 117, 'Introduction', 'Liberalisation', 'Globalisation' and 'Privatisation' and Chapter-22, Page No. 134, 'Neglect of Agriculture: The Major of Economic Reform'.

SECTION B

Q. 6. Discuss the recommendations of Tax Reforms Committee from 1994 to 2003. Explain how an attempt was made for rationalisation and widening of the tax base.

Ans. Ref.: See Chapter-21, Page No. 130, 'India's Fiscal Policy' and Page No. 132, Q. No. 5.

Q. 7. What is Over-The-Counter Exchange of India (OTCEI)? Briefly discuss its nature, objectives and features.

Ans. The Over-The-Counter Exchange of India (OTCEI) is an electronic stock exchange based in India that consists of small-and medium-sized firms aiming to gain access to overseas capital markets, including electronic exchanges in the U.S. such as the NASDAQ. There is no central place of exchange, and all trading occurs through electronic networks. The OTCEI has rules that are not as rigid as the national exchanges, allowing small companies to gain access to the capital they need to grow. The objective is that once they grow to a certain level and are able to meet the requirements to be listed on the national stock exchanges, they will make the switch over and leave the OTCEI behind. The basic objectives of creating OTCEI is to provide a securities market to enable small/start-up companies with potentially viable green field ventures to obtain their capital requirements from investors to whom such investment would be acceptable but who would also like to have some liquidity for their investment.

Also Ref.: See Chapter-2, Page No. 15, 'Over-The-Counter Exchange of India (OTCEI)', 'Need and Objectives of OTCEI' and Page No. 16, 'Features of OTCEI'.



QUESTION PAPER

(June - 2019)

(Solved)

ECONOMIC AND SOCIAL ENVIRONMENT

Time: 3 Hours]

[Maximum Marks: 100

(Weightage: 70%)

Note: There are two sections A and B. Attempt any three questions from Section A. Section B is compulsory.

SECTION – A

Q. 1. Explain the critical elements of social environment of business and discuss the business implications of social developments, industrialisation process and management culture, giving examples.

Ans. Ref.: See Chapter-2, Page No. 18, Q. No. 2 and Page No. 11, 'Social Developments, Industrialisation Process and Management Culture'.

Q. 2. What are the major objectives and scope of public sector? Is there a conflict between autonomy and accountability in public enterprises? Discuss.

Ans. Ref.: See Chapter-6, Page No. 40, 'Objectives and Scope of Public Sector' and Page No. 41, 'Working of Public Sector'.

Q. 3. What are the factors responsible for industrial sickness and how can the problem be tackled? Discuss with reference to both Small Scale Industry (SSI) and non-SSI sectors.

Ans. Ref.: See Chapter-9, Page No. 54, 'Factors Responsible for Industrial Sickness' and Page No. 55, 'Measures to Tackle Industrial Sickness'.

Q. 4. What necessitated reforms of financial sector in India? How has the financial sector reforms affected the working of the banking industry and financial markets in India? Discuss.

Ans. Ref.: See Chapter-20, Page No. 123, Introduction' and Page No. 125, 'Financial Sector Reforms'.

Q. 5. Write short notes on the following :

(a) Mixed economy framework

Ans. Mixed economy is an economic system in which major economic decisions are taken by the Central Government authority as well as are left to free play of the market. It is the basic framework of planning in India. In this economy, the market will provide whatever goods and services, it can produce well and the government will provide essential goods and services which the market fails to provide.

Merits of Mixed Economy

- (i) It gives proper scope for full play of private initiative and profit motive.
- (ii) Planned economy development ensures stability and balanced development.
- (iii) Competition between the private sector and public sector industries is generated to maximise productivity.

(b) Inflation

Ans. Ref.: See Chapter-19, Page No. 118, 'Control of Inflation'.

(c) Revenue Deficit

Ans. When the net amount received (revenues less expenditures) falls short of the projected net amount to be received. This occurs when the actual amount of revenue received and/or the actual amount of expenditures do not correspond with predicted revenue and expenditure figures. This is the opposite of a revenue surplus, which occurs when the actual amount exceeds the projected amount. For example, consider an organization with budgeted revenue of \$325,000 and budgeted expenditures of \$200,000, which equates to a net amount of \$125,000. During the fiscal year, the organization's total revenue is actually \$300,000, while its total expenditure is \$195,000. The net amount received by the organization is \$105,000, which is \$20,000 less than

Sample Preview of The Chapter

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ECONOMIC AND SOCIAL ENVIRONMENT



Economic Environment of Business

INTRODUCTION

After studying this chapter, you will be able to understand the environment of business, its definition and classification. The basic propositions of business environment states that business is an economic activity, firm is an economic unit and business decision-making is an economic process. The economic environment of business refers to the wide characteristics of the economics system in which a business firm operates. There are some critical elements of macro-economic environment which can be used separately for analytical purposes. The new economic policy which was announced in July 1991, has a bearing on Industrial Licensing, Foreign Investment and Foreign Technology Agreements, MRTP regulations and Public Sector. We will also come to know that the business environment influences business management. The economic environment of business exercises a strong influence on the non-economic environment of business and a device called interaction matrix can be helpful in understanding the relationship between two sets of variables e.g. economics and non-economics factors. Being a manager, to become successful in day-to-day business operations, a person has to remain alert to the environment.

CHAPTER AT A GLANCE

ENVIRONMENT OF BUSINESS

Environment is a complex phenomenon. It furnishes the macro-context whereas business firm is a

micro unit. Any of the business firm has to operate within environment system like values of society, beliefs of leaders, monetary policies of central banks, attitude towards foreign capital and enterprise etc. They are different from country to country. Some factors may be common. The environmental factors influence the production, consumption and marketing of the product. It can be classified into market and non-market environment, economic and non-economic environment.

The term environment also consists of several subsets, e.g. economic environment, socio-cultural environment, politico-legal environment, technological environment etc. It represents the totality of all kinds of environments which have an impact on business, within a country, the environment differs not only over space but also over time within a country. The state of the economy at present and what it was in the past influenced the Indian economy of tomorrow. The environment may be classify into market environment and non-market environment depending upon the market forces like demand, supply etc. Economic environment is formed and shaped by the factors like fiscal policy, the monetary policy the industrial policy resolutions, physical limits on output, price and income trends, nature of economic system at work, tempo of economic development, national income plan etc. The non-economic environment has economic implications. Therefore, environment is the sum total of history, geography, culture, sociology, politics and economics of a nation.

2 / NEERAJ : ECONOMIC AND SOCIAL ENVIRONMENT

SOME BASIC PROPOSITIONS

Three basic propositions are that business is an economic activity, which includes the task of adjusting means to the ends. Secondly, a business firm is an economic unit as to transforms inputs into outputs and thirdly, business decision-making is an economic process, which states that for decision-making one has to choose from the alternative actions.

(i) Business is an Economic Activity: An economic can assume the different forms such as consumption, production, distribution and exchange. Depending upon the form of economic activity being undertaken and organised, the nature of business is differs.

Sometimes the target has to be matched with the given resources and sometimes the resources have to be matched with the given target. In any way, optimising the outcome of economic activities is the task of business.

(ii) A business Firm is an Economic Unit: The size, structure, location and efficiency of the business firm under consideration determines the nature of input requirements and the type of output flows. The complete process of creating, mobilisation and utilisation of the surplus constitutes the economic activity of the business firm.

(iii) Business Decision-making is an Economic Process: A choice from a set of alternative courses of action is involved in decision-making. Because resources are limited in supply and most resources have alternative uses, a business firm seriously thinks about the optimum allocation of resources. Therefore, the primary consideration in evaluating the business policies, business strategies and business tactics of a corporate entity in any national economy is the economic environment of business.

ECONOMIC ENVIRONMENT

Economic environment is the broad characteristic of economic system in which a business organisation operates. The process of decision-making is different in every economy depending on the way of finding out the solutions to the problems. Some of the basic observation concerning the nature and functioning of modern economies are free market mechanism and centralised planning, secondly, welfare state like growth, efficiency and equity and thirdly, modern economies are not closed' but 'open'.

The economic environment of a business refers to the broad characteristics of the economic system in which a business firm operates. The business sector has economic relations with the Government, the capital market, the household sector and the foreign sector. These sectors together influence the trends and structure

of the economy. All the economies whether capitalist, socialist, communist or mixed, have certain fundamental problems. The main economic problems of every economy are What to produce? How to produce? For Whom to produce? When to produce?

Certain points made about the organisation and functioning of modern economies are:

- (i) Both “free market mechanism” and “centralised planning” exist in different degrees in most economies.
- (ii) Positive intervention by the Government in day-to-day economic affairs has existed in most economies. The “Welfare State” principle induces the Government to enforce minimum wages, commodity controls, fair trade practices etc. through legislation whose basic objectives are growth, efficiency and equity.
- (iii) Modern economies are actively engaged in international trade and cooperation as they are not “closed” but “open”.

Both economic and non-economic environment have an important bearing on managerial decisions.

CRITICAL ELEMENTS

The critical elements of macro-economic environment are economic system, nature, anatomy and functioning of economy, economic planning, policy and proposals, controls and regulations, legislations, trends and structures and economic problems and prospects. They are not always be mutually exclusive but can be treated separately for analytical purpose.

The ownership, control and management of enterprises reveals the nature of the economic system. The physical framework of the environment is defined by the level of economic development and the structure of the economy. The national economy is a combination of the household sector, the corporate business sector, the Government administration, the capital market and the foreign sector. The transactions of money affected the flows of consumption, investment, saving, income, employment and output.

The essential question arises—Does money matter? Has different answers:

- (i) Money does not matter at all (*Classical*)
- (ii) Money matters least (*Keynesian*)
- (iii) Money matters most (*Monetarist*).

Economic planning gives a direction to the changes in the economic environment. The national economic environment of business is determined by the existing macro-economic policy framework. The economic trends like income, money supply, prices, production, employment, balance of trade and payments, foreign exchange earnings etc. decide the course of prevailing economic environment.

INDIAN ECONOMIC ENVIRONMENT

The national economic environment of a country can be described in its data and system environment. A series of policy formulations and legislations has evolved in India, which was started with Industrial Policy Resolution of 1948, Industries Act 1951, Directive Principles of State Policy 1950, MRTP Act 1969, FERA 1973 and 80 on. A new economic policy was announced in July 1991 bearing Industrial Licensing, Foreign Investment and Foreign Technology Agreements, MRTP regulations and public sector.

The system environment encompasses the entire institutional framework of the economy. India has a complex mixed economic systems as:

- (a) India has a multiplicity of sectors i.e. private, public, joint, co-operative, worker's sector and also "tiny sectors".
- (b) India has a multiplicity of mechanisms at work: five-year plans, annual plans during plan holidays, pointed economic reforms and reconstruction programmes etc. There is a complex system of liberal rules, strict regulations, control mechanisms, planning and a host of price regulations.
- (c) The social welfare function in India is defined by the multiplicity of objectives which are conflicting in nature sometimes.

During the decade of the 1980s the Indian mixed economy took a decisive direction. The purpose of this policy was to attain socio-economic objectives like optimum utilisation of capacity, import substitution, maximum production, employment generation, etc. Some important provisions of the policy of 1980, were: regularisation, automatic expansion, promotion, revival of sick units, development and reorientation of public sector.

The New Economic Policy: The new economic policy which was announced in July 1991, has a bearing on:

(i) **Industrial Licensing:** To exploit and meet the emerging domestic and global opportunities and challenges the system of industrial approval needed a number of changes to activity encourage and assist Indian entrepreneurs.

(ii) (a) **Foreign Investment and Foreign Technology Agreements:** The Government announced its decision to grant approval for investment upto 51% foreign equity in high priority industries regarding direct foreign investment.

(b) **Foreign Technology Agreements:** Where the acquisition of technological capability receives priority, there is a great need for promoting an industrial environment.

(iii) **MRTP Regulations:** The New policy was the removal of the threshold limits of assets in respect of MRTP companies and dominant undertakings. The MRTP Commission will be empowered and authorised to initiate investigations regarding monopolistic, restrictive and unfair trade practices.

(iv) **Public Sector Policy:** The consequent low rate of return has inhibited the ability of public enterprises to regenerate themselves in terms of new investment as well as in technology development which makes them a burden on rather than an asset to the Government.

Challenge of Global Competition and Quality Standards

The competitive strength of a company is determined by the price and quality. Since the policy of liberalisation was initiated in 1991, industrial enterprises in India have been exposed to competitive markets both within and outside, after years of protection from foreign competition.

ECONOMIC ENVIRONMENT AND BUSINESS MANAGEMENT

The business environment influences business management as the critical elements of both interact with each other. The critical elements of business management are planning, direction, organisation, coordination, leading and motivation and evaluation. The success of any business enterprise, in a large measure, would depend upon the proper understanding of the business environment. The environment and management thus influence each other.

The existing business environment may act a constraint for business management. The environment is not limited to the institution of the Government, for the management. In adjusting to the environment a good amount of managerial skill is required. In the context of environment, corporate managers analyse the strengths (S), weaknesses (W), Opportunities (O) and Threats (T). The environment and Management thus influence each other. The existing environment affects size, structure, location, integration and growth of business.

ECONOMIC AND NON-ECONOMIC ENVIRONMENT: THE INTERACTION MATRIX

Economic and non-economic environment of business influence each other, a device called interaction matrix is very helpful in understanding the relationship between two sets of variables For example economic and non-economic factors.

There are few specific interactions which are as follows:

- (i) The social environment affects and gets affected by the economic environment of business.

4 / NEERAJ : ECONOMIC AND SOCIAL ENVIRONMENT

- (ii) The educational-cultural environment and the economic environment of business are also interdependent.
- (iii) The politico-legal environment and economic environment of business are also interlocked.
- (iv) The historical environment and the economic environment of business are interdependent.
- (v) Interaction between the physical environment of a country and the economic environment of business in that country.

ACTIVITY 1

Can you now recapitulate the various criteria on the basis of which a business environment may be classified?

Ans. Criterion

1. Space—Local, regional, national and international environment.
2. Time—Past, present and future environment.
3. Forces—Market and non-market environment.
4. Factors—Economic and non-economic environment.

ACTIVITY 2

Briefly answer each of the following questions:

Q. 1. What is an Economic Problem?

Ans. Economic problem is a fundamental problem of economy which asserts that the resources are limited and human wants are unlimited. So, it creates an economic problem of scarcity of resources.

Q. 2. What is the Optimum Economic Activity?

Ans. The basic task of the business is to take out the perfect outcome of economic activities. Sometimes the target is to be set-up in order to resemble or matched the resources which are given and sometimes vice-versa. An optimum economic activity involves or includes the resources to the targets. Its different forms are consumption, distribution, production and exchange. As each and every business wants to achieve its level best.

Q. 3. Why, or why not, should the organisation you work for be treated as an Economic Unit?

Ans. Every firm plans carefully the perfect or optimum allocation of resources in order to get perfect production on resources are: men, machine, money, material etc. A business firm transform inputs into outputs. These inputs and outputs are determined by size, structure, location and ability of the considered business firm. Different type of activities like mining, farming, transport etc. can be performed. But profit maximisation is the only motivational objective to perform all the activities. When the value of output is more than the value of input or revenue is surplus over the cost, it is 'profit'? Therefore, in order to create,

mobilise and utilise the surplus, organisation should be treated as an economic unit.

ACTIVITY 3

Get some printed literature concerning your own organisation or any other business organisation, or you can even read the 'corporate news' in magazines like *Business India, Business World, Business Today*. Attempt an economic interpretation of facts and figures that you have at your disposal. You may begin by asking similar questions as given in Activity 2. Briefly jot down the points.

Ans. Alaska Airlines to cut jobs!

Alaska Airlines, a unit of Seattle-based Alaska Air Group Inc, recently announced to slash 1,000 jobs and reduce its flight departures by 15% on grounds of record oil prices and an economic slowdown. The company will commence these job cuts, almost 10% of its entire workforce and would affect everyone from pilots to cabin crew to technicians/service staff, from 9th November this year. Alaska Airlines, which posted a \$50 million loss in the first half of the current year, had earlier announced to cut 80 management jobs, but this addition only came in the recent times. The company has also revealed that its previous steps to offset record costs that include increasing fees and adding charges, reducing fuel consumption and deferring capital projects, was simply not enough. Thus, more evasive action is expected.

Q. 1. What is an Economic Problem?

Ans. Hiking oil prices and economic slow down are the major economic problems faced by Alaska airlines.

Q. 2. What is the optimum economic activity?

Ans. Alaska has been slashing down jobs of its employees and facing the problems of 50 million dollars. Whereas, optimum economic activity will be to slash down the expenses by reducing fuel consumption etc. and meet the objectives successfully for earning profits.

Q. 3. Why, or why not, should the organisation you work for be treated as an economic unit?

Ans. Because it is facing economic problems and any decision is affecting the economy as a whole.

ACTIVITY 4

List some of the basic observations concerning the nature and functioning of modern economies in general.

- Ans.1.** Free market mechanism and centralised planning.
- 2.** Welfare state like : growth, efficiency equity.
- 3.** Modern economies are not 'closed' but 'open'.