Business, Society and Law

Learning objective:

1. To acquaint learners with the knowledge of the economic environment and policy framework underlying the economic system.

2. To enable learners to interpret major economic and environmental trends and government policy decisions that affect industry and the economy as a whole.

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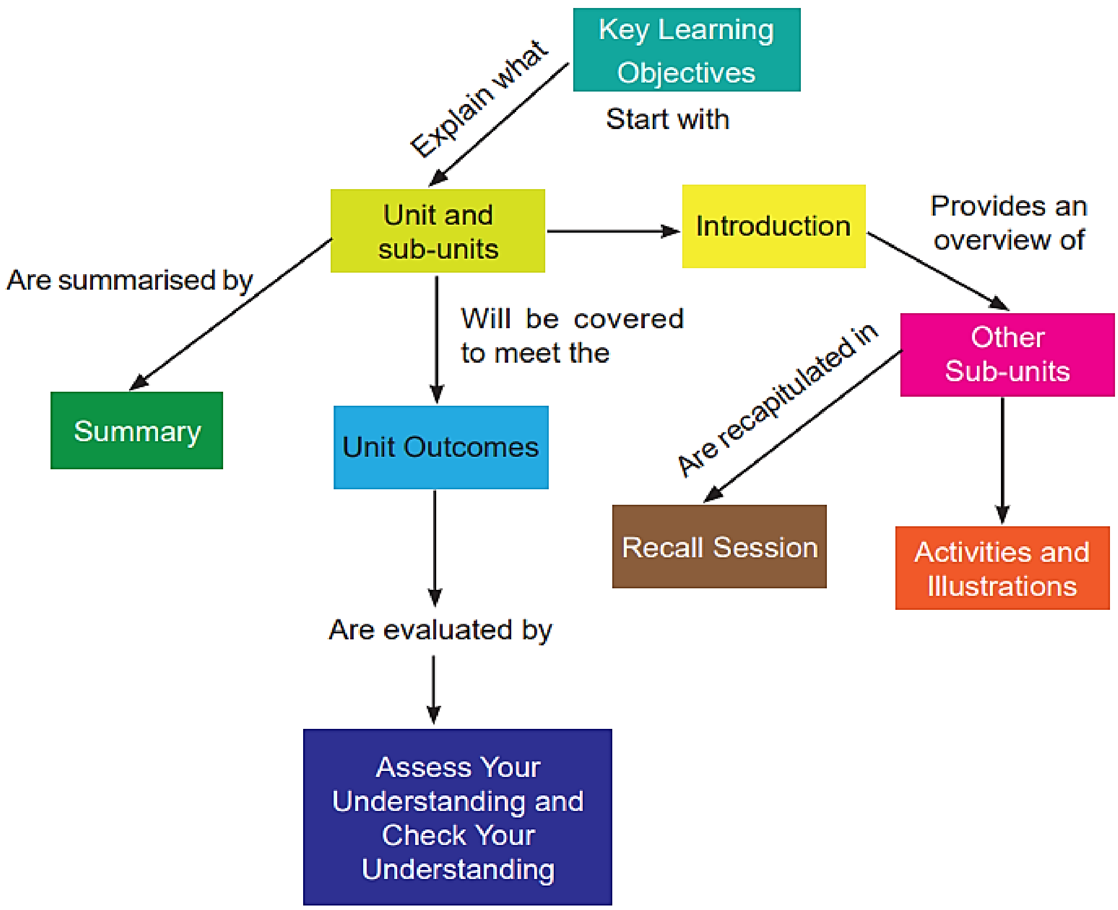


Course content:

Module 1:

Environmental analysis	Components of the business environment, Process of business environment analysis
Indian Economy	Economic environment, Different economic systems (Capitalism, socialism, and mixed economy), Economic policies (Monetary & Fiscal), Union Budget as an instrument of growth and its Impact on Business
Global Trends	Global trends in business and management, foreign capital and collaboration, Economic trends in Indian industries

Module 2:

Politics and Business	Relationship between business and political environment, Constitutional provisions affecting business;
Business Laws	MRTP, Competition law, Industrial policy after 1991, Consumer Protection Act 1986, Environment Protection Act 1986, Dimensions of these laws and their impact on business.

Module 3:

Finance Market	Composition of Indian money and capital markets, Role of commercial banks, financial institutions, and non-banking financial institutions.

Finance Institutions	SEBI and capital market reforms, Foreign direct investment (FDI), WTO, Its roles and functions, MNCs, International institutions: World Bank and IMF, Trading blocs
Economic Development	Economic development and ecology, green marketing, Environmental technologies, Ecological implications of technology, and Sustainable development.

Module 1

Unit 1: Environment analysis

1.0 Learning Outcome

At the end of this unit, you will be able to

- Discuss the components of the business environment and analyse the same
- Differentiate between Internal and External Business environment
- Outline the implications of the External and Internal Business environment

1.1 Introduction:

The process of looking at every internal and external factor that affects an organization's performance is known as environmental analysis. While the external components represent opportunities and challenges outside the firm, the internal components show the strengths and weaknesses of the business entity. A continuous flow of relevant data is needed to do environmental analysis and choose the best course of action. Strategic planners use the data acquired from environmental study to predict future trends in advance. Additionally, the data can be used to evaluate the operational environment and establish organizational goals.

It determines whether the organization's goals can be attained using the current techniques. If such goals cannot be achieved with the current methods, new ones are created or existing ones have been modified accordingly.

1.2 Scope of Business Environment:

Let us understand the scope of business environment elaborately

a) Identifies Commercial Opportunities and Threats:

The business environment assists firms in identifying various possibilities and dangers. When a company is able to recognize market opportunities in a timely manner, it is much easier to capitalize on such prospects.

They can maximize their returns and earnings by taking advantage of such chances before their competitors. All risks can be easily spotted through good interaction between a firm and its environment. It will allow businesses to take corrective actions in a timely manner.

b) Aids in policy formulation and planning:

A thorough awareness of the corporate environment aids in the development of stronger policies and plans. It provides firms with all available information on market circumstances. The study of the business environment scans all of an organization's prospects and risks.

Businessmen are acutely aware of their surroundings and, as a result, make all decisions in accordance with them. Environmental awareness can effectively and efficiently transform their entire agenda.

c) Offers Useful Resources

For numerous resources, businesses rely on the environment in which they operate. The business environment provides many inputs such as capital, raw resources, and labor that are utilized by the business to operate.

These inputs are turned into goods and services to meet market demands. A firm cannot function without a steady stream of inputs. It is fully dependent on the environment for inputs and delivery of commodities or services.

d) Enhances Performance:

The business environment has an important role in increasing the performance of businesses. Managers keep their knowledge and abilities up to date by remaining environmentally conscious. The environmental study serves as a vehicle for management education.

Environmental monitoring gives qualitative data that aids in the development of strategic thinking. It enables managers to regulate and improve corporate performance by implementing suitable management techniques.

Characteristics of the Business Environment:

- Dynamic: The dynamic character of the business environment is a result of the environment's ongoing change, whether it is socially, politically, economically, or technologically. There is a strong interdependence between the variables that ultimately contribute to this dynamic environment.
- Unpredictable: Due to its dynamic character, there is constantly a sense of uncertainty. There is no way to predict a future occurrence that might affect the business environment because precognition is not conceivable.
- Relative: Everywhere has a different business climate. It changes depending on where you are. Only in that country, not in any other, is the business environment impacted by a political crisis. Because of this, the term "business climate" is a relative one.
- Multiple angles: Different firms may be affected differently by a social, political, or economic event. A political action that benefits one company could be seen as a threat by another. As a result, there are various perceptions in the corporate world.
- Susceptible: It can be challenging to predict the effects that even a small change in the environment will have on a company. The operations of a corporation may be significantly impacted by a small adjustment. It could affect a company's entire life, revenue, and growth.
- Complex: The interdependence of variables and conditions creates an environment that is frequently challenging to analyze. Keeping track of the sources and their effects on the factors and forces that make up the corporate environment is a difficult undertaking. Therefore, determining the relative impact that a certain factor may have on a corporation is a difficult undertaking.

Merits of Environmental analysis:

When required, corrective action is taken using the internal insights from the environmental study. It helps to evaluate staff performance, customer happiness, maintenance costs, etc. Additionally, by connecting the strategies with the organization's goals, the external measurements assist in positively responding to the environment.

Environmental analysis helps in the early detection of hazards, which helps the organization build survival plans. Additionally, it looks for opportunities to take a larger market share than its competitors, such as new product opportunities, segments, and technologies.

Importance of Business Environment:

a) Identifying Commercial Opportunities and Threats:

One of the most important advantages of a business environment is that the interaction between a firm and its surroundings usually exposes the business's potential and risks.

b) Giving Growth Direction:

When a company interacts with its surroundings, it becomes easier to identify areas for expansion and growth. Are consumers abandoning specific goods or services? Are your competitors also providing features that you should incorporate into your products? By examining its business environment, a company might find answers to comparable issues.

c) Continuous Education:

Because the environment is essentially dynamic, it is always changing. This keeps managers motivated to maintain their knowledge and abilities up to date. This assists them in preparing for expected and unexpected changes in the corporate world. For example, how has your customers' purchasing behavior changed since the implementation of GST?

d) Image Construction:

If a company is sensitive to its surroundings, its image might improve significantly. In order to accomplish so, the company must first comprehend its surroundings. Many factories, for example, consider electricity deficit to be an issue in their business environment. As a result, many corporations have installed Captive Power Plants (CPPs) in their factories to meet their power needs.

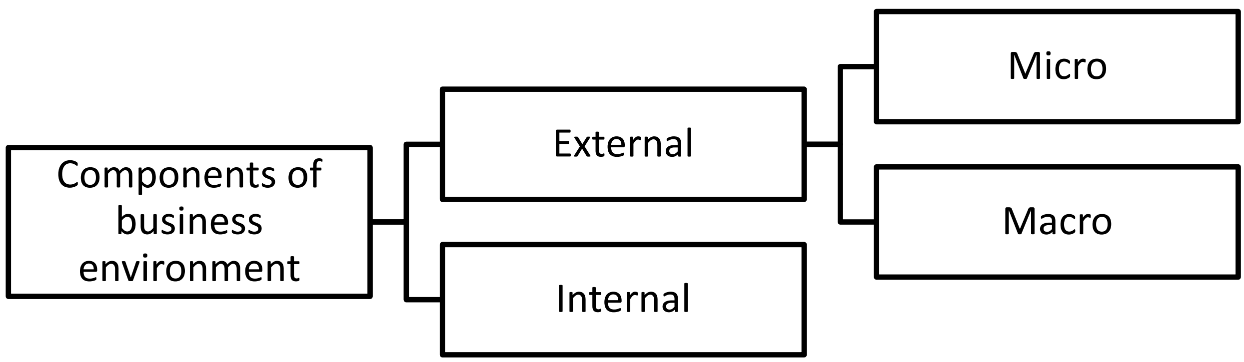
Competition in Meetings:

It is critical in every business to be informed of your competitors' actions and strategies. Firms can study their competitors' tactics and behaviors in a business setting. They might also devise their own techniques in this regard. When it comes to telecom, practically all suppliers offer identical services at comparable pricing.

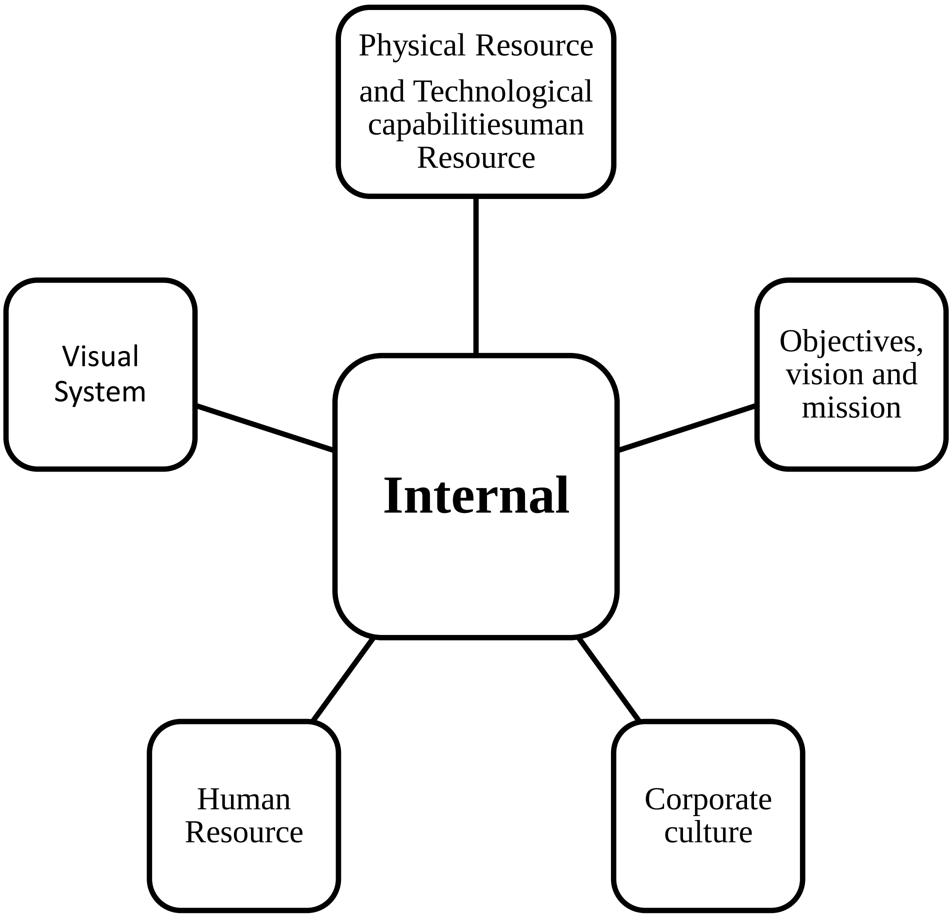
- The reason for this is that most telecom companies keep up to date on their competitors' tactics and actions. Markets are very competitive, and organizations must work hard to survive and develop in them. Understanding the relevance of the business environment and allocating resources to thoroughly examine it can be a significant step toward the success of any firm.

1.3 Components of Business Environment:

There are two types of components which the table below is formed:



There are further components internal components as follows:



Now, we discuss the internal factors one by one:

The internal business environment is made up of many internal factors or components that are under the management of a firm and have an impact on its operations. These consist of:

- Value System: The ethical conviction that directs a company toward accomplishing its mission and goals. Every element that makes up a company's regulatory framework, including organizational culture, environment, work procedures, management techniques, and organizational norms, is included in the value system.

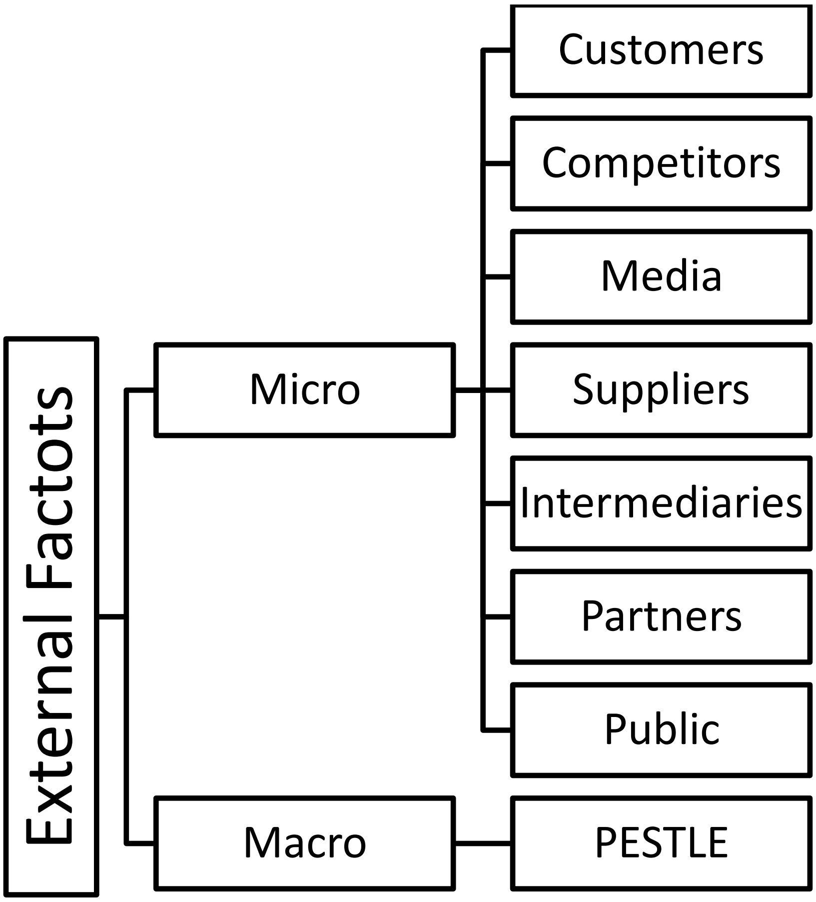
- Objectives, Mission, and Vision: A company's vision, purpose, and objective all relate to its future goals and objectives. It is the basis for the company's existence.

- Corporate culture: it is a potent set of accepted standards of behaviour that serves as a unifying force for employees of an organization and that they often appropriate.

- Human Resources: All of the employees and other staff members connected to the company are considered human resources. It is the organization's most precious asset because it determines whether it succeeds or fails.

- Physical resources and technological capabilities: These consist of material possessions and technical know-how that are crucial in determining a company's capacity for competition and potential for future growth.

External factors are subdivided as follows:



Discussion on external factors:

The elements outside of a company's control are known as external components. These operate outside the purview of a company's control and management. A business environment's external factors are further divided into the following two categories:

- Micro Environment

- Macro Environment

Micro Environment

The business's immediate external environment, or micro environment, has an impact on how well it performs since it directly affects how the organization conducts its daily business operations.

It involves elements outside the control of the company, but management can examine and address them to avoid any financial losses.

Micro factors include:

- Customers make up the target market for the firm
- Competitors are other market participants who offer comparable products and services and target a comparable target market.
- The firm uses the media as a channel to sell its product to customers.
- All parties who supply the company with the resources it requires to run its operations are considered suppliers.
- The parties involved in providing the offering to the clients at the end are referred to as intermediaries.
- Partners are all external companies that do business with the organization and meet client demands, such as advertising agencies, market research firms, consultants, etc.
- The term "public" refers to any group that could have a direct or indirect impact on how the business operates or how well it can serve its clients.

Macro Environment: PESTLE

Remote environmental elements that have an impact on an organization are included in the macro environment. Given that macro elements typically have an impact on the entire sector, the level of influence they can have on a business is important.

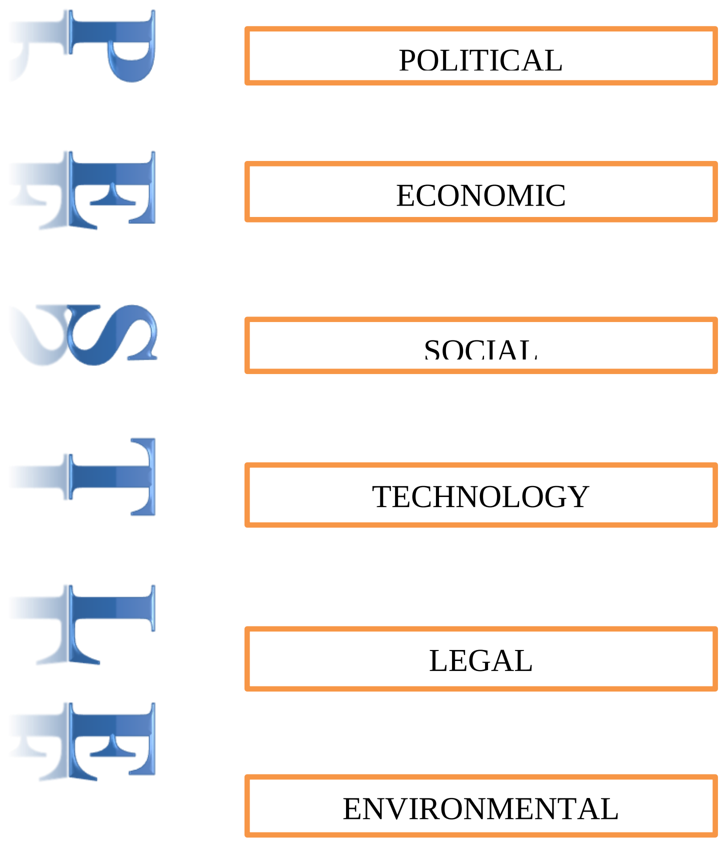
These elements fall under the PESTLE classification: P - political, E-environmental, S - social, T - technological, L - legal, and E - economic.

- Government policies, political stability, systemic corruption, tax laws, labor regulations, and trade restrictions are examples of political factors that have an impact on the company or industry.
- Economic factors have to do with the nation's economy. They consist of economic expansion, the value of the dollar, interest and inflation rates, etc.
- The country's demographics include social factors. Population growth rate, age distribution, career attitudes, health awareness, etc. are a few of them.
- Technological factors are those aspects of technology innovation that have an impact on company operations. This is a reference to technical awareness, automation, and research and development operations.
- Laws that impact business operations are known as legal factors. They include laws that are particular to businesses, industries, and even states.
- Environmental factors include everything that affects or is influenced by the environment in which a firm operates. Climate, weather, environmental regulations, and even pressure from NGOs to protect the environment are all included.

1.4 PESTLE Framework

A company might use a variety of methods for strategic analysis, although some are more popular than others.

The PESTLE study is the most popular type of thorough environmental analysis. This is an overhead view of the way business is done. This research helps managers and strategy developers understand where their market is at the time. It also aids in projecting the organization's future state. PESTLE study looks at several variables that have an impact on the business environment. Every industry may be impacted by these elements directly or indirectly.



POLITICAL FACTORS

The political aspects consider the nation's present political atmosphere. The impact of the world's political situation on the nation and economy is also stated.

Among the elements taken into account for analysis are:

- Government regulations
- Tariffs laws and
- Taxes stability of the executive rules for entry modes

Example of a Political Factor: A multinational corporation closes several facilities in a higher tax jurisdiction to relocate operations to a lower tax jurisdiction with lower tax rates and/or more state funding and grant opportunities.

ECONOMIC FACTORS

All the elements that affect the economy and its state are considered to be economic factors. These are elements that can determine the course that the economy may take. Thus, firms rely on their analysis of this element of the environment. Creating strategies that reflect changes is beneficial.

Among the factors taken into account for the analysis are:

- The rate of inflation
- The rate of interest
- Buyers' disposable income
- Credit is available.
- Rates of unemployment
- The fiscal or monetary policies
- The exchange rate of currencies

Economic Factor Example: An equity research analyst may adjust the discount rate in their model assumptions based on where we are in the economic cycle and what Treasury yields are doing; this can have a material impact on the valuations of the companies they cover.

SOCIAL FACTORS

Every nation has a unique mentality. The business is impacted by these views. The sales of goods and services could ultimately be impacted by societal considerations.

Several social elements were examined:

- Cultural repercussions
- The demographics related to gender
- The social behaviors
- The domestic buildings
- Levels of education
- Inequality in Wealth

Example of a Social Factor: Following the pandemic, management at a technology firm had to rethink hiring, onboarding, and training practices after an overwhelming number of employees expressed a preference for a hybrid, work-from-home (WFH) model.

TECHNICAL FACTORS

Technology is constantly improving. The development has a significant impact on businesses. Staying current with the changes will be made easier for you if you conduct an environmental analysis on these variables. You can learn how consumers respond to different trends by considering technological variables. Nowadays, social media is an essential component of every organization. This examination will be required of businesses for their advantage. They gain from it:

Fresh findings

- Technology obsolescence rate
- The speed of technological progress
- A cutting-edge technology platforms

Example of a Technological Factor: A management team must consider the practical and economic ramifications of migrating from on-premises physical servers to a cloud-based data storage solution.

ENVIRONMENTAL FACTORS

The location has an impact on business transactions. Climate change can have an impact on business operations. The responses that customers have to a specific item can also be problematic. Agribusinesses are most frequently impacted by this. Following are a few environmental aspects to consider:

- Place in the world
- Weather and the environment
- Legislation governing waste disposal
- Control of energy usage
- The way people view the environment

Environmental Factor Example: After the stock exchange mandated mandatory climate and ESG disclosure for all listed companies, management at a publicly traded firm must revaluate internal record keeping and reporting tools to track greenhouse gas emissions.

LEGAL FACTORS

Periodically, new legislation is passed. Numerous of these changes have an impact on the business climate. A law would have an effect on businesses and industries in that economy if a regulatory agency established a regulation for certain industries, for instance. Business owners should therefore research the legal advancements in their respective fields.

Several legal considerations to be aware of:

- Restrictions for products
- Regulations for employment
- Monopolistic practices
- Infringements on patents

Example Legal Factors: A credit rating agency is evaluating the creditworthiness of a technology company with significant growth prospects in emerging markets. The analyst must weigh this growth trajectory against the inherent risk of IP theft in some jurisdictions where legal infrastructure is weak. Intellectual property theft can significantly harm a company's competitive advantage.

For instance, we analyzed the "PESTLE Analysis" on the food industry of India:

Political Factors:

- Wide restrictions
- EXIM Policy
- Harmonized Tariff Rates System

Economic Factors:

- Costs of Labour are Rising
- GDP and Inflation
- Budgetary Policy

Social Factors:

- Dietary Regulations

Technology Factors:

- Growth of the digital economy and e-commerce
- Growth of the digital economy and e-commerce Automation

Environmental Factor:

- Organic farming is a factor

Legal Factors:

- Indian Standards Institute, Bureau of Indian Standards, and Food Safety & Standards Authority of India (ISI)
- Custom Clearance Procedure
- Standardization Organization for the World (ISO)
- Food Safety & Standards by Agmark (Packing & labeling) Regulation

That's how we analyze the environmental factors which directly or indirectly affect the business operation through the PESTLE framework.

1.5 Process of business environment analysis

The assessment of possibilities and hazards in the environment serves as the foundation for managerial decision-making through environment analysis. The following are the steps in the environmental analysis:

Scanning: Information collecting is included to evaluate the complexity, uncertainty, and dynamism of the environment.

It contains:

- Finds the earliest indications of upcoming environmental shifts. Trends and events give them away.
- Finds modifications that are currently occurring. They are taking place.

Monitoring: it keeps tabs on environmental trends and occurrences. It entails an environmental audit. In corporate performance, environmental factors are likely to have an impact.

Forecasting: What is most likely to occur was predicted in this step. Its path layout accounts for potential alterations. Key environmental pressures are provided by this stage. They can be technological, social, cultural, economic, political-legal, and/or social. Comprehension of the major forces and change-causing factors. Projection of potential future diversionary routes.

Assessment: In this phase, significant opportunities and dangers are found. A company's competitive position is examined in terms of where it stands in comparison to other businesses that are vying for the same resources among customers.

Opportunities are a good thing, but they also increase risks and make a company less competitive.

The threat is an undesirable circumstance that improves the organization's ability to compete.

1.6 Summary

- The term "business environment" refers to all of the individuals, institutions, competing organizations, government, courts, media, investors, and other factors that are beyond the control of business organizations but have an impact on business performance.
- Environment plays a vital role in the proper functioning of a business

- Changes in government economic policies, rapid changes in technology, changes in consumer tastes and preferences, increasing market competition, and so on are beyond the control of business organizations but have a significant impact on business performance.
- The PESTLE framework is a very important method in understanding the business environment.
- Various factors affect the Pestle Framework.

1.7 MCQs

1. What are the six elements of PESTLE?

a. Peace, Elements, Search, Tape, Legal, and Environment
b. Power, Environment, Science, Teaching, Legal, and Education
c. Paper, Element, Savings, Trust, Labels, and Entry
d. Political, Economic, Social, Technological, Legal, and Environmental

2. How does PESTLE help your strategic development team?

a. It helps you to identify the strengths of your company.

b. It helps you to find solutions to problems, create marketing strategies, and stay ahead of your competition.

c. It helps you to find the weaknesses of your company.

d. It helps you to see how your company's financial well-being is affecting the environment.

3. Which of the following are considered political elements of PESTLE?

a. Visa requirements and trading tariffs.
b. Weather and climate.
c. Currency inflation and interests rates.
d. Age and gender.

4. Which of the following is not a feature of Business environment:-

a. Interrelated Elements

b. Dynamics

c. Complexity

d. Continuous

5. Identification of opportunities to get first more advantage is one of the importance of business environment: -

a. True

b. False

c. Cannot say

6. Which of the following does not explain the impact of government policy changes on business & industry:-

a. Increasing competition
b. More demanding market customers
c. Market orientations
d. Change in agricultural prices

7. ________ refers to negative and unfavourable external factors that are likely to create hurdles for a firm:-

a. Opportunities

b. Warning

c. Threats

d. None of these

8.Which of the following are the dimensions of the business environment: -

(a) Economic & Social

(b) Technological & Economic

(c) Legal & Social

(d) All of the above

9. Liberalisation means

(a) Policy of planned disinvestment

(b) Integrating among economies

(c) End of license & reduction of government control

(d) None of these

10. Globalization does not involve:-

(a) Reduction of barrier

(b) Free flow of goods & services

(c) Global mechanism for settlement of economic disputes

(d) Free flow of capital

Ans:

1	2	3	4	5	6	7	8	9	10
d	b	a	d	a	d	c	d	c	a

1.8 Short Questions

1. Mention two scope of business environment.

2. Why business environment is called dynamic?

3. State two merits of environmental analysis.

4. What are the environmental factors of PESTLE?

5. State two characteristics of business environment.

1.9 Long questions

1. Define environment analysis and its components.

2. What are the three factors affecting business environment?

3. Define all the economic systems along with their advantages and disadvantages.

4. Explain the situation of the public as per their economic system.

5. What is included in 'Political Environment' of business?

7. Define the PESTLE framework and all its elements.

Unit 2: Indian Economy

2.0 Learning Outcome

At the end of this unit, you will be able to:

- Explain the different economic systems and the policies

2.1 Introduction:

Economics is the study of how society distributes limited resources to produce output, including land, labor, capital, and entrepreneurship (goods and services).

India is broadly considered to be a developing nation, and its economy is a mixed one in which the public and private sectors coexist. We should first go over the Indian economy's strengths before giving an overview of it.

With a $15 trillion GDP by 2030, India's economy is probably going to be the third largest. India's economy is currently the second fastest-growing major economy in the world, behind China, and ranks fourth in terms of real GDP (purchasing power parity), behind only the USA, China, and Japan.

By 2015–16, the growth rate of the Indian economy is anticipated to reach between 7–8%.

Let's examine some historical data regarding India's economy. **Dadabhai Naoroji**, who is famously known as the **"Grand Old Man of India,"** is regarded as the Father of Indian Politics and Economics. The national income of India was initially calculated by Dadabhai Naoroji. He explains his theory—that the British exploited India's economy—in his **book "Poverty and Un-British Rule in India."** ***The Economic Drain Hypothesis*** is the common name for his theory. Before time, the Indian economy was just a tangle of princely states and colonizers, and it wasn't until then that it was discussed as a single entity. That's all there is to the past at this time.

2.2 Components of the Indian Economy

- Primary = Involving agriculture.
- Secondary = Involving the industry.
- Tertiary = Involved with services.

1. Primary Sector

To create items and carry out numerous procedures, India's primary industry is heavily reliant on the availability of natural resources. The day-to-day operations of the services in this sector are fully dependent on the availability of natural resources.

2. Secondary Sector

The natural components required for making the services and goods provided, which are ultimately used for consumption, are essential to the sector's economy. This industry is the best in terms of value added to the goods and services. The two main instances in this area are manufacturing and transportation.

3. Tertiary Sector

When it comes to a percentage of India's GDP, this industry is the largest contributor. When you think about how the other two sectors are developing, the sector—which is also the service sector—is significant. This sector, like the one before it, increases the value of the goods. Out of the total workforce now employed in India, this industry employs 23% of the total workforce.

2.3 Economic Environment:

Economic factors affecting consumer and business compliance are related to the economic environment. The phrase "economic environment" includes all such external economic factors that have an impact on consumers' and markets' purchasing decisions. As a result, it affects the company's production.

For many people, the economic environment consists of different things. For a farmer, the weather and the cost of fertilizer are two crucial considerations.

According to the Business Development Bank of Canada: *"The term economic environment refers to all the external economic factors that influence buying habits of consumers and businesses and therefore affect the performance of a company."*

These factors, which can be either large-scale (macro) or small-scale (micro), are frequently outside of a company's control.

Microeconomics Factors:

The microeconomic environment describes events that occur at the level of a specific company or consumer. The entire economy is not impacted by microeconomic variables. A firm may be impacted by the microeconomic issues listed below:

- Competitors.
- Demand.
- Market growth.
- Suppliers.
- Supply.

The supply chain for your items is often known as the supply chain. Using retail stores, distributors, the internet, etc. as examples.

Macroeconomic Factors:

On the other hand, the macroeconomic environment refers to factors that have an impact on the overall economy. The general or broad economic factors that macroeconomics studies include:

- Unemployment
- Inflation.
- Rates of interest.
- GDP expansion Gross domestic product or GDP. To put it another way, is the economy flourishing, in a recession, etc.?
- Taxes.
- Exchange rates or how much one currency is worth compared to another.
- Consumers' available discretionary money or income after taxes, social security, etc.
- Consumer confidence levels.
- Rates of savings.

Business people have no control over the economy. Before determining whether to move on with a plan or project, companies can assess market circumstances.

NOTE: Environmental economics should not be confused with the phrase "economic environment." Despite having somewhat similar sounds, they have very different meanings.

Environmental concerns are the focus of environmental economics, a branch of economics. Environmental economics has gained popularity since the second part of the 20th century.

Environmental economics examines the financial impacts of regional or global environmental policies. The costs and advantages of alternative environmental policies that address air pollution, global warming, and water quality are specific challenges.

2.4 Different economic systems (Capitalism, socialism, and mixed economy)

The government plans and distributes available services, resources, and goods across the nation using an economic system as a tool. Economic systems combine wealth, labor, physical resources, and businesspeople to manage the components of production. An economic system consists of numerous businesses, organizations, things, models, and decision-making processes.

There are three types of economic systems: Capitalism, Socialism, and Mixed economy which are based on and determined by the specific countries' economic policies created by the respective countries' governments.

Now, we discuss all three economies one by one broadly:

2.4.1. Capitalism Economy:

The term "capitalism" or "capitalist economy" refers to an economic system in which private firms control and govern factors of production such as capital goods, labor, natural resources, and entrepreneurship.

The creation of all commodities and services in a capitalist economy is based on supply and demand in the market, commonly referred to as a market economy. It is distinct from the system of centralized planning, commonly referred to as a command economy or a planned economy.

The desire to make a profit is a capitalist economy's primary trait. Free markets and a lack of government involvement in company regulation are other characteristics of the capitalist economy.

The industrial revolution was underway in 18th-century England, which is where capitalism first emerged. This form of economy is sometimes referred to as a free market economy because there is no government intervention in it.

Some of the capitalist countries are Hong Kong, United Arab Emirates, Singapore, New Zealand, Australia, Canada, Switzerland, United Kingdom, United States, and Ireland.

Features of Capitalist Economy:

- Private Property: The ability of private persons or businesses to hold private properties like factories, machines, and equipment is one of capitalism's most significant features.
- Freedom of enterprise: In this system, every person is free to do their own business without outside interference. Both consumers and producers can use this.
- Profit Making: One of the key forces influencing a capitalist economy is the desire to make a profit. In this system, all businesses aim to manufacture and market their goods to customers to maximize profit.

- Price mechanism: In this system, without the involvement of the government, the market's supply and demand will determine the volume of production and, in turn, the price established for the goods.
- Consumer Sovereignty: In this arrangement, customer demands govern the market. This is known as consumer sovereignty. The consumer enjoys the freedom to select the things needed, and it regulates the amount of production that the businesses undertake.
- Free trade: Under this system, low tariff barriers to international trade are present.
- Governmental interference: In a capitalist economy, the government stays out of the way of corporate operations. Regarding any good or service, consumers and providers are free to make their own choices.
- Flexibility in labor markets: The hiring and firing of employees are flexible under capitalism.
- Ownership autonomy: Under this system, a person is free to amass any amount of property and to put it to any use he chooses. The property is transferred to the successors by right of inheritance following his death.

Example of the capitalist economy of the United Kingdom:

These days, we in the UK and the rest of the Western world are so accustomed to capitalism that we rarely challenge it. Since ancient times, the creation of products and services has been dependent on the broad market's supply and demand rather than on central planning.

The UK market economy has been defined by private ownership of the means of production, the contemporary concept of capitalism, since the 16th century, though there were precedents in earlier times and flourishing pockets of capitalism during the later Middle Ages. Beginning in the 18th century in England, as the Industrial Revolution grew and the factory system took hold, the emphasis on capitalist development changed from trade to industry.

Adam Smith, an economist, and philosopher advocated letting the self-policing market forces decide on economic matters in the late 18th century, and his ideas were progressively adopted throughout Europe.

Even though the new class of industrial workers in the UK in the 19th century began to question the development of capitalism, it wasn't until World War I, when the gold standard was abandoned and international markets shrank, as well as until the Great Depression of the 1930s, which ended the policy of the state refraining from interfering in economic matters, that capitalism started to evolve with a little state intervention.

The previous few generations have seen capitalism sputter along, but its critics are becoming more vocal. Younger people, in particular, and especially when worries about climate change and social inequality are raised louder, have developed a fresh interest in socialism as a result of the global financial crisis of 2007–09 and the Great Recession that followed it.

Advantages of Capitalism Economy:

- The capitalist economy is more efficient because goods are created by consumer demand.
- Government action and bureaucratic interference are less prevalent.
- The opportunity for innovation is greater as businesses strive to dominate a significant portion of the market with their products.
- To ensure that there are no hurdles preventing trade between two parties, it discourages all forms of prejudice.

Disadvantages of Capitalism Economy:

- Income disparities are a consequence of capitalism.
- Businesses in capitalism may obtain a monopoly on employees and customers.
- A capitalist economy's high profit-seeking motivation is to exploit resources in a way that upsets the natural equilibrium and causes environmental issues.

2.4.2. Socialist Economy

A socialist economy is one in which each member of the community owns an equal share of the means of production. A socialist economy operates in complete opposition to a capitalist one. A democratically elected government oversees this kind of public or state ownership. In a wholly socialist economic system, everyone works to accumulate wealth, and wealth is distributed equally to all. A socialist economic system is also based on the principle that "what is good for one is good for everyone."

Furthermore, in a truly socialist economy, the government controls all aspects of production and distribution, and citizens are entirely dependent on it for everything from food to healthcare. The choice of the goods and services, as well as their prices, is made by the states.

Socialism is strictly followed in nations like Finland, Iceland, Norway, Sweden, Denmark, and Denmark. These nations are wholly socialist.

Examples of socialist economies can be found in these five Nordic nations. According to their labor and contribution, they divide the money equally. They believe that to make the most use of savings, health and education are more important topics. The best feature is that the common person participates in making decisions.

Example of Germany as a socialist economy:

The social market economy's guiding principles serve as the foundation for German economic policy. One of these is having a government that enacts laws and upholds them, creating a solid foundation for companies to prosper while competing with one another. The rules are also made to provide the government room to promote social equality and make sure that everyone shares in our collective prosperity.

Germany has been announcing strong growth rates for years. The 2018 autumn forecast predicts that the German economy will expand by an additional 1.8 percent in 2018. A strong labor market is a side effect of economic expansion. Approximately 44.9 million individuals in Germany are currently employed. In 25 years, unemployment has decreased to its current low. The autumn projection predicts that in 2019, employment will rise by 400,000 people, bringing unemployment to a new historical low.

By 2025, Germany wants to have full employment. Growth in the German GDP creates prosperity as well; since 2013, real net wages and salaries have increased by an average of more than 1.6% annually. Large segments of our society now have significantly more purchasing power as a result of the strong economic growth we have witnessed in recent years.

Features of Socialist Economy:

- Government Control: In a socialist economy, the government either owns or controls the use of the means of production. The state has the ownership of the means of production and are used for the benefit of society. Regarding the means of production, there is no such thing as private property.
- The state often owns the majority of the means of production in communist nations like the USSR and China. The private sector has a great role to play in several socialist economies. In these situations, the government directs and controls the production pattern and allocation of investments following national priorities. Some essential industries, including a sizable portion of institutional finance, are in the public sector in some nations, such as India, such that the private sector's resource allocation and investment behavior can be controlled by controlling the supply of basic inputs to the private sector.
- Central Planning: Under socialism, a Planning Commission or the central planning authority develops a comprehensive plan for the entire economy following certain goals and priorities. To create the national plan for development and oversee resource mobilization, allocation, and investment to meet the plan's objectives, socialist economies often have a central authority akin to the central planning agency. Because the central planning authority directs the pattern of resource usage and development, socialist economies are frequently referred to as command economies. Centrally managed economies are another name for them. The USSR, China, the German Democratic Republic (East Germany), Poland, Romania, etc. all had centrally planned economies.

- Social Welfare: Another characteristic of socialism is that the means of production are used to advance and serve the common good rather than the interests of a select few. In a socialist society, the community's productive resources are used to produce commodities and services that maximize social welfare rather than those that provide the highest profits.
- Lack of Competition: Because the government controls the means of production, it has a say in the type of product that will be produced, how much will be produced, and how much it will cost. There is no room for rivalry.
- Consumption Restriction: Unlike market economies where customers have the option to select from a wide range, communist countries lack consumer sovereignty since the state determines what may be made available to them. Therefore, in a communist society, customers are forced to make do with whatever the government deems to be adequate for them.
- Income Distribution: A key component of the socialist system is the equitable distribution of income. However, this does not imply that socialist economic systems strive for absolute income equality. In socialist nations, pay differentials are recognized based on the nature and demands of the job.

❖ **Advantages of Socialist Economy:**

- Economic equality: In a socialist system, the government controls all aspects of production and there is no room for wealth to be centralized. All individuals share in the wealth. Inequalities in the economy are avoided.
- Production planning: In a socialist economy, the goal is to meet the people's actual requests and requirements. It coordinates plant productions for this aim.
- Economic Stability: In a socialist system, the government maintains coordination between the supply of various goods and the demand for their production. So there is just a slight chance of both overproduction and underproduction. As a result, a socialist economy is stable economically.
- Utilizing national resources properly. In a socialist system, the central planning authority is more suited to identify price and output changes than in a capitalist market. The state maximizes societal wellbeing by using the tools of production.

❖ **Disadvantages of Socialism Economy:**

- Management challenges: In a communist system, all production setups are based on government planning, and government employees are responsible for all duties. The heavy workload placed on government employees, as a result, makes effective management challenging.

- Lack of Freedom: In a socialist economy, the government is the one in charge of running the business. The workers' right to pick their occupation is restricted. Government restrictions on every aspect of human life impede progress.
- Lack of Consumer Sovereignty: In a communist system, consumers' preferences are not given enough consideration. The type and volume of output are determined by the political apparatus. Thus, in a socialist economy, the consumer is not king.
- Lack of Rational Cost Calculation: According to economists, socialist systems lack rational cost calculation throughout the production process. Without logical cost calculation, efficient production is impossible. The ownership of the producing sources by the government is the cause.

2.4.3. Mixed Economy

A system that has elements of both capitalism and socialism is called a mixed economy. A mixed economy protects private property and permits some economic freedom in the use of capital, but it also permits government intervention in the economy to further social objectives.

A mixed economy is structured with a combination of free-market and socialist components and that falls somewhere on the spectrum between pure capitalism and complete socialism.

Most of the means of production are normally kept under private ownership and control in mixed economies, but they are frequently subject to government oversight.

Select industries that are deemed necessary or that create public goods are socialized in mixed economies.

Although some economists have criticized the economic effects of various sorts of mixed economies, all known historical and contemporary economies are examples of mixed economies.

❖ Features of Mixed Economy:

- Division of Public and Private Sectors: In a mixed economy, there are two divisions of the public and private sectors. The industries are located in one area, and the state is in charge of their development as well as their ownership and management. The consumer products industry, minor and cottage industries, agriculture, etc. are all given to the private sector in the second section. The government does not oppose the private sector, it should be stated.
- Government Control: For a mixed economy to work, the government must exert control over private businesses in the public interest. To introduce and carry out its plans, the government needs this control.
- Protection of Labor - In a mixed economy, the government defends the weaker groups of society, particularly the labor force, preventing them from being exploited by capitalists. The minimum pay and the number of hours worked have been set. To avoid labor disputes, the government adopts some measures.
- Reduction of Economic Inequalities- In a mixed economy, the government takes the required actions to lessen income and wealth disparities. Governments in a democratic system strive to lessen economic disparities to advance social fairness, social welfare, and increased output for all.

❖ Advantages of Mixed Economy:

- Economic Freedom: In a mixed economy, customers are allowed to behave whatever they like. People are completely free to select their profession. The possibility of economic liberty exists.
- Control on Monopolistic Activities: In a mixed economy, the public and private sectors coexist, and the private sector has the chance to grow. Monopolistic activities are restricted, and the government enacts different laws and regulations in this regard.
- Social Welfare: In this system, the government influences the capitalist organizations. The idea of social welfare serves as the foundation for the government's industrial, economic, and financial policies.
- Planning and effective resource use: In a mixed economy, planning is prioritized. All the resources are dispersed across the various economic sectors following a thorough survey. This results in the right and effective use of resources.

❖ Disadvantages of Mixed Economy:

- Temporary Economic System: A mixed economy cannot be sustained as a long-term economic system, hence the term "temporary economic system." This system was deemed adequate relatively early on, but as time went on, its fundamentals continued to deteriorate.
- Danger to Democracy: A threat to democracy is the potential for socialism to gain power over time. In such a situation, the government would be in charge of the entire economic system. Thus, democracy may be in jeopardy.
- Imbalance in the Economy: An unbalanced economy is unable to support proper development because the government seeks to keep the public and private sectors in balance. The government's policies are unclear, and as a result, the economy is inequitably balanced.

2.5 Assessment of India’s Economy

The important example of a mixed economy is often cited as being India. The Directive Principles of State Policy in the Indian Constitution serve as the foundation for evaluating such an economy in India. According to these Directive Principles, the state is required to create a democratic system of governance and, within that framework, to hasten the economic development of India to increase the country's GDP and the average person's standard of living.

The Indian Constitution's Directive Principles state that the Slate works to "advance the welfare of the people by safeguarding and protecting, as effectively as it can, social order in which justice—social, economic, and political—shall inform all the institutions of national life." The state must focus its economic strategy on ensuring a more equitable distribution of power over and ownership of the community's material resources, preventing the concentration of wealth in the hands of a select few, and preventing labor exploitation.

Without being involved in production and distribution, the state would be unable to achieve the goals specified in the directive. Without actively encouraging rapid industrialization through its participation, how can the state in India enhance the level of national revenue and living standards of the laboring masses?

Therefore, the state of India is committed to establishing a socialist order of society in which the current stark wealth disparities will be minimized. However, the state would not be ready to do away with the private enterprise system, which has been doing admirably in production and distribution despite numerous errors and clear disadvantages.

As a result, our commitment to both socialism and democracy has led to our mixed economy. As a result, both the state and private sectors are expanding simultaneously. The coexistence of private, public, joint, and cooperative sectors as well as the cottage, teeny, small, medium, and big businesses, define the mixed economy of India. Although there is overlap in many areas, some regions are designated for particular sectors, or certain sectors are excluded from certain areas to meet specific socio-economic goals.

The existence of both the private and public sectors is a mixed economy's primary distinguishing feature. In a sense, both capitalist and socialist economies can be thought of as mixed economies since, as was already noted, both have a tiny private sector and a public sector that is unavoidably present in both.

A tiny public or private sector does not turn a capitalist or a socialist economy into a mixed economy. The crucial issue is that the government should adhere to a clear policy and should make its intention to permit the coexistence of the two sectors known through the legislative process. The boundaries of each are set forth by legislation.

Additionally, a mixed economy must be a planned economy. The term "mixed economy" signifies an economy in which the government has a clear and specific economic strategy, as opposed to simply being governed and subject to government intervention through fiscal and monetary policies.

The government has conducted business following specific planning and to realize specific social and economic objectives. However, the government cannot allow the private sector to grow in an unorganized manner on its own. As a result, the government must create an integrated strategy while the private sector is still establishing itself. It has been determined that a mixed economic system is the best one for achieving democratic socialism's objectives, it has become the ideal. Growth with social justice can be significantly aided by a well-balanced system in which each sector has a distinct function to perform.

The mixed economy serves as a middle ground between the free market and either state capitalism or communism. Such a mixed economy combines and leverages the assets and competencies of the public and private sectors for the advancement of the country. It is anticipated to have the benefits of state capitalism and free enterprise without their drawbacks.

The private sector is not only subject to a lot of checks and restrictions, but the public sector has also taken control of the economic apex to effectively regulate the private sector. However, in the regions where it is expected to operate, the private sector is provided encouraging support for expansion and development.

Undoubtedly, a large developing nation like India is best suited for a mixed economic system. Our growth since gaining independence is evidence of this. Without the participation of the public, private, and other sectors, India would not have been able to achieve the level of growth and diversification that it has.

To achieve the goal of preventing the concentration of economic power in a few hands to the detriment of all, to restrain the economic dominance and power of the private sector against social interests, and to advance social justice, the private sector must be regulated and the public sector must be dominant in certain areas.

Enabling the private sector to operate in a variety of sectors has also quickened the speed of development. Otherwise, many resources, including expertise, would have gone unused.

The joint sector represents an effort to combine the talents and resources of the public and private sectors while maintaining a social focus to accomplish development in the desired direction.

2.6 Economic policies (Monetary & Fiscal)

A course of action designed to affect or regulate the economy's behaviour is known as an economic policy. The government normally implements and oversees economic policy. Economic policy decisions include those made about taxation and spending by the government, the supply of money, and the redistribution of income from the wealthy to the poor.

There are two techniques to evaluate the efficacy of economic policies: positive economics and normative economics.

We discuss both the techniques briefly:

Positive economics attempts to explain how the economy and economic policy operate without using moral standards to determine which outcomes are the best. Positive economic theories stand out because they can be tested and either verified or disproved. The idea that "an increase in the supply of money causes an increase in prices," for instance, falls under the umbrella of positive economics because it can be verified by looking at data on the amount of money available and the level of prices.

Normative economics entails making value judgments to evaluate how well the economy and economic policies are performing. Therefore, it is impossible to test normative economic ideas. The claim that "the inflation rate is too high," for instance, falls under the purview of normative economics because it is based on a value judgment and so cannot be verified, supported, or disproved. Unsurprisingly, normative economic assumptions are the subject of the majority of economists' debates.

Economic policy's objectives are value judgments about what should be pursued, and as a result, they fall within the category of normative economics. The ideal objectives for economic policy are hotly debated, but several of them seem to enjoy broad, if not unanimity, support. These commonly recognized objectives include:

- Economic growth: After taking inflation into account, economic growth is the gradual rise in all consumers' and businesses' incomes.
- Full employment: Full employment aims to ensure that everyone in the labor force who wants to work may do so.
- Price stability: Preventing both rises in the overall level of prices, known as inflation, and drops in the overall level of prices, known as deflation, is the aim of price stability.

A country can make many of policy according to their country's economic situation:

a. Industrial policy

b. EXIM policy

c. Monetary policy

d. Fiscal policy

e. National agricultural policy

f. International trade policy

g. External rate management policy and many more.

But mainly, we discuss two main policies here: 1) Monetary policy and 2) Fiscal policy.

2.6.1 Monetary Policy

Monetary policy is nothing but the policy of the central bank – i.e. Reserve Bank of India – in matters of interest rates, money supply, and availability of credit. The RBI manages the nation's inflation through its monetary policy. To accomplish its goals, RBI employs a variety of financial instruments, including REPO rates, Reverse RERO rates, SLRs, and CRRs.

To achieve the overarching goal of economic policy, monetary policy refers to the employment of monetary instruments under the supervision of the central bank to control variables like interest rates, money supply, and credit availability.

As we've already seen, monetary policy is the term used to describe the steps taken by a country's central bank to regulate the money supply. Management of the money supply aids in preventing inflation or deflation.

A contractionary or expansionary monetary policy is a type of monetary policy.

The primary aim of an **expansionary monetary policy** is to increase (grow) the money supply in an economy. Lowering key interest rates increases market liquidity and enacts an expansionary monetary policy.

The primary aim of a **contractionary monetary policy** is to reduce (constrict) the money supply in an economy. By raising key interest rates and thus decreasing market liquidity, a contractionary monetary policy is undertaken.

Conducting monetary policy is the prime responsibility of the Reserve Bank of India (RBI). The Reserve Bank of India Act 1934 has expressed this obligation as mandatory.

With the advent of the Monetary Policy Framework (MPF), Monetary Policy Committee (MPC), and Monetary Policy Process, there have recently been numerous changes made to how India's monetary policy is established (MPP).

A key prerequisite for continuous growth is price stability.

Inflation must be managed if price stability is to be maintained. Every five years, the Indian government sets an inflation target. In the consultation process for inflation targeting, RBI is a key player. India's existing system for targeting inflation is adaptable.

Then how the inflation targets were set to control the inflation?

Flexible Inflation Targeting Framework: Following the 2016 amendment to the Reserve Bank of India (RBI) Act, 1934, India now has a flexible inflation targeting framework.

According to the amended RBI Act, the Government of India must confer with the Reserve Bank every five years to determine the inflation objective.

Target for Current Inflation: The Consumer Price Index (CPI) inflation target for the period from August 5, 2016, to March 31, 2021, has been set at 4%, with 6% as the upper tolerance limit and 2% as the lower tolerance limit.

Failure to meet the inflation target criteria includes:

(1) Average inflation exceeding the target's upper tolerance level for any three consecutive quarters; OR

(2) Average inflation falling below the target's lower tolerance level for any three consecutive quarters.

The Reserve Bank of India (RBI) administers the country's monetary policy framework while the Government of India establishes the Flexible Inflation Targeting Framework.

The Reserve Bank is specifically given the legal authority by the amended RBI Act to manage the nation's monetary policy framework.

To anchor money market rates at or near the repo rate, the framework tries to set the policy (repo) rate based on an evaluation of the existing and changing macroeconomic environment.

Recall that changes in repo rates affect the entire financial system through the money market, which in turn affects aggregate demand, a crucial factor in inflation and growth.

The Reserve Bank's operating structure, once the repo rate is released, anticipates liquidity management daily by suitable actions that are intended to anchor the operating target, the weighted average call rate (WACR), around the repo rate.

The Monetary Policy Committee now determines the policy interest rate needed in India to reach the inflation target (MPC). MPC is a six-person body that the Central Government established (Section 45ZB of the amended RBI Act, 1934).

At least four meetings of the MPC must take place each year. Four members are required to form a quorum for an MPC meeting. In the event of a tie vote, the Governor has a second, or casting, vote. Each MPC member has one vote.

After the conclusion of each MPC meeting, the resolution that was adopted was made public. The Reserve Bank is obligated to produce a report called the Monetary Policy Report once every six months to describe:

(1) The causes of inflation and

(2) The projected rate of inflation for the next six to eighteen months.

The Process of Monetary Policy (MPP)

The necessary policy interest rate to reach the inflation objective is chosen by the Monetary Policy Committee (MPC).

The Monetary Policy Department (MPD) of the Reserve Bank works with the MPC to develop monetary policy. The opinions of significant economic players and the Reserve Bank's analytical work are taken into consideration when deciding on the policy repo rate.

The Financial Markets Operations Department (FMOD) primarily uses daily liquidity management operations to operationalize monetary policy. To keep the operating target of monetary policy (weighted average lending rate) near the policy repo rate, the Financial Market Committee (FMC) meets every day to examine the liquidity conditions.

The objective of Monetary Policy:

'Growth with Stability' is the guiding principle of Indian monetary policy. The policy aids in the regulation of money's availability, cost, and use. The following are India's key monetary policy objectives:

1. The stability combined with growth:

In India, monetary policy has traditionally been focused on controlling inflation. This was accomplished by reducing the money supply and credit. However, this resulted in weak economic growth.

As a result, the RBI implemented a new growth-with-stability policy. It means that the RBI will supply enough credit to meet the growing demands of the economy's many sectors. It will also keep inflation within a set range.

2. Financial Stability Regulation, Supervision, and Development:

Financial stability refers to an economy's ability to absorb shocks while maintaining public trust in the country's financial system. Internal and external shocks can both endanger a country's financial stability and destabilize its financial system.

As a result, the RBI places a high value on preserving trust in the country's financial system through proper regulation and supervision. It also assures that the goal of expansion is not jeopardized. As a result, we may say that the RBI concentrates on financial stability regulation, oversight, and development.

3. Priority Sector Promotion:

Agriculture, export, small-scale enterprises, and the weaker sections of the population are among the focus sectors of India. The RBI has continuously ensured that the banking sector offers timely and appropriate credit to these groups at reasonable rates.

4. Creation of Employment:

A country's monetary policy has an impact on the rate of investment and its allocation among the country's many economic activities with variable labor intensities. As a result, it aids in the creation of jobs.

5. Stability on the outside:

India's ties to the global economy are strengthening as imports and exports increase. Historically, the RBI set the currency rate and controlled the foreign exchange market. However, through controlled flexibility, the RBI currently only has indirect control over external stability. The RBI controls the currency rate through this method by purchasing and selling foreign currencies on the open market.

6. Encouragement of Savings and Investing:

The RBI gives attractive interest rates to encourage people to save. A high saving rate also leads to investment.

As a result, monetary management may mobilize savings and thus investments in the economy by affecting interest rates.

7. Income and wealth redistribution:

Because the RBI regulates inflation and provides affordable credit to the most vulnerable segments of society, it can redistribute income and wealth.

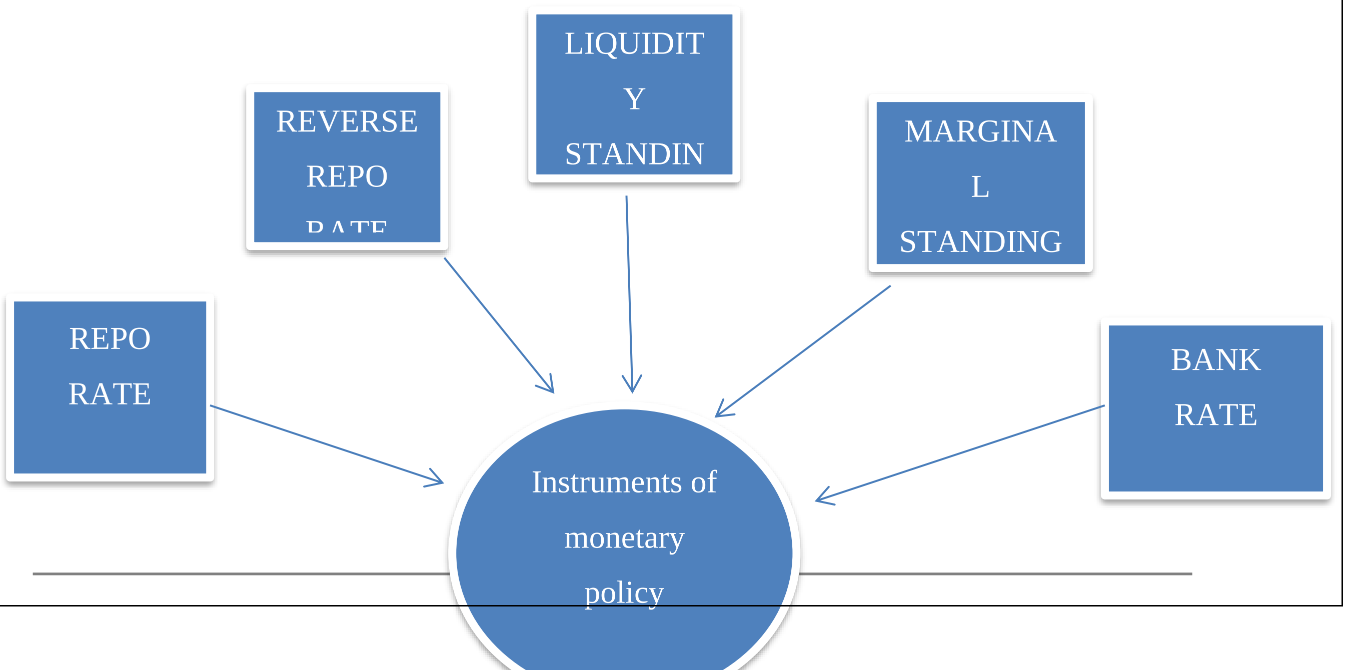
8. Regulation of Non-Bank Financial Institutions

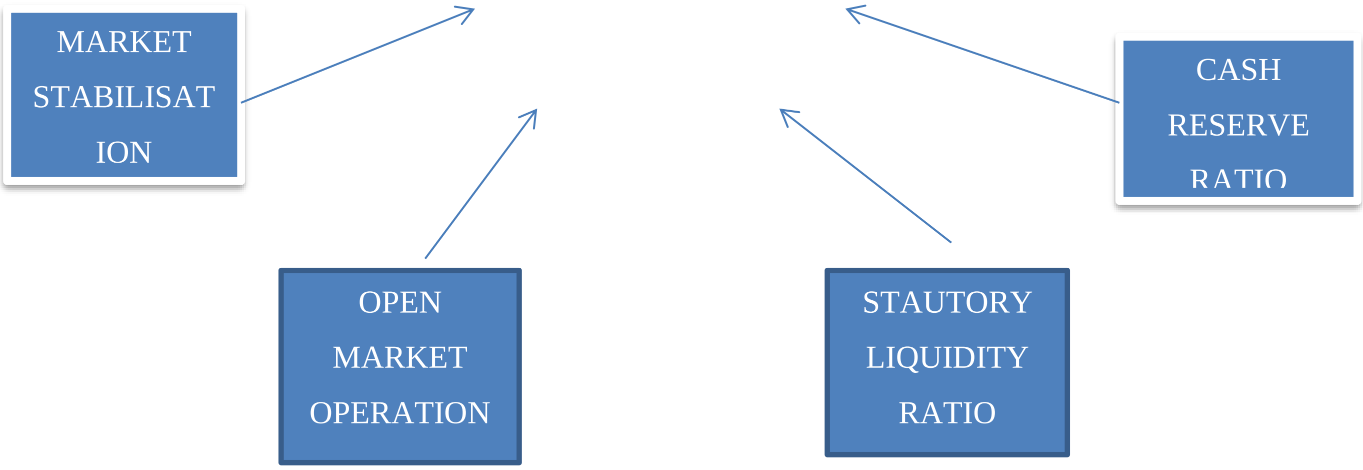
Non-Banking Financial Institutions (NBFIs) such as IDBI, UTI, IFCI, and others play an essential part in the Indian economy. They facilitate the deployment of loans as well as the mobilization of savings.

The RBI has no direct influence over the operations of these institutions. However, it can indirectly impact the policies and functioning of NBFIs through monetary policy.

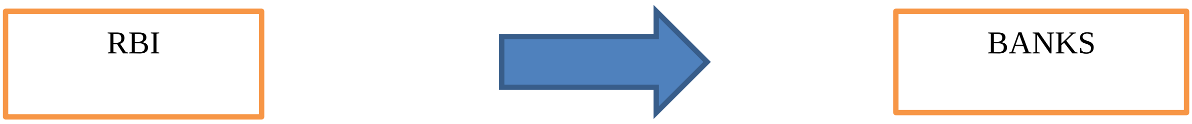
Monetary Policy Rates

The many direct and indirect tools used to carry out monetary policy are:





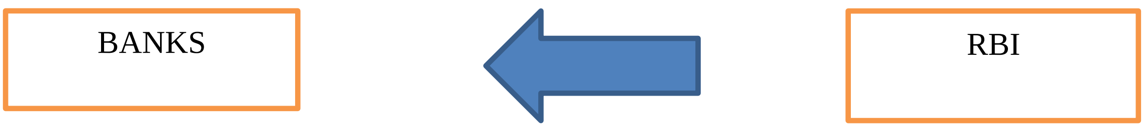
Repo Rate: The interest (fixed) rate at which the Reserve Bank lends overnight liquidity to other banks in exchange for the banks' holdings of government and other authorized assets as collateral (LAF).



The current repo rate is 5.40 per cent

Based on the analysis of the current situation and macroeconomic changes, the Monetary Policy Committee (MPC), at its meeting today (August 5, 2022) decided: Details at 5.40% with effect immediate.

Reverse Repo Rate: The interest (fixed) rate at which the Reserve Bank purchases overnight liquidity from banks in exchange for qualified government assets pledged as collateral under the LAF.



Liquidity Adjustment Facility (LAF): Term and overnight repo auctions are part of the LAF. The Reserve Bank gradually raised the amount of liquidity added during fine-tuning variable rate repo auctions of a variety of tenors. Term repo's goal is to support the growth of the interbank term money market, which can then establish market-based benchmarks for pricing loans and deposits and, as a result, enhance the transmission of monetary policy. In addition, the Reserve Bank holds reverse repo auctions with changing interest rates as needed by the market.

Marginal Standing Facility (MSF): scheduled commercial banks are allowed to draw down a maximum amount of their Statutory Liquidity Ratio (SLR) portfolio to borrow additional overnight funds from the Reserve Bank at a penalty rate of interest. This gives the banking system a safety valve against unforeseen liquidity shocks.

Bank Rate: The reserve bank's willingness to purchase or rediscount bills of exchange or other commercial papers is known as the bank rate. The Reserve Bank of India Act, 1934, section 49 published the Bank Rate. This rate has been synchronized with the MSF rate and adjusts automatically whenever the MSF rate and the policy repo rate change.

Cash Reserve Ratio (CRR): It is the average daily balance that a bank must keep on hand with the Reserve Bank as a proportion of its Net Demand and Time Liabilities (NDTL), which the Reserve Bank may from time to time announce in the Indian Gazette.

Statutory Liquidity Ratio (SLR): The percentage of NDTL that a bank must keep in safe and liquid assets, such as cash and gold. The amounts of resources in the banking system that are available for lending to the private sector are frequently impacted by changes in SLR.

Open Market Operations (OMOs): These involve the outright acquisition and disposition of government securities for the injection and absorption, respectively, of long-term liquidity.

Market Stabilization Scheme (MSS): It is a tool for managing money that was first introduced in 2004. Selling short-dated government assets and treasury bills allow for the absorption of more long-lasting excess liquidity resulting from significant capital inflows. The Reserve Bank has a separate government account where the money that was thusly mobilized is kept.

To achieve the overarching goal of economic policy, monetary policy refers to the employment of monetary instruments under the supervision of the central bank to control variables like interest rates, the money supply, and the availability of credit.

Expansionary and Contractionary Monetary Policy

The activities made by a country's central bank to manage the money supply are referred to as monetary policy. Management of the money supply aids in preventing inflation or deflation.

The Reserve Bank of India (RBI) is responsible for establishing the country's monetary policy. A contractionary or expansionary monetary policy is acceptable.

- **Expansionary monetary policy definition:**

The goal of an expansionary monetary policy is to increase (grow) the money supply in an economy. Another name for this is easy monetary policy.

To increase market liquidity, an expansionary monetary policy is undertaken by decreasing key interest rates (money supply). Increased economic activity is typically encouraged by high market liquidity.

When the RBI adopts a contractionary monetary policy, the central bank raises policy rates, such as the repo, reverse repo, MSF, and bank rate, among other interest rates.

Increased reserve ratios, such as the Cash Reserve Ratio (CRR) and Statutory Liquidity Ratio (SLR), cause the market's liquidity to be removed by selling government securities as part of Open Market Operations (OMO).

Let's now try to understand some advanced concepts relating to an expansionary monetary policy.

- Price increase for bonds: The bank interest rates decrease as a result of expansionary monetary policy. Bonds that give a fixed interest rate for a longer time will be more appealing as long as bank interest rates continue to decline. As a result, there might be greater demand for bonds, which might raise bond prices.
- Increase in Foreign bond prices: Even if there may be a rise in demand for bonds as a whole, lower interest rates may make domestic bonds less appealing. Therefore, local bond demand may decline while international bond demand will increase.
- A decline in the currency rate: Foreign investment is frequently put off by lower interest rates. The relative worth of the currency could drop as a result. Less foreign investment and, thus less foreign money may be the outcome of an interest rate reduction. A decline in the exchange rate could occur as domestic currency demand declines and foreign currency demand increases.
- Increase in exports and BoP: A lower exchange rate may result in an increase in exports, a decrease in imports, and a balance of payments.
- Higher Capital Investment: Capital investment increases when interest rates are lower.

Contractionary Monetary Policy

The primary aim of a contractionary monetary policy is to reduce (constrict) the money supply in an economy. Another name for this is tight monetary policy.

To reduce market liquidity, a contractionary monetary policy is done by raising key interest rates (money supply). Production and consumption are typically negatively impacted by low market liquidity. This might hinder economic expansion as well.

The central bank raises Policy Rates (Interest Rates) such as Repo, Reverse Repo, MSF, Bank Rate, etc. when the RBI adopts a contractionary monetary policy.

Increased reserve ratios, such as the Cash Reserve Ratio (CRR) and Statutory Liquidity Ratio (SLR), cause the market's liquidity to be removed by selling government securities as part of Open Market Operations (OMO).

Let's now attempt to comprehend some advanced ideas related to a contractionary monetary policy.

- A decrease in Bond prices: Bond prices fall as a result of a contractionary monetary policy's higher bank interest rates. Bonds that offer an interest rate that was previously fixed may lose their appeal when bank interest rates continue to rise. As a result, there may be less demand for bonds, which could lead to lower bond prices.
- A decrease in foreign bond prices: a drop in the cost of foreign bonds The higher interest rates offered in India may make international bonds less desirable even though the demand for bonds as a whole may decline. The demand for international bonds could therefore decline while the demand for domestic bonds could increase.
- A rise in the exchange rate: Foreign investment is frequently attracted by higher interest rates. The relative worth of the currency could rise as a result. Increased international investment and, consequently, more foreign money may be the outcome of higher interest

rates. An increase in the exchange rate could occur as domestic currency demand rises and foreign currency demand declines.

- Lower exports and BoP: A higher exchange rate may result in lower exports, greater imports, and a lower balance of payments.
- Lower Capital Investment: Lower levels of capital investment may result from higher interest rates.

What Should You Know About REPO and CRR Rate Cuts?

The Reserve Bank of India may raise or lower rates for products like REPO, Reverse REPO, and CRR, among others.

- ❖ **What is the rate for REPO?**

The repurchase rate, the repo rate, is the interest rate at which the central bank (RBI) loans money to commercial banks to meet short-term financial requirements to preserve liquidity and control inflation.

The Economic Impact of the Repo Rate:

The repo rate is an essential component of the country's monetary policy, and it is used to control the country's liquidity, inflation, and money supply. Additionally, repo rate levels have a direct impact on bank borrowing patterns.

In other words, when the repo rate rises, banks must pay greater interest to the RBI to obtain funds, and when the repo rate falls, the cost of borrowing funds falls.

The scenarios that follow discuss the influence of the repo rate on the economy.

1. When the rate of inflation is high: During periods of high inflation, the central bank (RBI) restricts the flow of money in the economy by increasing the repo rate, leading

to fewer borrowings by firms and industries. It leads to a situation where, the money supply and investment activity in the economy decelerate, which helps to manage the inflation rate.

2. To upsurge liquidity in the economy: When there is a need to increase liquidity in the market, the RBI lowers the repo rate so that firms can borrow money for investment reasons, increasing the economy's money supply. The result of such a step is that it becomes beneficial to the economy's growth.

   Look at the scenarios that could lead to a rise or fall in the repo rate:

   Repo Rate Increase:

   1. When there is substantial inflation in the economy, and according to the RBI, the situation may worsen.

   2. When there is a possibility of currency depreciation

   3. When it wants to reduce any foreign exchange speculations

   4. The likelihood of asset bubbles forming as a result of excessive capital production.

   Reduced Repo Rate :

   1. The circumstance in which the RBI considers that both inflation and the fiscal deficit are under control and that there is no chance of a demand-led price spike.

   2. When the economy shows indications of slowing, the RBI seeks to stimulate the economy by facilitating a more accommodating monetary policy.

   3. If the RBI considers the balance of payments position to be normal.

❖ **CRR Rate: What Is It?**

The Cash Reserve Ratio (CRR) is the percentage of a bank's total deposit that is required by the Reserve Bank of India (RBI) to be kept as reserves in the form of liquid cash.

Cash Reserve Ratio Objectives:

The Cash Reserve Ratio is one of the reference rates to determine the base rate. The base rate is the lowest lending rate at which a bank is not permitted to lend funds. The Reserve Bank of India fixes the base rate (RBI).

The rate is fixed, which ensures openness in the credit market when borrowing and lending. The Base Rate also assists banks in lowering their lending costs, allowing them to extend more affordable loans.

Aside from that, the Cash Reserve Ratio has two primary goals:

1. The Cash Reserve Ratio assures that a portion of the bank's deposit is held by the Central Bank and hence secure.
2. Another goal of CRR is to keep inflation in check. During periods of high inflation, the RBI boosts the CRR to decrease the amount of money available to banks for loan approval. It restricts the flow of money in the economy, decreasing investment and lowering inflation.

What effect does CRR have on the economy?

The Cash Reserve Ratio (CRR) is a primary component of the RBI's monetary policy, which is used to control the country's money supply, level of inflation, and liquidity. The higher the CRR, the less liquidity there is with the banks, and vice versa. Attempts are undertaken to restrict the flow of money in the economy during periods of excessive inflation.

As a result, the RBI increases the CRR, reducing the number of loanable funds available to banks. As a result, investment slows, and the availability of money in the economy decreases. As a result, the economy's growth is being hampered. However, this also contributes to lower inflation. When the RBI wishes to inject funds into the system, it reduces the CRR, which raises the loanable funds with banks. In turn, banks sanction a vast number of loans to enterprises and industries for various investment goals. It also tends to expand the entire money supply in the economy. This ultimately enhances the economy's growth rate.

Why is the Cash Reserve Ratio adjusted regularly?

According to RBI regulation, every bank is required to keep a percentage of total deposits that can be stored in currency chests. This is thought to be the same as what is kept with the RBI. The RBI has the authority to modify this percentage at regular periods. When this ratio changes, the economy suffers.

Lending generates revenues for banks. In pursuit of this purpose, banks may lend out maximum amounts to maximize earnings while holding very little cash. Customers' surprise rush to withdraw their deposits will leave banks unable to meet all payback obligations.

As a result, CRR is critical to ensuring that a specific percentage of all deposits in each bank is always maintained securely with them. While the primary objective of the CRR is to ensure liquidity against deposits, it also plays a significant role in managing interest rates in the economy.

The RBI manages short-term interest rate volatility by altering the quantity of liquidity in the system. Too much cash in the economy causes the RBI to raise interest rates to reduce inflation, whereas a lack of cash causes the RBI to lower interest rates to boost economic growth.

As a depositor, you should be aware of the current CRR in the market. It ensures that, regardless of the bank's performance, a fixed percentage of your money is safe with the RBI.

RBI cut the REPO and CRR; why?

The RBI has begun to prioritize the expansion of the Indian economy over the alleviation of inflation. Due to both internal and external forces, India's growth rate has been declining for a few years, currently hovering around 5%. A high-interest rate (REPO) cannot be of any assistance because private players in India are the key drivers of growth. The industries that demands a lot of capital require affordable money, which calls for affordable loans. Growth not only leads to improved employment opportunities but also more tax revenues that the government can use for social sector programs.

- **How does the depreciation or devaluation of the rupee impact exports and imports?**

News headlines like "Indian rupee plummeting" or "Rupee falls to Rs. 70 against US dollar" may have caught your attention. Ever wonder why the rupee is declining? Who determines the Indian rupee's parity with the US currency at Rs. 70?

Let's talk about a few perplexing economic ideas relating to the currency market in this essay. In this post, we'll examine the distinction between rupee devaluation and depreciation.

Let's look at the Indian rupee's value to the US dollar starting in 1947 to observe how exports and imports are impacted by a decline in the rupee's value.

Who determines the Indian Rupee's exchange rate with the US Dollar?

Very interesting query. Do you believe that the Indian government controls the rupee's exchange rate with the US dollar?

Otherwise, who fixes it?

RBI? No.

None of these organizations currently controls the value of the Indian Rupee. The market now determines the value of the Indian Rupee (or any other currency). Market, yes! The market here refers to the foreign exchange market.

The price of any currency is determined by supply and demand factors in the currency market.

The Indian rupee will increase in value if there is a strong demand for it (1 USD = 40 INR, for example), and decline in value (1 USD = 70 INR, for example) if there is low demand.

A system is referred to as a floating rate system if market forces decide a currency's value. Since 1975, India has used a partially floating rate system, and as of 1993, it is entirely dependent on this system. This implies that the currency exchange rate cannot be fixed instantly by our Prime Minister, Finance Minister, or RBI chairperson. However, they continue to have some degree of authority over policy decisions and foreign exchange reserves.

Floating rate system vs. fixed rate system

A system is referred to as a fixed rate system if the government or RBI fixes the exchange rate of a currency (and prohibits any fluctuations based on market forces of supply and demand). The Bretton Woods system and the Pegged Currency System are other names for it. Until 1975, India used this type of arrangement, and it continued with some regulations until 1993. The majority of nations, including India, switched to the floating rate system, where the value of a currency is determined by the currency market because this method of valuing currencies is artificial.

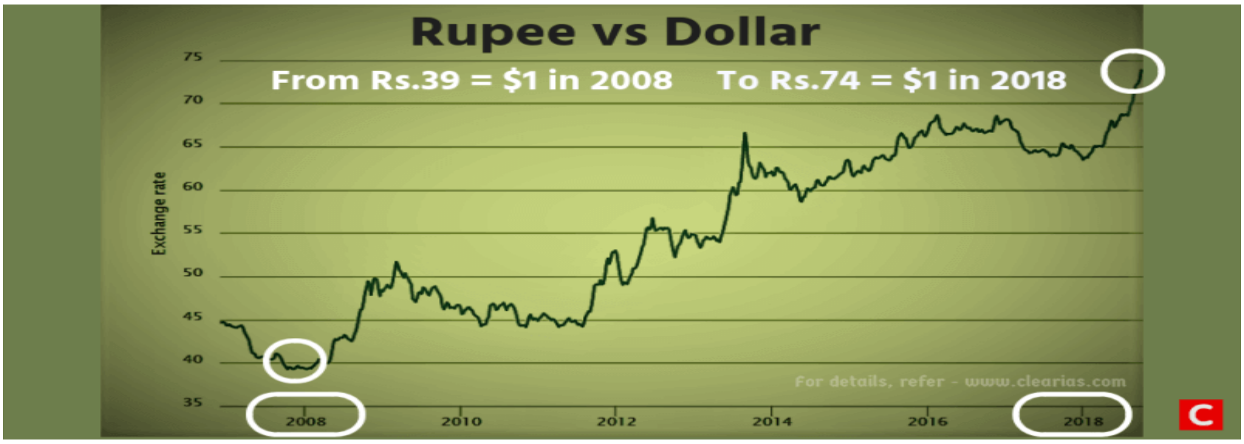
Devaluation versus depreciation of the rupee

When a currency's value under the Fixed-Rate System is decreased by the government, the process is referred to as devaluation. Depreciation is the key term used to describe when a currency's value declines under the Floating Rate System.

Revaluation is the term used when the value of one currency increases in comparison to another currency at a set exchange rate. The appropriate term under the floating exchange rate regime would be appreciation.

A redenomination, not a revaluation, occurs when a currency's face value is changed without affecting its international exchange rate.

History of the Indian Rupee: A valuation comparison with the US dollar



Keep in mind that until 1975, we had a fixed rate system. Up until 1993, when we liberalized our whole economy following IMF norms, we had some limited controls on the currency market.

<u>Does it matter what the Indian Rupee is valuable?</u>

It should not be overlooked that a country's economic strength is not necessarily reflected in its currency's exchange rate. There are other nations, including China, who support currency devaluation. India's economic situation is also much better today than it was in 1947, notwithstanding a decline in the value of the rupee.

What role do exports and imports have in the depreciation and appreciation of the Indian rupee?

Before we analyze this subject, let's look at one more query. Why do governments lower the value of their money?

Answer: They do so primarily to raise exports and decrease imports, which are to say, to improve the trade balance.

Exports vs. the Decline in the Value of the Indian Rupee: The Local Currency Effect

In the event of devaluation, importers will need more local currency and exporters will receive more local currency upon converting their export revenues (the foreign exchange that they get for their exports).

In other words, imports become more expensive, importers suffer financial losses, while exporters benefit financially.

This is intended to deter imports, promote exports, and, ultimately, reduce trade deficits.

That explains the explanation for the local currency issue, I suppose.

Unified Payment Interface (UPI):

UPI, or Unified Payment Interface, has recently made headlines. The use of UPI is expected to change Indian banking. This article will explain what UPI is and how safe it is to use.

A brand-new technology called Unified Payment Interface (UPI) has been developed in India to transfer money between any two bank accounts without the complications that currently exist.

An indigenous payment system called UPI uses a smartphone to function.

But how does UPI vary from NEFT, RTGS, and IMPS for net banking?

Since UPI is standardized across banks, you can start a bank account transfer with just a few clicks from any location. You can now use UPI in addition to cards, net banking, and wallets to make payments. The Unified Payment Interface (UPI) enables both sending money to and receiving money from other people.

The quantity of cash transactions occurring in India is still relatively high even after the country introduced online banking (almost 95 percent of all transactions).

The RBI's attempts to promote a "Less Cash" India include UPI.

Who created the UPI?

Under the direction of the RBI, the National Payment Corporation of India (NPCI) created UPI. Immediate Payment Service (IMPS) is the platform upon which UPI is founded.

Can UPI be trusted?

Customers merely share a virtual address and give no other critical information, therefore it is secure. Your bank account is used as an alias for the "virtual payment address."

When a specific merchant's account is hacked, your security cannot be compromised because their database will only include a list of virtual addresses. "account@payment" service provider is used to identifying the payment addresses.

Compared to other payment methods that send sensitive information like credit card numbers, it provides superior security. All of this information is concealed when utilizing UPI because just a Virtual Payment Address (VPA) is utilized.

The importance of the Unified Payment Interface is that:

- It makes Person-to-Business (P2B) transactions easier by allowing for collection payments. This would improve commerce and the Indian economy as a whole.
- UPI will reduce the amount of currency used in the economy (currently cash in circulation is 12 percent of GDP).
- The annual cost of cash transfers will decrease thanks to UPI (currently around Rs. 20000 crores)

Any drawbacks?

- Refunds are not currently covered by UPI, and NPCI has sole power over all arbitration.

- The Wallet Companies are most likely to suffer a great deal from the implementation of UPI.
- The Rs. 1 lakh per transaction cap might not be acceptable to all clients or businesses.

The nations that have embraced India's UPI for digital payments

Due to the adoption of UPI by many other countries, Indians can now visit these nations without carrying cash. UPI is India's second most popular payment method after cash. The National Payments Corporation of India developed the Unified Payments Interface (UPI), a real-time, rapid payment system. The interface helps to conduct P2P and P2M transactions between banks.

It is governed by the Reserve Bank of India (RBI), and it works by rapidly transferring funds between two bank accounts by means of a mobile app.

In September 2021, UPI Goes International Liquid Group and NIPL inked a contract to implement a UPI-based QR code payment system starting in 2022 in Singapore, Malaysia, Thailand, the Philippines, Vietnam, and Cambodia, Hong Kong, Taiwan, South Korea, and Japan.

On March 8, 2022, NIPL and the Arab Monetary Fund (AMF) signed a contract to link UPI to the Buna Payment Platform, which is connected to the central banks and financial institutions in the Arab world. Cross-border transactions using many currencies will be made easier.

Examples of several nations that accept UPI payments include:

Singapore:

Singapore has partnered with Singapore NPCI International Payments Ltd (NIPL) to begin accepting UPI-based payments in 2021. When visiting Singapore, you can download the BHIM UPI app to your phone and use it to pay at specific merchants.

The Unified Payments Interface and PayNow real-time payment systems in Singapore and India are now being connected by the Singapore Monetary Authority (MAS) and the Reserve Bank of India.

Bhutan

As part of India's "neighborhood first" policy, the BHIM UPI digital payment platform was made available in Bhutan in July 2021. NPCI International Payments Ltd (NIPL) worked with Bhutan's central bank to develop a QR code-based solution.

In actuality, Bhutan was the first neighboring country to use BHIM. It was acknowledged that the introduction of UPI payments in Bhutan was a significant milestone in the internationalization of Indian fintech.

Emirate of the Arabs:

In April 2022, Mashreq Bank of the United Arab Emirates' NeoPay, a payments service provider, teamed with NPCI International Payments Ltd (NIPL).

Due to this, Indians living in the UAE are now able to utilize UPI at payment terminals all around the nation. However, NEOPAY-enabled businesses, retail locations, and other merchants are the only ones that accept UPI payments.

Nepal

One of the first overseas nations to adopt India's UPI payment system was neighboring Nepal. UPI services were introduced in Nepal thanks to a partnership between the international arm of NPCI, NPCI International Payments Ltd (NIPL), Gateway Payments Service (GPS), and Manam Infotech.

France

The Unified Payments Interface (UPI) and RuPay Cards are currently only accepted in France. A Memorandum of Understanding (MoU) has been struck between Lyra Network, a French provider of payment solutions, and the NPCI International. France has officially joined the list of nations that support UPI.

Money Supply: Definition and Concept

The entire amount of money that is at any given time available in an economy is known as the money supply. Money Stock is another name for Money Supply.

Money in circulation within an economy is referred to as the money supply.

Only the more liquid types of money, including currency and bank deposits, are typically taken into account because the money supply is linked to "circulating money."

Different monetary aggregates, such as M1, M2, M3, and M4, are used to calculate and express the money supply. Also used to describe the money supply are terms like Narrow Money and Broad Money.

Money Supply - The entire amount of money in circulation in an economy is known as the money supply in layman's terms. Money Supply can be defined as Currency in Circulation + Deposits in Commercial Banks in the simplest terms possible.

- The total amount of cash in circulation plus any non-bank deposits at commercial banks make up the money supply.
- Deposits created in the banking system as a result of currency movement in the banking system and other liquid assets are included in the money supply.

What does "money in circulation" mean?

It is the entire quantity of money (coins and paper money) that the Reserve Bank of India has ever issued less the sum of money that it has taken out.

The public's access to currency includes both cash held in banks and public access to currency notes and coins.

It holds a considerable portion of the liabilities on a central bank's balance sheet.

Understanding monetary aggregates and financial statistics M0, M1, M2, M3, etc.

The entire amount of money that is at any given time available in an economy is known as the money supply.

The Reserve Bank of India (RBI) in India measures the money supply and releases the results every week or two.

What does "Monetary Aggregate" mean?

The way a country's money supply is measured is through monetary aggregates.

A monetary aggregate known as "wide money," or M3, is frequently used to illustrate the amount of money in the economy.

There are numerous additional monetary aggregates.

M1, M2, M3, and M4 were the four monetary aggregates that the RBI used to calculate the money supply between 1977 and 1998. The idea of Reserve Money was also utilized by the central bank.

However, in 1998, measurement criteria were altered.

The designations are now M0, M1, M2, and M3.

RBI occasionally refers to new aggregates as NM0, M1, M2, and M3 to distinguish them from previous aggregates.

Old Monetary Aggregates: Along with the reserve money, the RBI has been publishing the M1, M2, M3, and M4 monetary aggregates since 1977.

Reserve currency is referred to as M0 in the new system.

Deposits from post office savings banks were included in M2 and M4. These aren't being used very frequently, though.

We focus primarily on the new monetary aggregates in this chapter.

New Monetary Aggregates:

Following the suggestions of the Working Group on Money Supply: Analytics and Methodology of Compilation (Chairman: Dr. Y.V. Reddy), which delivered its report in June 1998, the RBI has begun issuing a set of new monetary aggregates.

The Working Group advised assembling four monetary aggregates following progressive liquidity standards based on the banking sector's balance sheet:

- NM0 (monetary base)
- M1,
- M2, and
- M3 (broad money)

NM0 (Monetary Base or Reserve Money)

Money in circulation, Bankers' Deposits with the RBI, and "Other" Deposits with the RBI are added together to form M0.

M0's components are:

- Circulating currency
- Deposits by Banks with the RBI

- RBI "Other" Deposits

NOTE: It should be noted that "Other" deposits held by the RBI primarily consist of the following: I balances in the accounts of foreign central banks and governments, (ii) accounts of international organizations like the International Monetary Fund, etc.

M1

M1 is the total of currency held by the general public, demand deposits held by banks, and "Other" deposits held by the RBI.

M1's components are:

- Popularity Among the Public
- Deposits made recently with the banking system
- Demand Obligations 'Other' deposits with the RBI represent a portion of savings deposits with the banking system.

In other words, M1 equals currency held by the public plus demand deposits held by banks plus "other" deposits held by the RBI.

M1's significance: M1 covers cash held by the general population as well as non-interest-bearing deposits held by banks, including the RBI.

M2

Term deposits of residents with a contractual maturity up to and including just 1 year with the Banking System, "Other" Deposits with RBI, Current Deposits along with the Banking System, Savings Deposits with the Banking System, Certificates of Deposits issued by Banks, and Currency with the Public are all included in M2,

M2's components are:

- currency with the public
- Deposits made recently with the banking system
- Demand Liabilities of "Other" Deposits with the RBI and the Banking System
- Residents' Term Deposits with the Banking System with a contractual term of up to and including one year
- Bank-issued Certificates of Deposit

NOTE: M2 = M1 + Time Liabilities Portion of Savings Deposits with the Banking System + Certificates of Deposit issued by Banks + Residents' Term Deposits with the Banking System with Contractual Maturities of Up to and Including One Year.

M3 (Broad Money)

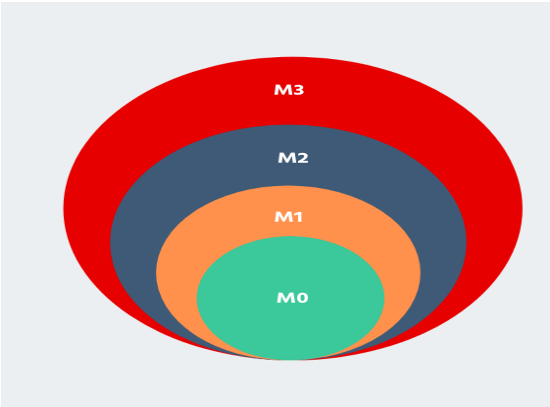
M3 is the total of the following: currency held by the public, current deposits in banks, savings deposits in banks, certificates of deposit issued by banks, resident term deposits in banks, call/term borrowings from "non-depository" financial firms, and "other" deposits in RBI.

M3's components are:

- Currency with the public
- Deposits made recently with the banking system
- Deposits in Savings through the Banking System
- Bank-issued Certificates of Deposit
- Residents' Term Deposits with the Banking System with a contractual term of up to and including one year
- RBI "Other" Deposits
- Residents' Term Deposits with the Banking System with a Contractual Maturity of More Than One Year
- Call/Term loans are withdrawn by the banking system from "Non-depository" financial institutions.

M3=M2+ Term Deposits of Residents with the Banking System including Call/Term Borrowings by the Banking System from "Non-depository" Financial Corporations with a contractual term of over a year.

NOTE: M3 is important because it includes the whole banking sector's balance sheet.



Aggregates of liquidity (L1, L2, and L3)

The Working Group recommended the formation of three liquidity aggregates, designated L1, L2, and L3, in addition to the monetary aggregates. These aggregates include a subset of the financial liabilities of non-depository financial corporations; such as development financial institutions and non-banking financial companies that accept deposits from the general public, aside from post office savings banks.

- All deposits at post office savings banks plus L1 - NM3 (excluding National Savings Certificates).
- Term deposits with term lending and refinancing institutions (FIs) are L2 - L1 + + Term borrowing by FIs plus issuance of FI-issued certificates of deposit.
- Public deposits of non-banking financial institutions L3 - L2++

Commercial bank money versus money from central banks

There are two forms of money.

- Central bank obligations, such as currency and depository accounts, are referred to as central bank money (M0).
- Commercial banks' obligations, such as current and savings accounts, are represented by commercial bank money (M1–M3).

In the data on the money supply, M0 refers to central bank money, and M1–M3 refers to commercial bank money.

Differentiated Banks: Payment Banks vs. Small Finance Banks

The Reserve Bank of India issues two different types of banking licenses: ***Universal bank licenses and Differentiated bank licenses***. Differentiated banks, often known as niche banks, cater to a certain demographic group of the general public. Differentiated banks in India include Small Finance Banks and Payment Banks. Differentiated banks that have just been proposed are Custodian Banks and Wholesale and Long-Term Finance Banks (WLTF).

Back Story on Payment and Small Finance Banks

Differentiated banks are not exactly a novel idea. In truth, and a sense, because they serve specific localities, the Urban Cooperative Banks (UCBs), Regional Rural Banks (RRBs), Primary Agricultural Credit Societies (PACS), and Local Area Banks (LABs) could all be regarded as various types of banks.

However, it may be stated that the current idea of specialized banks was first brought forward in 2007. The idea was then revisited in a paper titled "Banking Structure in India - The Way Forward," which was published by the Reserve Bank in August 2013. In principle, the RBI approved the establishment of 11 entities for payments banks (PBs) in August 2015 and 10 for small finance banks (SFBs) in September 2015.

- **Small Finance Banks (SFBs):**

Small Finance Banks (SFBs) are specialized financial institutions that cater to the needs of a certain demographic subset of the general public. By providing savings vehicles, lending to small businesses, small and marginal farmers, micro and small enterprises, and other unorganized sector entities through high technology, low-cost operations, small finance institutions would be able to expand financial inclusion. The NachiketMor committee on financial inclusion suggested SFBs.

SFBs' number of activities

- The small finance banks will largely engage in fundamental banking activities, such as accepting deposits and lending to underserved and unserved groups, such as unorganized sector entities, small business units, small and marginal farmers, and micro- and small businesses.
- There won't be any limitations on where small financing institutions can operate.

Conditions for establishing SFBs

- SFBs can be established by people/professionals with 10 years of financial expertise, Non-Banking Financial Companies (NBFCs), microfinance organizations, and neighborhood banks.
- For small finance banks, the required minimum paid-up equity capital is Rs. 100 crores.
- Within 12 years from the date the bank's operations began, the promoter's initial minimum paid-up equity capital commitment to such a small finance bank shall at least be 40% and eventually reduced to 26%.
- The Foreign Direct Investment (FDI) policy meant for private sector banks, as it may be changed from time to time, would apply to the foreign ownership of shares in the small financing bank.

- The Reserve Bank's priority sector lending (PSL) criteria mandate that the small financing banks lend 75% of their adjusted net bank credit.

- As required by RBI regulations, SFBs must maintain their Statutory Liquidity Ratio (SLR) and Cash Reserve Ratio (CRR).
- Its lending portfolio should consist of at least 50% loans and advances under Rs. 25 lakh.

What options do small finance banks have?

- Customers are sold forex.
- Sell insurance, pensions, and mutual funds.
- Is capable of becoming a full-fledged bank.

What Small Finance Banks are unable to do?

- Lend a lot of money.
- Cannot deal in advanced products while floating subsidiaries.

Issues Small Finance Banks Face:

- Competition with current public sector banks and RRBs is necessary.
- Because Micro Finance Institutions (MFI)/NBFCs are specialized in micro-lending activities and have little exposure to banking activities, they must recruit and develop expertise from the banking sector.
- Due to their coverage of rural and underserved areas, these banks will incur greater deposit mobilization costs.

- **Payment Banks**

By offering modest savings accounts, payments/remittance services, and other goods and services to migratory workers, low-income households, small enterprises, other unorganized sector entities, and other users, payments banks will be able to expand financial inclusion. They must invest their cash in government securities and bank deposits because they will not provide loans to clients.

Activities of Payment Bank:

- Demand deposit acceptance will initially be limited to holding a balance of no more than Rs. 100,000 per individual customer.
- Payments banks can offer debit and ATM cards, but not credit cards.
- Services for sending money through a variety of ways.
- Business Correspondents (BC) of a different bank who are subject to the BC policies of the Reserve Bank.
- Distribution of non-risk sharing financial products like mutual fund units and insurance products, etc.
- The payments bank is not permitted to engage in lending.

Conditions for establishing Payment Banks

- ➢ Current non-bank Prepaid Payment Instrument (PPI) issuers, along with other organizations like individuals or professionals, Non-Banking Finance Companies (NBFCs), corporate Business Correspondents (BCs), mobile phone providers, retail giants, cooperatives in the real estate sector, and public sector organizations that are owned and controlled by locals, may submit applications to establish payments banks.
- ➢ To be eligible to advertise payments banks, promoters/promoter organizations must be "fit and proper" with a solid professional background and track record, or they must have operated their enterprises for at least five years.
- ➢ For small finance banks, the required minimum paid-up equity capital is Rs. 100 crores.

- Maintains a maximum of 25% of deposits with other scheduled commercial banks and a minimum of 75% of deposits in government bonds.
- For the first five years after the start of its operations, the promoter must initially contribute at least 40% of the paid-up equity capital of such a payments bank.
- To address consumer complaints, the bank needs a powerful Customer Grievances Cell.
- The bank's activities should be completely networked, technology-driven, and compliant with accepted standards and norms from the start.

What options do Payment Banks have?

- Sell mutual funds, insurance, and pensions; offer online banking.
- Have ATMs and business contacts.
- Offer your clients a bill-paying service.
- They can make it possible for mobile phone transfers and remittances.
- They can provide foreign exchange services for less money than banks.
- Travelers can get currency cards from them, which can be used at ATMs and as debit cards throughout India.
- They can also provide third parties with card acceptance systems like "Apple Pay."

What cannot Payment Banks do?

- providing credit cards
- Prolong loans
- Manage international remittances
- Take NRI payments

Major Challenges Faced By the Banking Industry

To classify broadly there are even more challenges in the growth of the banking sector

- Low revenue—cannot engage in any loan activities, and the income stream is initially limited to fees associated with remittances and operational effectiveness.
- A minimum of 75% of its "demand deposit balances" must be put into government securities. This also reduces their capacity to profit from the deposit base.
- The majority of the services that payments banks can provide are currently provided by banks, thus it will be difficult for payments banks to present a unique and distinctive offering.
- Payment banks don't offer as good of rewards as other saving tools like the Kisan Vikas Patra or gold bonds.
- The Jan Dhan Yojna experience has demonstrated that many of these no-frill accounts have remained inactive, which has an impact on the survival of the banks.

Payments Banks vs. Small Finance Banks: Difference

SMALL BANKS CAN GO PAN-INDIA

	PAYMENTS BANKS	SMALL BANKS
WHO CAN PROMOTE	➢ Prepaid card issuers, telecom companies, NBFCs, business correspondents, supermarket chains, corporates, realty sector co-ops & PSUs	➢ Individuals/professionals with 10 years experience in finance, NBFCs, microfinance cos, local area banks
WHAT THEY MUST DO	➢ Have a minimum capital of Rs 100cr ➢ Maintain 75% of deposits in govt bonds ➢ Maintain 25% of deposits in other banks ➢ Have at least 26% investment by Indians ➢ Get listed if net worth crosses Rs 500cr ➢ Have 25% of branches in unbanked areas ➢ Be fully networked and technology driven ➢ Have Rs 1 lakh cap for deposits in one a/c	➢ Have a minimum capital of Rs 100cr ➢ Extend 75% of loans to priority sector ➢ Have 25% of branches in unbanked areas ➢ Maintain reserve requirements ➢ Cap loans to individuals and groups at 10% and 15% of net worth ➢ Have a business correspondent network
WHAT THEY CAN DO	➢ Offer internet banking ➢ Sell mutual funds, insurance, pensions ➢ Offer bill payment service for customers ➢ Have ATMs and business correspondents (BC) ➢ Can function as BC of another bank	➢ Sell forex to customers ➢ Sell mutual funds, insurance, pensions ➢ Can convert into a full-fledged bank ➢ Expand across the country
WHAT THEY CAN'T DO	➢ Offer credit cards ➢ Extend loans ➢ Handle cross-border remittances ➢ Accept NRI Deposits	➢ Extend large loans ➢ Float subsidiaries ➢ Cannot deal in sophisticated financial products

Newly Proposed Differentiated Banks:

The Reserve Bank has been looking into the possibility of licensing other differentiated banks, such as custodian banks and banks specializing in wholesale and long-term financing, in addition to newly licensed differentiated banks like small finance banks and payments banks.

- **Custodian banks**: Custodian Banks are specialized financial institutions that are primarily in charge of protecting a company's or person's financial assets and are ordinarily not involved in traditional retail lending.
- **Wholesale banks:** Wholesale banks are financial institutions that provide long-term financing to major corporations, particularly those involved in the construction of infrastructure. These banks typically raise long-term capital that is exempt from complying with regulations like the cash reserve ratio and the statutory liquidity ratio.

- **Urban Cooperative Banks: Recently, there has been news on urban cooperative banks.**

The Governor of the Reserve Bank of India (RBI) announced changes for the troubled urban cooperative banks (UCBs).

The governor of the RBI said that to reform urban cooperative banks, the banking regulator would implement significant regulatory measures.

Cooperative banks: Its meaning

This type of bank is a company founded on a cooperative basis to take care of standard banking operations. Cooperative banks are initiated by raising money through share sales, taking deposits, and making loans. They are essentially the cooperative credit unions in which individuals from the same community band together to provide one another loans under advantageous conditions.

Cooperative banks are registered under the Multi-State Cooperative Societies Act of 2002 or the Cooperative Societies Act of the relevant State.

Characteristics of cooperative banks:

- Customer Owned: Members of these banks democratically elect a board of directors, who are thus owned and controlled by the members. The customers and the owners of cooperative banks are considered as the bank's members.
- Profit Allocation: A significant portion of the cooperative's annual profit, surplus or benefits is kept aside as reserves.

- Financial Inclusion: In rural locations, they give cheap financing to the general public. Financial inclusion is an important contribution to the finance of those rural populations. It is important for those who do not hold a bank account.

Urban Cooperative Banks (UCB)

Although we do not have a technical definition for the term, Urban Cooperative Banks (UCBs) are considered as the primary cooperative banks that are situated in urban and semi-urban areas.

The Urban Cooperative Banks (UCBs), Regional Rural Banks (RRBs), Primary Agricultural Credit Societies (PACS), and Local Area Banks (LABs) might all be categorized as differentiated banks.

The Urban cooperative banks could make loans until 1996 for non-agricultural uses. Today, this distinction is no longer valid.

Since they primarily financed small borrowers and enterprises, these banks were historically focused on neighborhoods and local workgroups. Their current businesses have a far wider range.

- **Urban cooperative banks' history:**

The success of the projects connected to the cooperative movements in Britain and Germany served as inspiration for UCB. The drive for urban cooperative banking in India dates back to the 19th century when the country saw the establishment of its first such societies.

Cooperation, democratic decision-making, mutual aid, and open membership are the cornerstones of cooperative societies. In contrast to proprietary firms, partnership firms, and joint-stock companies, which represent the predominant form of commercial organization; cooperatives represented a fresh and alternative way of organization.

The "***Anyonya Sahakari Mandali,"*** that was founded in 1889 in the once princely State of Baroda under the direction of ***Vithal Laxman***, popularly known as ***Bhausaheb Kavthekar***, is the first documented mutual aid organization in India.

The Cooperative Credit Societies Act of 1904 sparked the movement.

The first urban cooperative credit association was established in ***Canjeevaram (Kanjivaram),*** the former Madras province in October 1904,

The Bombay Urban Co-operative Credit Society, supported by ***Vithaldas Thackersey and Lallubhai Samaldas*** and founded on January 23, 1906, was the most well-known of the early credit companies.

In 1915, the Maclagan Committee was established to assess their effectiveness and provide recommendations for strengthening them. The committee found that these institutions were well-suited to address the demands of society's lower and middle levels and would help the middle classes adopt banking practices.

Even in locations smaller than taluka towns, the Cooperative Planning Committee (1946) and The Rural Banking Enquiry Committee (1950) advocated for the establishment of such banks.

From 1958–1959, RBI began the first research on urban cooperative banks. The 1961 Report recognized the well-established and financially solid structure of urban cooperative banks, underlined the necessity to build primary urban cooperative banks in new areas, and recommended that state governments actively assist the development of these institutions.

Recent changes affecting Urban Cooperative Banks:

The RBI updated the Supervisory Action Framework (SAF) for UCBs in January 2020.

The Central Government enacted an Ordinance in June 2020 to directly subordinate all urban and multi-state cooperative banks to the RBI.

A committee that recommended a 4-tier structure for UCBs was most recently appointed by RBI:

- Tier 1 All unit UCBs, salary earner UCBs (regardless of deposit size), and all other UCBs with deposits up to Rs. 100 crores comprise.
- Tier 2 with UCBs of deposits ranging from $100 billion to $1 billion,
- Tier 3 with UCBs of deposits between $1 billion and $10 billion, as well as
- Tier 4 with UCBs of more than Rs 10,000 crores in deposits.

Issues that cooperative banks must deal with:

- ➢ Adapting financial industry trends

The continued existence of the UCBs, due to lack of professional management and less geographically diversified operations, is challenged by changes in the financial sector and evolving microfinance, FinTech companies, payment gateways, social platforms, e-commerce companies, and NBFCs.

- ➢ The drop in loans and deposits:

People's confidence in cooperative banks has been slowly eroding as a result of management failures.

- Reduced donations

According to a report, despite the sector's critical importance, its proportion of all agricultural lending has significantly decreased over time, from as high as 64 percent in 1992–1993 to just 11.3 percent in 2019–20.

- Declining percentages:

Declining percentages: In 2005, RBI combined the less effective ones into a single unit.

- Dual regulation:

The state registrar of society as well as the RBI both have control over the UCBs. However, all UCBs and multi-state cooperatives were placed under RBI's control in 2020.

NOTE: An important turning point in the history of the cooperative movement was the creation of the nation's dedicated Ministry of Cooperation. The RBI must interpret the Act's terms in a way that prevents UCB disruption and restores public confidence in the cooperative banking system.

- **NPA: How serious is India's problem with defaulted loans?**

Lenders suffer losses when borrowers stop making principal or interest payments on loans. These loans are regarded as non-performing assets (NPA). Non-Performing Assets have a significant impact on the Indian banking industry.

An illustration of NPA:

Let's say a corporation receives a loan from the State Bank of India (SBI) for Rs. 10 crores (Eg: Kingfisher Airlines). Consider the interest rate of, say, 10% per year that they agreed upon. Let's say that originally everything went smoothly and that the market forces were favoring the airline business; as a result, Kingfisher was able to pay the interest. Let's say that later on the corporation is unable to pay the interest rates for 90 days due to administrative, technological, or corporate issues. In those circumstances, a loan issued to Kingfisher Airlines is a strong candidate for consideration as a non-performing asset (NPA).

- NPAs are defined by the Reserve Bank of India (RBI) as assets that no longer generate income for the bank. This includes assets that are leased.

RBI's technical definition of NPA in various circumstances: NPA refers to a loan or advance where...

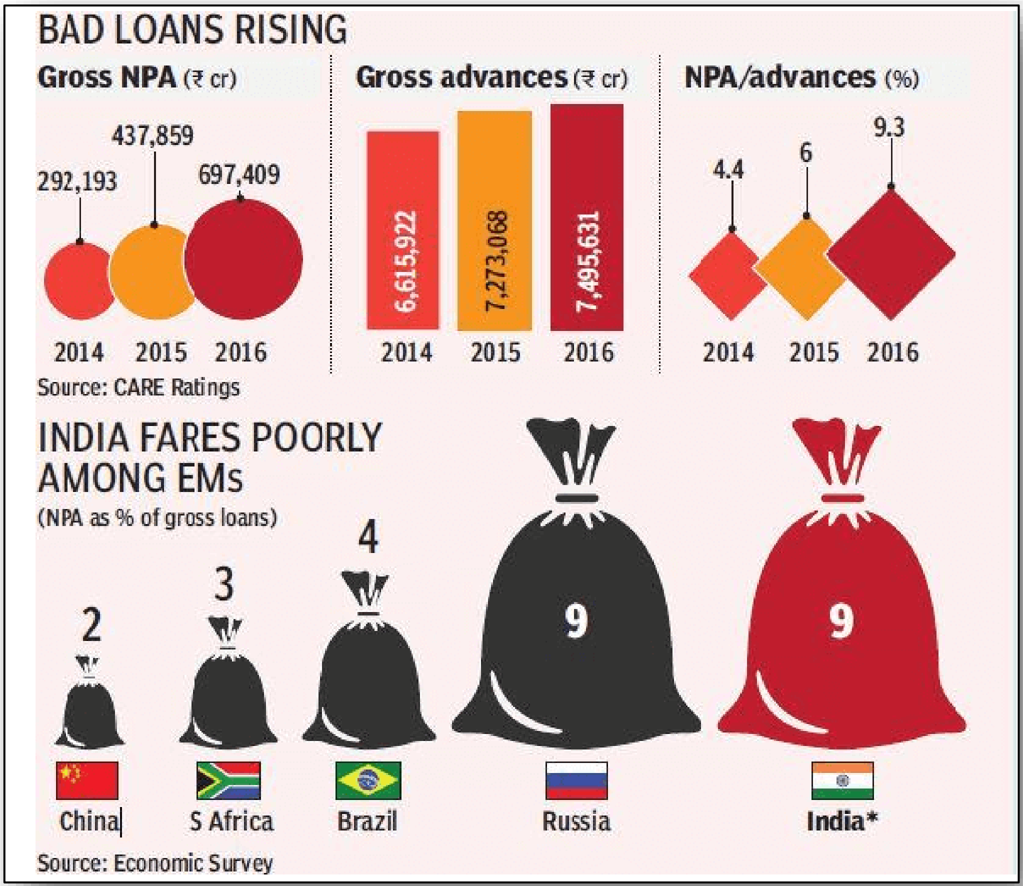
- When it comes to a term loan, interest and/or principle payments are past due for a duration of greater than 90 days.
- Regarding an Overdraft/Cash Credit (OD/CC), the account is still "out of order."
- In the instance of bills that have been bought and discounted, the bill is still past due after more than 90 days have passed.
- For two crop seasons, the instalment of principal or interest is unpaid for short-term crops.
- The principal or interest installment is still over due for long-term crops for one crop season.
- Regarding a securitization transaction carried out by February 1, 2006, instructions on securitization; the amount of the liquidity facility has been outstanding for more than 90 days.
- When it comes to derivative transactions, the past-due receivables represent the positive mark-to-market value of a derivative contract, if they are not paid after the set due date has passed by 90 days.

Non-Performing Asset Categories (NPAs):

Debt is divided into 3 categories based on how long it has been an NPA:

Categories	Criteria
Substandard asset	an asset that has an NPA status for less than 12 months.
Doubtful asset	an item that spent the previous 12 months in the aforementioned category.
Loss assets	Even though a bank or the RBI has detected a loss on an asset, it still can have some value. As a result, the loan has not been entirely written off.

How bad is the NPA problem in India?



In India, loans totaling more than Rs. 7 lakh crore are categorized as non-performing loans. This sum is enormous. Take a look at the other problems

- The percentage amounts to close to 10% of all loans made.
- This indicates that roughly 10% of loans are never repaid, costing banks a sizable amount of money.
- The total stress would be between 15 and 20 percent of the total debt when restructured and unrecognized assets are included.
- The Indian NPA crisis is likely to get worse.
- Norms for restructuring are being abused.
- This poor performance is not encouraging and could cause banks to collapse, as it did during the sub-prime crisis in the United States of America in 2008.
- In addition, when compared to other BRICS-rising countries, India has the worst NPA issue.

What could the possible reasons for NPAs be?

- Investing money in fraudulent or unrelated ventures.
- Failures despite attentiveness
- Morale is low, especially following government loan forgiveness programs.
- Business losses are brought on by modifications to the regulatory environment.
- A global, regional, or national scale of financial crisis diminishes companies' profit margins, which strains their balance sheets and, ultimately, prevent them from making loan and interest payments. (An important instance is the world financial crisis of 2008).
- The general slowing of the entire economy, leads NPAs to increase more quickly.
- NPAs are the outcome of unintended corporate house expansion during the boom period and loans that were first accepted at low rates but later serviced at high rates.
- Loans become non-performing assets (NPAs) as a result of poor governance and policy gridlock. An important example is the Infrastructure Sector.
- Severe rivalry in any given commercial sector. Take the Indian telecom industry as an example.
- Land acquisition is being delayed because of social, political, cultural, and environmental factors.
- Natural occurrences like floods, droughts, disease outbreaks, earthquakes, and tsunamis, among others.
- Dumping causes cheap imports, which hurts domestic businesses. Take the Indian steel industry, for instance.

What consequences do NPAs have?

- Lenders' profit margins are condensed.
- Stress in the banking sector results in less money being available to finance other initiatives, which hurts the whole national economy.
- Banks' increased interest rates to keep their profit margin.
- Transferring money from beneficial projects to detrimental ones.
- In the case of public sector banks, poor performance by the banks results in poor shareholder returns, which reduces the number of dividends paid to the Indian government.
- Investors do not receive the proper returns.

- The balance sheet syndrome with Indian characteristics, which is characterized by strained balance sheets in both the banking and corporate sectors, stops investment-led development.
- NPAs-related cases increase the pressure on the judiciary's already a backlog of litigation.

What steps are being taken to eliminate NPAs?

The story of NPAs in India is not new, and the GOI has made several efforts toward reforming the legal, financial, and policy framework. The Narsimham Committee made numerous reform recommendations in 1991 to deal with NPAs. Some of them were put into practice.

1. 1993 The Debt Recovery Tribunals (DRTs)

To speed up the process of case resolution. The Recovery of Debt Due to Banks and Financial Institutions Act of 1993 applies to them. However, because there aren't enough of them, cases often drag on for more than two to three years in many places.

2. Credit Information Bureau-2000

To prevent loans from getting into the wrong hands and, consequently, NPAs, a good information system is a must. Maintaining and distributing data on specific defaulters and wilful defaulters, benefits banks.

3. Lok Adalats-2001

They are beneficial in dealing with and recovering small loans, but according to RBI guidelines established in 2001, they are only permitted for loans up to 5 lakh rupees.

4. Compromise Settlement-2001

It offers a straightforward method for recovering NPA for advances under Rs. 10 crores. Willful default and fraud cases are not included, however, it covers lawsuits filed with courts and DRTs (Debt Recovery Tribunals).

4. 5:25 rule - 2014

Affectionately referred to as Flexible Structuring of Long Term Project Loans to Infrastructure and Core Industries. The need for loans every 5-7 years and refinancing for long-term projects was advocated to preserve the cash flow of such businesses because the project schedule is lengthy and they do not receive the money back into their books for a considerable amount of time.

5. SARFAESI Act-2002

The SARFAESI Act of 2002 - Securitization and Reconstruction of Financial Assets and Enforcement of Security Interest By acquiring and selling the secured assets in NPA accounts with an outstanding value of Rs. 1 lakh or more, banks and other financial institutions are allowed by the Act to recover their non-performing assets (NPAs) without the assistance of a court. Banks must first publish a notification. Then, if the borrower doesn't pay back, they can:

- Become the owner of the security and/or
- Control over the borrowing company's management.
- Appoint someone to handle the issue.

Additionally, this law was modified last year to speed up enforcement.

6. ARC (Asset Reconstruction Companies)

After the revision to the SARFAESI Act of 2002, the RBI has approved licenses to 14 additional ARCs. These businesses were established to recover value from distressed loans. Before this regulation, lenders had to go through a lengthy legal process to enforce their security interests.

7. Restructuring of Corporate Debt in 2005

On reducing the rates paid and increasing the period the company has to repay the obligation, it aims to lessen the weight of debts on the business.

8. Joint Lenders Forum-2014

The addition of all PSBs with stressed loans initiated it. It exists to prevent loans from various banks from being made to the same person or business.

9. Mission Indradhanush- 2015

Since banking was nationalized in 1970, the Indradhanush framework for changing PSBs has been the most extensive reform initiative implemented by ABCDEFG to modernize PSBs and enhance their overall performance.

A-Appointments: Based on international best practices and the requirements of the Companies Act, there will be a distinct position for the chairman and managing director, and the CEO will be given the title of MD & CEO. Additionally, a non-executive chairman of PSBs will be appointed.

B-Bank Board Bureau: The BBB, which will replace the Appointments Board for the selection of Whole-time Directors and non-Executive Chairman of PSBs, will be a group of distinguished experts and officials.

C-Capitalization: According to the finance ministry, the additional capital needed for the next four years up to FY 2019 will likely total around Rs. 1,80,000 crore, of which 70% will be given by the GOI and the remaining 20% by PSBs through the market financing.

D-DEstressing: includes PSBs, tighter risk control, and disclosure of NPAs.

E-employment: The GOI has stated that there won't be any government involvement, and banks are encouraged to make independent judgments while keeping organizational and commercial interests in mind.

F-Framework of Accountability: New KPIs (key performance indicators) that are connected to performance as well as taking into account ESOPs for top management PSBs are part of the F-Framework of Accountability.

G-Governance Reforms: One instance is the gathering of PSBs and financial institutions known as Gyan Sangam. Bureau for merit-based and transparent appointments in PSBs.

9. Asset Quality Review-2015

Classify stressed assets and make provisions for them to safeguard the banks' future. In addition, identify assets early to take the necessary steps to stop them from becoming stressed.

10. Structure for stressed assets that is sustainable (S4A) – 2016

It has been designed as a flexible framework for handling severely pressured accounts. By dividing the outstanding debt into sustainable debt and equity/quasi-equity instruments that are anticipated to deliver upside to the lenders when the borrower turns around, the sustainable debt level for a stressed borrower can be determined.

11. Insolvency and Bankruptcy Code-2016

The Chakravyuaha Challenge (Economic Survey) of the exit dilemma in India is the reason behind its formulation. By consolidating and amending the laws relating to the reorganization and insolvency resolution of corporate persons, partnership firms, and individuals promptly and for the maximization of the value of such person's assets and matters connected therewith or incidental thereto, this law seeks to promote entrepreneurship, availability of credit, and balance the interests of all stakeholders.

12. Public and private ARC comparison -2017

This year's Economic Survey proposed the notion of a Public Asset Reconstruction Companies (ARC) that would be entirely funded and managed by the government. Mr Viral Acharya, the deputy governor of the Reserve Bank of India, has argued in favor of a private ARC. The economic surveys refer to it as PARA (Public Asset Rehabilitation Organization).Their proposal is based on the use of a comparable agency during the East Asian financial crisis in 1997.

13. Bad Banks – 2017

The 2017 Economic Survey 16-17 article, "Bad Banks," also discusses the creation of a bad bank that will take on all stressed loans and handle them using flexible rules and mechanisms. It will make PSBs' balance sheets manageable. It will allow them to fund more development initiatives and start new ones.

NOTE: To combat NPAs, quick corrective actions are required. This ought to contain:

- Data analytics and technology are used to find the early warning signs.
- Mechanism to find the concealed NPAs.
- Internal skill building for credit assessment.
- Forensic audits to determine the borrower's intentions.

❖ **Explaining the Interest Coverage Ratio with an Example**

Companies and banks have many connections to one another. The growth of businesses frequently depends on the loans provided by banks. However, lending is a high-risk endeavor in the eyes of banks.

Before approving a loan, financial institutions like banks usually make sure that a company will be able to pay back its debt. Banks utilize many criteria to separate "strong" companies from "weak" companies. The Interest Coverage Ratio is one such measure.

Interest Coverage Ratio: What Is It?

A debt and profitability measure called the interest coverage ratio is used to assess how quickly a company can pay or cover the interest on its existing debt.

This ratio determines how many times a company's earnings are sufficient to meet its existing interest obligations. The ratio of a company's profit after taxes to its interest expense is known as its interest coverage ratio.

However, profit before interest and tax is also included when expressing the interest coverage ratio. In these circumstances, a company's earnings before interest and taxes (EBIT) are divided by its interest expense for the relevant period to determine the interest coverage ratio.

An explanation and illustration of the interest coverage ratio

Think about the XYZ Company.

Before taxes and interest, the XYZ company made Rs. 10,000,000.

The entire amount of interest that must be paid is Rs. 5,000,000.

Then, the firm XYZ's interest coverage ratio is 2,

ie Rs. 10,00,000/ Rs. 5,00,000.

The ratio of optimal interest coverage

There isn't a preferred interest coverage ratio that is accepted by everyone. The value may differ between businesses in the same sector as well as between different industries. In general, it is recommended for a firm to have interest coverage of at least 2.

Many strong and successful businesses have interest coverage ratios above 10.

If the firm's coverage ratio is less than 1, it means it will be unable to fulfill its current interest payments. It demonstrates the company's underperformance and dire financial situation.

What role does the Interest Coverage Ratio play?

To pay interest, businesses need to make a healthy profit. To fulfill its interest obligations and to weather upcoming financial problems, it is essential to maintain a high-interest coverage ratio (that may arise). There is a strong likelihood that a corporation with a poor interest coverage ratio won't be able to pay off its debt. The company will be at risk of bankruptcy or insolvency as a result. Companies having interest coverage ratios below one are unable to cover their interest costs out of income. These businesses are referred to as zombies.

The interest coverage ratio is frequently used to determine which companies are unproductive and therefore considered "zombies."

Relevance of Interest Coverage Ratio for Indian Businesses and the Banking System

Recent criticism of the Indian banking industry has focused on loans made to businesses that consistently fail to repay principal or interest.

It is evident from looking at the interest coverage ratios of different companies that banks issued loans to zombies without giving them much thought, which caused the Non-Performing Asset (NPA) or bad loan problem.

According to the Economic Survey 2020-2021, the percentage of new loans made to dead companies rose from 5% in 2007-2008 to a staggering 27% in 2014-2015.

It is discovered that the percentage of new loans sanctioned to zombie enterprises whose interest coverage ratios are in the poorest quartile has increased from 20% in 2007-2008 to 43% in 2014-2015.

However, the Reserve Bank of India implemented stringent measures to resolve the Non-Performing Assets issue as the Twin Balance Sheet problem gained significant media attention. The percentage of new loans made to dead companies is now starting to go down.

The Yes Bank Crisis and Reconstruction: Case study

YES Bank Crisis: What is it? Is the crisis at the YES bank over? Is the YES Bank a secure place to keep depositors' money? What is the planned plan by RBI for the reconstruction of YES Bank?

A crucial part of the nation's economic expansion is played by banks. No matter who owns the bank—private or public—it might fail, which would affect everyone. As a result, neither the Indian government nor the Reserve Bank of India (RBI) ever permits a bank that is having financial problems to fail.

One of the largest private banks in India, Yes Bank Ltd., has been struggling with a rapidly deteriorating financial status. To secure depositors' money, the Reserve Bank of India (RBI) was forced to intervene immediately and implement a reconstruction scheme.

YES, Bank Background:

One of the new generation private banks that the Reserve Bank of India permitted to begin banking activities in the post-liberalization era is Yes Bank, which was founded in 2004. Rana Kapoor and Ashok Kapur created the bank.

The bank provided loans to those who couldn't raise money elsewhere through high-risk lending. Until 2017, when the issue of Non-Performing Assets (NPAs) came into the spotlight, Yes Bank's asset books showed promising growth.

The size of YES Bank:

India's fifth-largest private sector lender at the moment is YES Bank. A bank called Yes had deposits worth Rs. 2 lakh crore. The company has assets of a total of 3.5 lakh crore, including loans. The bank employs over 18000 people and operates over 1100 branches and 1300 ATMs.

YES, Bank Crisis:

The majority of banks in India are experiencing a serious problem with unpaid loans. Non-Performing Assets are these subprime loans (NPA). At the end of September 2019, YES Bank's gross non-performing assets were 7.4% of the bank's gross advances. By the end of December 2019, it had grown to represent 18.87% of the bank's total loan book (or Rs 40,709.20 crore). When the massive NPA problem at YES Bank became known, the catastrophe at that institution began.

Bad debt:

Most of the high-level industrialists who sought the founder Rana Kapoor's assistance for loans that were never repaid had personal ties to him. IL&FS, the Anil Ambani group, CG Power, Cox & Kings, Café Coffee Day, the Essel group, Essar Power, Vardaraj Cement, Radius Developers, and the Mantri Group were a few of the significant defaulters to whom the bank had loaned cash. It is estimated that Yes Bank has bad loans of about Rs. 40.000 crores (Gross NPA). At the end of December 2019, Net NPA was roughly 6% of loans while Gross NPA was approximately 19% of advances.

Declining capital base:

The overall capital adequacy ratio decreased from 16.3% in the previous quarter to 4.2% this quarter.

The capital base, specifically the Core Equity Tier-1 ratio, decreased from 8.7% in the September quarter to 0.6% after the quarter. 7.375 percent is the minimal regulation threshold.

Breach of the ratios imposed by the RBI:

Both the statutory liquidity ratio and the liquidity coverage ratio for YES Bank have fallen below the RBI's basic standards. Thus, the bank has paid the central bank a fine of Rs. 86 crore.

Governance Problem: Failure to Report NPAs:

Not only did Yes Bank have NPAs, but it also underreported them, which the RBI later discovered. Due to this, the CEO and founder Rana Kapoor's employment ended (2018).

Loans vs. Deposits:

The loan book increased by nearly four times in the last five years, but deposits did not increase at the same rate as loans. As of September 2019, the loan book increased to $2,24,505 crore, but deposits were just $2,09,497 crore.

Loans granted at an unusually high rate from FY 2014 to FY 2019:

As to news reports, the loan book of Yes Bank increased from Rs. 55,000 crores in FY 2014 to Rs. 2,41,000 core in FY 2019. It is remarkable to see YES Bank's loan book expand by roughly 35% when general bank credit over the aforementioned time only grew by about 10%.

Through social media, rumors circulate:

Social media rumors about the potential demise of Yes Bank when it could control its balance sheet fanned the flames. The deposit base of YES Bank decreased as a result of several false rumors and press reports. The bank's outstanding deposit base decreased from Rs 2.09 lakh crore on September 30, 2019, to Rs 1.65 lakh crore as of December 31, 2019. Since December 31, deposits have continued to leave the lender; as of March 5, its total deposits were Rs. 1.37 lakh crore.

Failure of the bank to raise new capital:

The bank needed new capital to run its operations because it had a significant amount of bad loans (to the tune of more than Rs. 10,000 crores). Rating downgrades as a result of the bank's inability to raise capital made it considerably more challenging to do so.

RBI suspension:

The RBI concluded that the YES bank had no "credible rehabilitation strategy" and that, in the "public interest" and the interest of the bank's depositors, there was "no alternative" but to put the bank under a moratorium as a result of all the aforementioned circumstances.

After 30 days, RBI will replace the board of Yes Bank. Prashant Kumar, the State Bank of India's deputy managing director and chief financial officer, has been nominated by the central bank to serve as the bank's administrator.

To safeguard depositors, the Central Bank of India subsequently set withdrawal restrictions.

The Government of India has issued an Order of Moratorium in respect of Yes Bank Ltd. under Subsection (2) of the aforementioned Section for the period beginning on March 5, 2020, and ending on April 3, 2020, inclusive, in accordance with Subsection (1) of Section 45 of the Banking Regulation Act, 1949.

Reconstruction Program for Yes Bank Ltd., 2020:

The State Bank of India (SBI) has indicated that it is willing to invest in Yes Bank Ltd. and take part in its restoration program, according to the Reserve Bank of India (RBI). Therefore, the Reserve Bank of India presented the details of the scheme for raising new capital for Yes Bank by the authority granted by subsection (4) of section 45 of the Banking Regulation Act, 1949.

The bank's authorized capital has been rebuilt:

According to a government notification, the Authorized Capital of the Reconstructed Yes Bank will increase from the previous amount of Rs. 1100 crore to Rs. 6200 crores. A total of 3000 crore equity shares will be issued. At a face value of Rs. 2, the capital of the bank after reconstruction would be Rs. 6000 crores. The authorized capital for preference shares will remain at Rs 200 crore.

What size investment should the investor bank make?

Up to 49 percent of the rebuilt YES bank may be purchased by the investor bank (for example, SBI). Each share should cost the investment bank at least Rs. 10 to purchase (ie at a premium of Rs.8).

Therefore, if SBI is investing Rs. 14700 crores to buy 1470 crore shares of the private bank, that would represent 49 percent of 3000 crore YES Bank shares at Rs. 10 per share. SBI has given the go-ahead to invest Rs 7,250 crore in Yes Bank by buying 725 billion equity shares.

PS: Before three years have passed since the capital infusion date, the Main Investor bank (SBI) is not permitted to reduce its ownership below 26%.

New shareholders of YES Bank:

In addition to SBI, YES Bank attracted a large number of additional investors.

Both ICICI Bank and Housing Development Finance Corporation Ltd. declared that they would contribute Rs. 1 billion to the stock of Yes Bank. Kotak Mahindra Bank and Axis Bank would each invest Rs. 500 crore and Rs. 600 crores, respectively. 300 crore will be invested by Bandhan Bank.

Existing shareholders currently control 255 crore shares, giving them an approximate 8.5 percent ownership position in the business. If the acquisition price is 10 per share, the remaining 41.5 percent of the company will likely be held by other institutions and investors, who will need to invest about 12450 crores.

The Yes Bank Crisis: Has it ended?

Hopefully, if the reconstruction plan is carried out well.

From the perspective of the depositors, their hard-earned money might remain impounded for a few more weeks. Their deposits will be safeguarded, the Finance Minister has promised them. YES, Bank may gradually return to normal after it begins operations and receives repayment for the loans it has made. The best would be to wait and observe.

SBI-YES Bank Deal:

The SBI board has given its in-principle permission to the investigation of acquiring up to a 49% share in Yes Bank. The concept is available. The agreement hasn't been finalized yet, though.

The most effective plan for YES Bank's rehabilitation:

The capital-hungry private bank can't ask for a better bargain than SBI's stake in Yes Bank. For a resolution, the presence of a reputable brand like SBI is crucial. If all goes according to plan, YES Bank depositors may relax knowing they are in good hands. To stop a banking sector contagion, YES Bank's existence is essential.

Rajnish Kumar, the chairman of SBI, expressed confidence in carrying out the restructuring plan for YES Bank before the 30-day moratorium period imposed by the RBI expires. Once YES Bank was out of the moratorium it would be run by a professional team.

Main Stake Holders:

- YES Bank depositors

- Investors in YES Bank (shareholders) (shareholders)
- SBI stockholders

Protecting the hard-earned money of depositors is the RBI's or the government's main priority in a crisis like the one at YES Bank. The RBI reassured the bank's depositors that their interests would be completely protected and that there was no need to be alarmed.

The second objective is to protect investors' (shareholders') interests, although this does not appear to be simple. The biggest losers would undoubtedly be the bank's shareholders. According to the RBI's prior moratoriums on banks, shareholders are unlikely to receive compensation.

Shares of Yes Bank, which peaked at 404 rupees in August 2019 and then plunged about 85%, hit a record low of 5.65 rupees in March 2020.

The majority of YES Bank's shareholders will be pleased to see SBI, a reputable investor, make significant investments in YES Bank. The top public sector bank's investment in a private bank that is losing money, however, worries SBI's shareholders because it may not result in any immediate profits.

The conflict of interest issue at SBI Contribution to Yes Bank:

When a public sector bank makes an investment in a private sector bank, would there be a conflict of interest? Will SBI import Yes Bank customers into its database? Will YES Bank deposits transfer to SBI?

According to the SBI chairman, there is no conflict of interest.

The idea is to keep SBI and YES Bank distinct, giving the state-run lender room to withdraw its shareholding when YES Bank becomes profitable.

Although SBI will nominate two individuals to the new Yes Bank board to win over investors and depositors, SBI management will not be involved in the day-to-day operations of the private lender.

The remedy for the YES Bank Crisis:

The loan book of YES Bank should be taken over by SBI, who should then pay off the debts and reimburse the depositors. The new draft proposal calls for the complete repayment of all deposits, the diluting of stock, and the write-off of bonds with an extra tier one (AT-1) value of Rs. 10,800 crores.

RBI and YES Bank:

The Reserve Bank of India (RBI), that was already under fire for serious supervision failures involving the failure of the Punjab and Maharashtra Cooperative Bank (PMC) and the Punjab National Bank (PNB), couldn't have afforded for Yes Bank to fail.

Why did the RBI miss the warning flags during the Yes Bank Crisis?

The Reserve Bank of India did identify pressure areas as early as 2017, and despite the board's approval, the regulator ultimately decided not to grant an extension to the then MD and CEO Rana Kapoor.

However, until things became worse, the RBI was unable to propose a practical measure like incorporating SBI into the plan of things.

The government and RBI might have retained most of the money and earned the trust of depositors if they had taken action earlier.

IMPORTANT: Yes, the banking crisis requires RBI reform:

There are too many duties placed on RBI.

To enable the RBI to concentrate on important issues, the government must scale back its duties.

Below are a few ideas: The Securities and Exchange Board of India (SEBI) should take over responsibility for securities regulation. An independent debt management organization should be given control over debt management, and infrastructure systems run by the RBI should be corporatized. As was previously said, a specialized independent mechanism (resolution authority) ought to be closely watching the performance problems facing banks like Yes Bank. The majority of the G-20 nations have developed specialized capacities to deal with failing financial enterprises. A method like this can prevent the regulator from delaying failure identification, ensuring a prompt and orderly settlement.

India's bank crisis and bailouts

Giving money to a failing company to prevent its demise is known as a "bailout."

How many banks have failed in India?

Since 1991, no scheduled commercial bank in India has been permitted to fail or go under. A failing bank has always been bought out by the government and central bank before it sinks. In this case, only cooperative banks have failed. Approximately 350 of these banks' cases have been resolved thus far for a compensation of Rs 4,822 crore in claims, according to data from the Deposit Insurance and Credit Guarantee Corporation (DICGC), the organization that administers deposit insurance in the nation.

Recent Bank Bailouts:

Recent illustrations:

- IDBI Bank Crisis - In the year 2018, the government persuaded LIC to provide Rs 21,624 crores of capital to save IDBI Bank.
- PNB Bank Crisis – In the year 2018, the government transferred Rs 2,816 crore as a capital infusion to the Punjab National Bank (PNB), which had been victimized by fraud.
- PMC Bank Crisis - In 2019, after an alleged Rs 4,355 crore scandal surfaced, the RBI placed limitations on the Punjab & Maharashtra Co-operative Bank Limited. Shortly, PMC Bank and Maharashtra State Cooperative (MSC) Bank might merge.

Before 2017, when the bank started to have major bad loan issues, Yes Bank was one of the highest-rated new-generation private banks.

The Reserve Bank of India launched Yes Bank Ltd. Reconstruction Scheme, 2020 to stabilize the bank. Additionally, the RBI has temporarily restricted the ability to withdraw deposits.

The SBI board has given its in-principle permission to the investigation of acquiring up to a 49% share in Yes Bank. The agreement hasn't been finalized yet, though. The bank needs to be rebuilt right away to safeguard the depositors. In addition, the NPAs should be liquidated. If Yes Bank is successfully resolved, it will safeguard its depositors and uphold confidence in the whole financial sector.

- **Operation Twist: 7 Important Points to Know**

The Central Bank's unconventional monetary policy is known as Operation Twist. Operation Twist was recently tested in India by the Reserve Bank of India.

The US Federal Reserve's monetary policy initiative was first referred to as "Operation Twist." This operation involved the buying and selling of government securities to stimulate the economy.

The Reserve Bank of India carried out its version of "Operation Twist" in 2019 and 2020 by concurrently buying and selling government assets via Open Market Operations (OMOs).

How much do government securities yield?

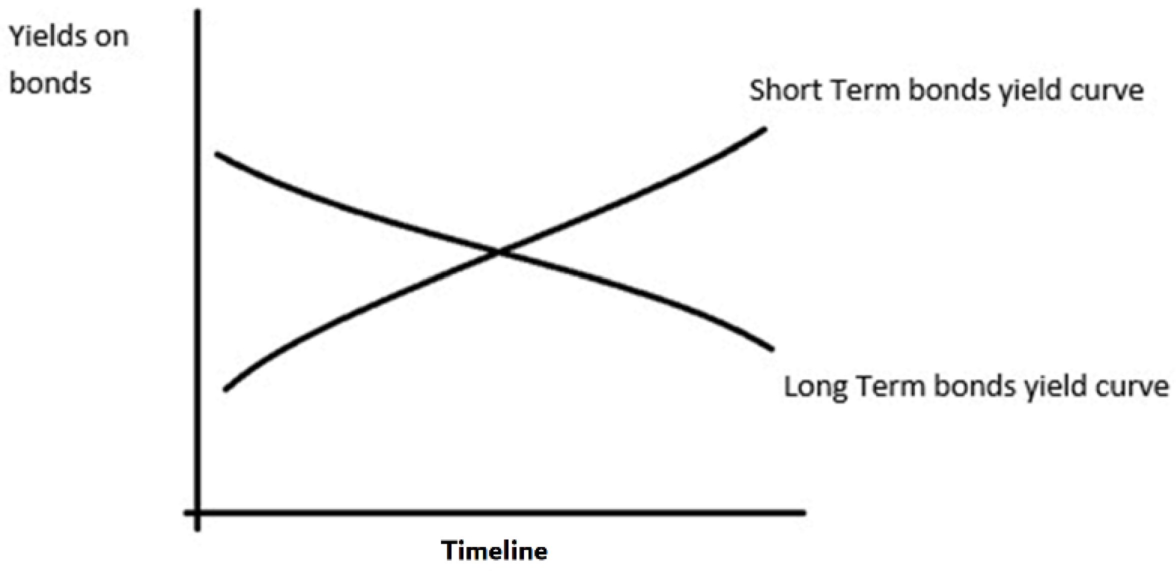
The term yield refers to the benefit or interest rate that government security (such as Treasury Bills or Government Bonds) offers. For instance, a government bond for Rs. 1000 yields 10% and offers an interest payment of Rs. 100 annually.

What occurs if the RBI purchases large quantities of long-term government bonds?

When the RBI decides to buy long-term government bonds in bulk, there will be a significant increase in market demand. The cost of long-term bonds will consequently go up. The yield (interest rate) on long-term bonds decreases as bond prices rise. This is due to the inverse relationship between the bond yield and price.

Therefore, RBI can lower the interest rates on long-term government securities by simultaneously purchasing long-term bonds and selling short-term assets.

Definition and example of "Yield of Bonds"



Operation Twist's goal is to lower the interest rate on long-term government securities.

Let's say that, before Operation Twist, long-term government securities with an original cost of Rs. 1000 had a 10% yield.

There is a great demand for it now that the RBI is purchasing this long-term bond in large quantities. Prices will rise in tandem with rising demand.

Imagine that the government bond's price in the secondary market bonds rises to Rs. 1200. This indicates that only at a greater price are people willing to sell the bond.

Now, if someone buys this bond, he will only receive a 10% interest rate on the original purchase (Rs. 1000), which translates to only Rs. 100 in interest per year. The bond's new owner invested Rs 1200, but he will only receive Rs 100 in interest rather than Rs 120.

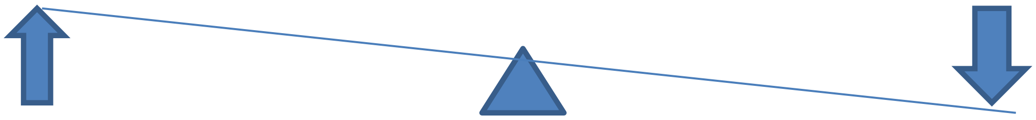
Why does this matter? The bond's effective interest rate has dropped:

The bond's yield has decreased from its initial 10 percent rate to just 8.3 percent.

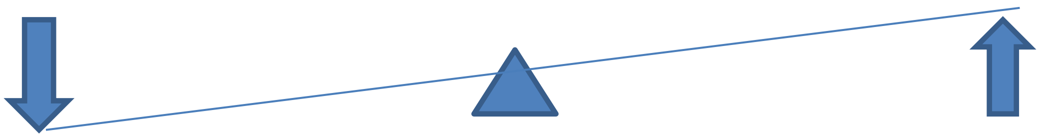
Gain of Rs. 100 on an investment of Rs. 1200 is 8.3%. Even though the bond's initial interest rate was 10%, the yield fell as the bond's price rose.

There are two sides to every tale. When the government sells short-term securities, the opposite occurs.

Thus, the RBI can lower long-term interest rates by simultaneously buying and selling government securities (Operation Twist).



Interest rates Prices



Interest rates Prices

Advantages of lowering long-term interest rates:

So that credit, consumption, and investment increase, the general population can borrow money at a reduced interest rate.

To cover the budget deficit, the government can borrow money at a cheaper interest rate.

Why is Operation Twist required? Why can't the RBI simply lower interest rates?

In India, the transmission mechanism for monetary policy is not well-tuned.

For instance, the RBI cut the repo rate, a key interest rate, by 1.35 percent in 2019, but banks only passed on a portion of it.

Only 0.5% has been lost from the MCLR, or median marginal cost of funds-based lending rate, over the past year. Thus, it is clear that the traditional approaches fell short of expectations. Most firms did not take out loans since interest rates were still high. Extremely slow credit growth was observed. Reduced effective interest rates were required to stimulate the economy (by luring investment) as India's GDP growth rate fell below 5%. Due to this, RBI was forced to implement the unconventional monetary policy known as "Operation Twist."

7 Essential Facts About Operation Twist:

- The Reserve Bank of India's monetary policy is known as Operation Twist.
- The RBI has adopted an unusual monetary policy in this case.
- The Open Market Operation (OMO) of the RBI includes Operation Twist.
- The RBI simultaneously buys and sells government securities as part of Operation Twist.
- While selling short-term government assets, the RBI purchases long-term ones.
- Operation Twist aims to lower the interest rate on long-term treasury bonds.
- Both the public and the government can borrow money at lower costs when the interest rate declines. This is meant to boost the economy.

2.6.2 Fiscal Policy

Before 1929, when the world's great depression started, governments did not meddle with how the markets operated. The forces of supply and demand were allowed to handle everything on their own. However, following the Great Depression, the government decided it was necessary to meddle in the market to achieve the desired course and objectives for the nation. The goals of fiscal policy are to raise tax revenues and incur expenditures on behalf of the state. To raise money and spend it, the government created a plan known as a budget or fiscal policy.

The employment of taxation, public borrowing, and public expenditure by the government for "stabilization" or "development" reasons is referred to as fiscal policy. The role of monetary policy in promoting economic growth has diminished since the great slump of 1929. In less developed nations, fiscal policy has a significant impact. In reality, effective fiscal policy use is essential for economic growth. Fiscal policy "assumes a new significance in the light of the challenge of capital development in under-developed nations," in the words of R. Nurkse. These nations have exceptionally low per capita incomes and savings rates. The few wealthy people engage in ostentatious consumption. Savings are lost in significant amounts through unproductive channels including real estate, gold hoarding, jewelry, and other speculative activities. All of these are directed into productive channels by fiscal policy.

"Fiscal policy is given the essential job of pulling from the pitifully low output of undeveloped countries adequate savings to support economic development programs and to lay the way for more strong public investment activity," the UN Report on Taxes and Fiscal Policy states. Fiscal policy can be employed as a crucial adjunct to monetary policy in an underdeveloped country where monetary policy alone is ineffectual due to the presence of underdeveloped money and capital markets to accelerate the rate of capital formation. Because of this, understanding fiscal policy is crucial.

Fiscal policy's goals:

- Whole employment

Achieving and maintaining full employment in an economy is the main objective of monetary policy in emerging nations. The fundamental objective is to prevent unemployment and achieve a situation of almost full employment, even if full employment is not achieved in these countries. Therefore, the state needs to invest enough in social and economic uplift to reduce unemployment and underemployment.

Additionally, different investments might be encouraged by tax breaks, exemptions, low-interest rates, subsidies, etc. In rural locations, efforts can be made to support local industries by giving them access to marketing resources, low-cost financing, equipment, and training. Spending on both of these actions would aid in lowering underemployment and unemployment.

- Price constancy

It is well acknowledged that poor nations increasingly aim to achieve economic progress and prosperity. Inflation is one way that economic instability shows up in developed nations. According to Prof. Nurkse, "inflationary forces are inherent in the investment process, but the solution to manage them is to not stop investment. They can be controlled in a variety of ways, with the primary being a potent tool for fiscal policy.

Therefore, inflation is a common phenomenon in developed economies where there is a propensity for price increases as a result of the rising level of public spending. Due to rising sales, the total demand surpasses the total supply. Consumer products and capital goods fall short of rising revenues. To put it briefly, fiscal and monetary policies work together to promote economic development and stability.

- To quicken the pace of economic expansion

Fiscal policy will prioritize attaining an increased rate of economic growth in a developing economy. However, it is challenging to attain and sustain a high rate of economic growth in the absence of economic stability. To avoid having a detrimental impact on production, consumption, and distribution, fiscal measures such as taxes, public borrowing, and funding of deficits, among others, should be employed wisely. It ought to assist the entire economy, which in turn aids in increasing national output and per capita income.

- Optimal resource allocation

Fiscal policies like taxation and public spending plans can have a substantial impact on how capital is distributed among various companies and sectors. Poor nations have extremely low national and per capita incomes. The government will use budgetary policies to rebalance the economy and promote the development of social infrastructure. Public spending, subsidies, and incentives can have a positive impact on how resources are allocated in the desired directions.

Exemptions from taxes and other tax breaks can go a long way toward luring capital to favored businesses. Contrarily, excessive taxation in a given industry will cause capital to flee. Above all, reducing direct consumer spending and investing in socially unproductive ventures can assist to mobilize resources and further restrain inflationary trends in the economy. In developing nations, a security strategy is frequently a helpful tool for the growth of some socially beneficial enterprises.

The following actions are suggested by Prof. R.N. Tripathi to increase the saving ratio, which provides the necessary funding for development schemes:

a) physical command directly.
b) raising the tax rate on current income.
c) the implementation of new taxes,
d) borrowing by the public that isn't inflationary
e) surplus from government-run businesses,
f) funding a deficit.

- Fair distribution of wealth and income

It is unnecessary to underscore the importance of an equitable distribution of income and resources in a growing economy. In general, nations whose wealth is concentrated in a small number of hands during the early phases of expansion continue to experience wealth disparity. Additionally, the economic system as a whole is dominated by private ownership. Significant inequality also leads to political and social turmoil, which exacerbates economic instability.

To lessen inequality and ensure distributive justice, the government should invest in those productive sectors that aid low-income populations and help them develop their productivity and technology. Spending on redistributive purposes should consequently aid economic growth, as should redistribution itself.

Therefore, a carefully thought-out fiscal policy and public spending will promote the development of human capital, which in turn will have a good impact on the distribution of income. Providing chances for underprivileged communities can also lessen regional inequities. A strongly egalitarian redistributive tax policy should strive to impose high taxes on the wealthier segments of the population while exempting the poorest segments. Similar to this, luxury goods that are consumed by the higher class may be heavily taxed.

- Financial stability

In the face of worldwide cyclical short-run volatility, fiscal measures, to a greater extent, promote economic stability. As a result of these swings, trade disparities arise, favoring industrialized economies over rising ones. As a result, fiscal policies should incorporate built-in flexibility into the budgetary system so that changes in government revenue and spending will automatically have a compensatory effect on changes in the country's income. Therefore, fiscal policy is crucial in maintaining economic stability in the face of both internal and external influences. Instead of using aggregate fiscal policy, an approach that is more commonly referred to as "tariff policy" corrects the uncertainty brought on by external forces.

During the boom, export and import taxes will be imposed to lessen the impact of global cyclical variations. To limit the use of extra purchasing power, strong import regulations and high import levies on consumer items are necessary. During the recession, the government will carry out public works projects by incurring deficit spending. In other words, fiscal policy should be considered in a broader context, taking into account the balanced growth of various economic sectors.

- capital accumulation and expansion:

Every development endeavor in a nation starts with a capital, and fiscal policy can be welcomed as a crucial tool for encouraging the highest rate of capital creation feasible. In a developing economy, there is a "vicious loop of poverty." A higher rate of capital production is necessary for balanced growth, which is necessary to escape the vicious cycle. When a nation escapes the grip of backwardness, it promotes capital formation and investment.

According to Prof. Raja J. Chelliah, fiscal policy should focus on the following to achieve rapid economic growth:

a) reducing consumption (c) to increase saving (s) to income (y);
b) Increasing the investment rate:
c) boosting the flow of productive spending;
d) reducing stark disparities in wealth and income.

Therefore, fiscal policy must be designed to be implemented in two ways: by raising investment in public and private firms and by shifting money from less desirable to more advantageous investment opportunities.

This approach will contribute to increasing overall economic savings and generating capital to improve the economy's quality. Taxation, deficit spending, and external borrowing are all additional ways to encourage capital production. Government fiscal policies will, at least in the long run, encourage private businesses to actively participate in capital mobilization.

- **promoting investment**

The goal of fiscal policy is to quicken the rate of investment in both the public and private sectors of the economy. First and foremost, fiscal policy will encourage public sector investment, which will ultimately boost private sector investment. In other words, fiscal policy should encourage investment in specific platforms that are seen as the most desirable from a societal standpoint and be targeted toward accelerating economic growth.

These will work to reduce extravagant consumption and wasteful investment. To create external economies to promote investment in the industrial and agricultural sectors of the economy, the government will work to build up overhead economic and social costs such as ports, irrigation, flood control, electricity, flood control, technical training, and education in the early stages of economic growth.

These marketplaces would aid in increasing the size of the economy, raising production costs, and improving the social marginal efficiency of investment. The fact that social marginal efficiency initiatives should be carefully considered in light of their actual effects should be recalled here.

The Process of Government Budgeting in India and Constitutional Requirements

What is the budgeting procedure for the Indian government? What requirements does the Constitution provide for the yearly financial statement?

How much do you know about the Indian government's budgeting procedure?

Exactly what is a budget?

As you are aware, the government presents a report called the budget. It is a financial assessment of the government, detailing both expenditures and revenues.

As a result, the budget can be thought of as the most thorough summary of the government's financial situation, in which all revenues and expenditures are included.

The Indian Constitution's budget

The phrase "Budget" is not used in the Indian Constitution; instead, the term "Annual Financial Statement" is used (article 112).

What constitutional requirements force the need for a budget?

- "No tax must be imposed or collected unless by authority of law," according to Article 265. [i.e., taxation requires Parliamentary permission.]
- No expenditures may be made without the Legislature's permission, according to Article 266. [i.e., Expenditure requires Parliamentary approval.]
- According to Article 112, the President must arrange for the Annual Financial Statement to be presented to the Parliament for each fiscal year.

2.6.3 FRBM Act

The Indian Parliament passed the Fiscal Responsibility and Budget Management (FRBM) Act in 2003 to improve budget management.

Along with the Budget, the FRBM statute mandated that various documents about the nation's fiscal policy be presented annually to the Indian Parliament.

Budgetary Records

Do you realize that the Finance Minister presents several budget documents in addition to the Annual Financial Statement?

The budget can be defined as an annual financial account of a government's revenue and expenses.

Along with the Finance Minister's Budget Speech, the following documents are included in the Budget documents submitted to Parliament:

a) Article 112 of the Annual Financial Statement (AFS)
b) Grant Requests (DG) - Article 113
c) Bill of Appropriations - Article 114 (3)
d) Article 110 of the Finance Bill (a)
e) Memorandum Explaining the Finance Bill's Provisions
f) FRBM Act's macroeconomic framework for the pertinent fiscal year
g) Statement of Fiscal Policy and Strategy for the Fiscal Year - FRBM Act
h) FRBM Act Medium Term Fiscal Policy Statement
i) Statement of the Medium-Term Expenditure Framework for the FRBM Act
j) Budget for Expenditures, Volume 1
k) Budget for Expenditures Volume 2
l) Expense Budget
m) Budget overview
n) The Budget's Highlights

The current state of the announcements made at the preceding fiscal year's budget speech by the finance minister.

PS: The documents in Serials 1, 2, 3, and 4 are required under Articles 112, 113, 114(3), and 110(a), respectively, of the Indian Constitution, whereas Serials 6, 7, 8, and 9 are supplied by the Fiscal Responsibility and Budget Management Act of 2003. Other documents are in the form of explanatory statements that provide a narrative or other content in a user-friendly format. All of these documents are also presented to Parliament in Hindi.

Presentation of the Railway Budget in the Government: Case Study

Do data about railroads appear in the annual financial statement or are they only included in the budget for railroads?

The Indian Railways' budget was presented to Parliament separately and dealt with separately up to 2016 (92 years). Even back then, the Railways' income and expenses were included in the Consolidated Fund of India, and the numbers about them may be seen in the "Annual Financial Statement."

Mr. Suresh Prabhu gave the penultimate Railway Budget presentation on February 25, 2016. The Railway Budget and the Union Budget have been combined since 2017.

Key to Budget Documents: Budget Documents Explained Simply

Government Budgeting Basics revealed that the Indian Budget is made up of several documents, including the Annual Financial Statement, Demand for Grants, Appropriation Bill, Finance Bill, and others. Additionally, there are specific budget records that are required by the FRBM act of 2003. We'll examine each of these documents in more detail and examine their contents in this piece.

Annual Financial Statement

The Annual Financial Statement (AFS), as required by Article 112, details the Government of India's anticipated receipts and outlays for the upcoming fiscal year (let's say, 2017–18) in comparison to projections for the prior fiscal year (i.e., 2016–17), as well as outlays for the prior fiscal year (ie. 2015-16). The consolidated fund, contingency fund, and public account are the three categories under which receipts and outlays are recorded in government accounts. The annual financial statement's estimates of receipts and expenses account for expenditures that have been reduced by refunds and recoveries that will be recorded in the accounts.

The following headings are on the annual financial statement.

a) Consolidated Fund of India Statement I Revenue Account receipts and expenditures; Capital Account receipts and expenditures
b) Expenditure charged to the Consolidated Fund of India in Statement IA
c) Statement 2 - India's Contingency Fund
d) Public Accounts of India, Statement 3: Receipts and Expenditures
e) Union Territories' receipts and expenditures without a legislature.

Demand For Grants

Demands for Grants must be filed in place of Annual Financial Statement estimates of Consolidated Fund of India expenditures that must be approved by the Lok Sabha per Article 113 of the Constitution. The Annual Financial Statement and Demands for Grants are both presented to the Lok Sabha. One Demand for Grant is often presented in each Ministry or Department and deserves respect. However, multiple Demands could be made for a ministry or department. There is a different Demand given for each of the Union Territories that do not have a legislature. There were 106 Demands for Grants in the 2014–15 budget.

Each Demand begins by listing the sums of "voted" and "charged" expenditure as well as the "revenue" and "capital" expenditures included in the Demand individually. It also includes the overall amount of expenditure for which the Demand is being presented. The estimates of spending under the various major heads of the account come after this. It also provides a breakdown of expenditures under each major heading by "Plan" and "Non-Plan." Additionally, the amounts of recoveries used to lower expenditures in the accounts are displayed. This document begins with a summary of requests for grants and, if any, includes information on "new services" or "new instruments of service," such as the creation of new companies, undertakings, or schemes.

PS: Key to Budget Documents by Ministry of Finance, available at India budget.nic.in, should be consulted for more information on any of these budget documents.

Appropriation bill

Following Article 114(3) of the Constitution, no money can be taken out of the Consolidated Fund without a specific bill being passed by Parliament. Following the Lok Sabha's approval of the Demands for Grants, the Appropriation Bill asks Parliament's permission to remove the funds approved by the Lok Sabha and the amount necessary to pay the charges against the Consolidated Fund. The entire procedure, from the budget presentation to the discussion and vote on the grant requests, takes a good amount of time. Thus, in anticipation of the completion of the process for the vote on the Demands, the Lok Sabha is authorized by the Constitution to make any grant in advance in respect of the anticipated expenditure for a portion of the financial year. In the interim, until the "final supply" is voted on, the "Vote on Account" is intended to keep the government running. An Appropriation (Vote on Account) Bill is used to request the Vote on Account from Parliament.

Finance Bill

To comply with Article 110 (1)(a) of the Constitution, a Finance Bill specifying the imposition, repeal, remission, adjustment, or regulation of taxes proposed in the Budget is also given to Parliament at the same time as the Annual Financial Statement. A finance bill falls under the definition of a money bill in Article 110 of the Constitution. A Memorandum outlining the provisions contained in it is attached.

Memorandum Explaining the Finance Bill's Provisions

The provisions and their effects are discussed in the document titled Memorandum Explaining the Provisions of the Finance Bill to make it easier for people to grasp the taxation measures in the Finance Bill.

Documents needed to comply with the FRBM Act:

a) Statement of the macroeconomic framework

The Macroeconomic Framework Report was submitted to Parliament under Section 3(5) of the Fiscal. An evaluation of the economy's growth prospects is provided in the Responsibility and Budget Management Act of 2003 and the rules enacted thereunder. These assessments include specific underlying assumptions. It covers evaluations of the GDP growth rate, the Central Government's budgetary position, and the economy's balance in the foreign sector.

b) Statement of the Fiscal Policy Strategy

The Fiscal Policy Strategy Statement outlines the strategic goals of the Government in the fiscal area for the upcoming financial year concerning taxation, expenditure, lending, and investments, administered pricing, borrowings, and guarantees. It is submitted to Parliament under Section 3(4) of the Fiscal Responsibility and Budget Management Act, 2003. The Statement justifies any significant departure in key fiscal measurements and explains how current policies are in line with good fiscal management principles.

c) Statement of Long-Term Fiscal Policy

The Fiscal Responsibility and Budget Management Act of 2003's Section 3(2) requires that the Medium-Term Fiscal Policy Statement be submitted to Parliament. This statement outlines three-year rolling targets for four distinct fiscal indicators concerning GDP at market prices: I Revenue Deficit, (ii) Fiscal Deficit, (iii) Tax to GDP ratio, and (iv) Total outstanding Debt at the end of the year. The Statement covers the underlying hypotheses, a determination of sustainability in terms of the equilibrium between revenue receipts and revenue expenditures, and the utilization of capital receipts, including market borrowings for the creation of productive assets.

d) Statement of the Medium-Term Expenditure Framework

A three-year rolling target for the expenditure indicators is outlined in the Medium-Term Expenditure Framework Statement submitted to Parliament following Section 3 of the Fiscal Responsibility and Budget Management Act, 2003, along with a description of the underlying assumptions and risks involved. A greater synergy between the budget and the FRBM Statements is the goal of the MTEF.

P.S. This Statement is separately presented in the session immediately after the session in which the budget is submitted, typically in the monsoon session.

Why did the FRBM Act become law?

In India, borrowing levels during the 1990s and 2000s were exceedingly high. Due to its significant fiscal deficit, revenue deficit, and debt-to-GDP ratio, the Indian economy was weak.

By 2003, the health of the Indian economy had been significantly harmed by ongoing government borrowing and the resulting debt. A large portion of the borrowing was not used for productive reasons but rather to pay off earlier borrowings' interest. As a result, interest payments rose to the top of the government's list of expenses.

The government was then forewarned by numerous economists that this situation was unsustainable. They suggested taking legal action to save India from becoming debt-trapped.

Indian lawmakers agreed that there should be restrictions on how much borrowing the government of India is allowed to do to pay for its expenses. They, therefore, introduced a bill in 2000 to enforce accountability and discipline in terms of spending and debt. The Fiscal Responsibility and Budget Management Act was a measure that was approved by the Indian Parliament in 2003.

The Fiscal Responsibility and Budget Management (FRBM) Act of 2003

The then-Indian Finance Minister, Mr. Yashwant Sinha, introduced the Fiscal Responsibility and Budget Management Bill (FRBM Bill) in December 2000. The early versions of the bill's provisions were overly draconian. After significant debate, the FRBM Act, a watered-down version of the measure, was approved in 2003. From July 5, 2004, the FRBM Rules were in effect.

The major goal of the FRBM Act is to keep government revenue and expenditures in balance.

The Fiscal Responsibility and Budget Management Act was designed:

- to promote financial discipline.
- efficient debt, revenue, and expense management.
- Microeconomics balance.
- closer integration of monetary and fiscal policies.
- openness in the government's financial management.
- getting a balanced budget.

Intentions behind the FRBM Act:

The act's primary goals were:

- To establish in the nation transparent fiscal management systems.
- To implement a more fair and manageable distribution of the nation's cumulative debts.
- To pursue long-term budgetary stability for India

Additionally, it was anticipated that the act will grant the Reserve Bank of India (RBI) the freedom it needs to control inflation in India.

Fiscal Responsibility and Budget Management Act provisions

The medium-term fiscal policy statement must include projections for four fiscal indicators by the FRBM regulations. Which are:

- revenue shortfall relative to GDP
- fiscal shortfall as a proportion of GDP.
- tax receipts as a proportion of GDP.
- total liabilities outstanding as a proportion of GDP.

The FRBM Act established goals for the revenue and budgetary deficits.

Along with the Budget, the FRBM statute mandated that various documents about the nation's fiscal policy be presented annually to the Indian Parliament. This includes the statements of the macroeconomic framework, the medium-term expenditure framework, the medium-term fiscal policy statement, and the fiscal policy strategy statement.

Early FRBM targets (to be met by 2008-09)

- The target for Revenue Deficit: By March 31, 2009, all revenue deficits should be gone. 0.5 percent of GDP was the minimum annual reduction target.
- The target for Fiscal Deficit: By March 31, 2009, the fiscal deficit should be at or below 3% of GDP. 0.3 percent of GDP was the minimum annual reduction target.
- In any fiscal year commencing in 2004–2005, the Central Government shall not provide incremental guarantees totaling more than 0.5% of GDP.
- Additional Liabilities — By 2004–2005, additional liabilities, which include external debt at the current exchange rate, should be brought down to 9% of GDP. The minimum reduction goal for each succeeding year shall be 1 percent of GDP.
- RBI will no longer buy government bonds as of April 1, 2006. This suggests that the government avoid direct borrowing from the RBI.

Modifications to the FRBM Act

Significant changes were made in 2012 and 2015, which lowered the target realization year. Additionally, a brand-new idea known as Effective Revenue Deficit (E.R.D.) was presented.

Through a modification to the FRBMA, the necessity for a "Medium Term Expenditure Framework Statement" was also included.

FRBM Targets Following 2012 Amendment to FRBM Act (to be achieved by 2015):

Revenue Deficit Target: By March 31, 2015, the revenue deficit should be fully erased. The yearly minimum reduction goal was set at 0.5 percent of GDP. Fiscal Deficit Target: By March 31, 2015, the fiscal deficit should be reduced to 3% of GDP. The yearly minimum reduction goal was set at 0.3% of GDP.

FRBM Targets Following the 2015 Amendment to the FRBM Act (to be achieved by 2018):

Revenue Deficit Target: By March 31, 2018, the revenue deficit should be fully erased. The yearly minimum reduction goal was set at 0.5 percent of GDP.

Fiscal Deficit Target: By March 31, 2018, the fiscal deficit should be reduced to 3% of GDP. The yearly minimum reduction goal was set at 0.3% of GDP.

Most recent FRBM Targets:

The most recent elements of the FRBM act mandate that the government, among other things, restrict the fiscal deficit to 3% of GDP by March 31, 2021, and the central government's debt to 40% of GDP by 2024–25. Under certain circumstances, the Act allows for a deviation from the yearly budget deficit target.

What are the current levels of revenue and fiscal deficits?

Fiscal Deficit (FD): According to the Indian Budget for 2020–21, the fiscal deficit was anticipated to be 3.5 percent of GDP.

Revenue Deficit (RD): According to the Indian Budget for 2020–21, the revenue deficit was anticipated to be 2.7 percent of GDP.

Effective Revenue Deficit (ERD)- According to the Indian Budget for 2020–21, the effective revenue deficit was anticipated to be 1.8% of GDP.

The ratio of taxes to GDP: 10.8

Central Government Debt to GDP Ratio: 50.1.

What if there isn't any financial restraint?

Without financial restraint, the government (executive) is free to spend however it pleases.

A nation will eventually get caught in a debt trap, which could lead to its eventual collapse, much like a house will if there is not enough money to offset the high cost.

NOTE: The FRBM Act aims to create budget surpluses, prudential debt management, borrowing restrictions to reduce deficits and debt, increased transparency, the removal of fiscal barriers, and a medium-term framework for budgetary execution to promote long-term macroeconomic stability. Thus, governments have failed to meet the FRBM targets set in 2008, even by 2020.

Although the Act's primary goal is to reduce the deficit, achieving intergenerational parity in fiscal management is also a key goal. This is, so that future generations are responsible for repaying today's high borrowing levels. But the current generation benefits from high spending and debt today. By lowering the future generation's debt load, achieving FRBM targets ensures intergenerational equity.

❖ **The dual deficits of fiscal and current account deficits:**

The Finance Minister and Prime Minister frequently refer to the fiscal deficit, fiscal consolidation, and current account deficit as the areas that require the utmost attention.

Fiscal Deficit: What Is It?

The gap between the government's total outlays and its total receipts is known as the fiscal deficit (excluding borrowing). In layman's words, the government's debt and liabilities are represented by the fiscal deficit. According to the formal definition, the fiscal deficit is the sum of the budgetary deficit plus the government's borrowings and other liabilities.

Note: Deficit is distinct from debt, which is the result of annual deficit accumulation. Capital spending and revenue deficit are the components of the fiscal deficit.

Note: The gap between the government's total revenue receipts and its total revenue expenditures is known as the revenue deficit.

Yes, there is a discrepancy between income and expenses. But how can we close it?

Borrowing from the Reserve Bank of India, also known as deficit financing or creating money, and market borrowing can be used to cover the fiscal deficit (from the money market, which is mainly from banks). Unchecked borrowing, however, is bad for the economy since less money will be available for social sector programs and a larger amount of government revenue will be spent to pay back loan interest in the future. In addition, as budget deficits increase over time, large debts and debt traps result.

While the government's efforts to lower the 2012–2013 fiscal deficit to a target of 5.3% of GDP have eased short-term risks, longer-term fiscal consolidation required cuts to politically sensitive subsidies. The RBI anticipates that the government would reduce its wasteful spending to close the deficit.

The current account deficit (CAD) is what:

The current account is made up of net factor income (such as interest and dividends), net transfer payments, and the trade balance (exports minus imports of goods and services) (such as foreign aid).

Types of Deficit: There are three sorts of deficits:

1. Revenue Deficit: This is the difference between the government's revenue expenditure and revenue receipts.

Revenue Deficit = Revenue Expenditures minus Revenue Receptions

The revenue deficit only includes transactions that affect the government's current income and expenditure. When the government runs a revenue deficit, it means that it is not saving and is leveraging the savings of other sectors of the economy to fund a portion of its consumption expenditure.

2. Fiscal Deficit: The difference between the government's expenditures and receipts. This is the amount of money that the government will need to borrow throughout the year. A surplus occurs when receipts exceed spending.

Fiscal Deficit= Total expenditure - (Revenue revenues + Non-debt producing capital receipts)

It represents the government's total borrowing needs from all sources.

On the financial front: Gross fiscal deficit = net domestic borrowing + RBI borrowing + foreign borrowing

The gross fiscal deficit is an important indicator of the public sector's financial health and the economy's stability.

3. Primary deficit: The primary deficit is equal to the fiscal deficit less interest payments. This represents the difference between the government's expenditure obligations and income, excluding the expenditure on interest payments on loans received in prior years.

Primary deficit = fiscal deficit- interest payments

2.7 Union Budget as an instrument of growth and its Impact on Business

India's yearly financial statement is, to put it simply, the union budget. Before a new financial year starts year, a budget presentation is required by Article 112 of the Indian Constitution.

The budget is valid for the fiscal year that begins on April 1 and ends on March 31 of the following year after it is submitted.

WHAT IS INCLUDED IN THE UNION BUDGET?

There are two sections to the union budget:

- Capital Budget: The capital budget, as its name suggests, includes information about the government's capital expenditures and capital revenue. The money used for infrastructure, healthcare facilities, etc., might be included in the capital payments. The loans obtained from the RBI or the general public are covered under the capital receipts.
- Revenue Budget: The revenue budget is made up of revenue receipts and revenue expenditures. When tax receipts fall short of revenue expenditures, the government is said to be in a "revenue deficit."

THE VALUE OF THE UNION BUDGET

India is a parliamentary democracy with restrictions on government spending, borrowing, and taxation. Budgeting and planning are therefore essential for the government to run efficiently and contribute to strengthening the nation's social and economic foundation.

The following are some of the most significant justifications for the significance of union budgets:

- Resource Distribution: Because there are only so many resources available, the government uses a union budget to try to allocate them wisely and maximize earnings.
- Manage Prices: Handling and anticipating inflation and deflation is one of the union budget's most significant responsibilities. To keep the economy stable during inflation and deflation, respectively, surplus and deficit policies are prioritized.

- Economic Inequality Reduction: Economic inequality exists in all societies. The government works to close the gap between the rich and the poor with the aid of budgetary initiatives.
- Managing the Operations of PSUs: Public-sector businesses significantly contribute to the economy of the nation by creating jobs and producing income. By implementing measures to promote their expansion, a budget assists the government in appropriately focusing on businesses in the public sector.

These all factors of the union budget help and act as an instrument for the growth of the country's economy.

Summary of the Union Budget for the fiscal year 2022-2023

The Union Budget 2022-23 aims to complement macroeconomic growth by focusing on microeconomic all-inclusive welfare. The budget intends to lay a solid foundation for the Indian economy to steer towards Amrit Kaal over the next 25 years, from India at 75 to India at 100.

- The Union Budget 2022 is organized around four pillars:
  1. PM GatiShakti
  2. Development that is inclusive
  3. Increased Productivity and Investment, Sunrise Opportunities, Energy Transition, and Climate Action
  4. Investment Financing

Important Announcements in Various Sectors

Infrastructure	1. PM Gati Shakti National Master Plan 5G spectrum

	auctions to be held in 2022 at a cost of 20,000 crore 2. The production-linked scheme will include a scheme for design-led manufacturing for 5G. 3. Contracts will be awarded to lay optical fiber in rural areas, with completion expected in 2025. 4. An additional 195 billion rupees will be allocated for production-linked incentives for solar equipment manufacturing.
Education	1. A networked hub model will be used to establish the Digital University. 2. To provide supplementary education in all regional languages, One Class, One TV Channel will be expanded from 12 to 200 TV Channels.
Health	1. The National Digital Health Ecosystem will be implemented. 2. A national telemental health program will be established to focus on mental health. 3. 23 world-class telemental health centers. 4. Mission Shakti, Mission Vatsalya, Saksham Anganwadi, and Poshan 2.0 provide integrated benefits to women and children.
Agriculture	1. Domestic scheme launched to reduce reliance on oilseed imports. 2. NABARD will facilitate funds with blended capital to

	finance agricultural and rural enterprise startups. 3. Natural, chemical-free farming will be promoted across the country. 4. Millet Year 2022 - support for post-harvest value addition for millet products 5. Using Kisan drones for crop assessment and pesticide spraying
Defence	1. As part of the Atma Nirbhar Bharat initiative, the budget for 2022-23 would encourage self-reliance in defense production. 2. Domestic procurement received 68% of the sector's capital procurement budget. 3. encourage the private sector to design and develop military platforms and equipment
Finance	1. The long-term capital gain surcharge will be limited to 15%. 2. The scheme to guarantee emergency credit lines for small and medium-sized businesses will be extended until March 2023. 3. The Life Insurance Corporation will soon go public. 4. To amend the bankruptcy code in order to expedite the resolution process
Railways	1. 2,000 kilometers of railway network will be brought

	under Kavach as part of the PM Gatishakti Masterplan. 2. In addition, 400 new-generation Vande Bharat Trains with improved energy efficiency and passenger comfort will be developed and manufactured over the next three years.
MSMEs	1. The Raising and Accelerating MSME Performance (RAMP) program will be implemented for MSMEs with a Rs 6,000 crore investment spread over five years. 2. The Emergency Credit Line Guarantee Scheme (ECLGS), which provided much-needed extra credit to over 1.3 crore MSMEs, will be extended until March 2023, with its guarantee cover increased by Rs 50,000 crore to Rs 5 lakh crore.

2.8 Summary

- The definition of economic system refers to the role or model of distribution and production that occurs in society.
- Economic systems can be simple or complex.
- Economy may use either a 'capitalistic' or a ‘socialistic' system, or it may use a ‘mixed' system (as is in our country).
- Monetary policy is the exact term used to describe the steps taken by a country's central bank to regulate the money supply
- Economic policy refers to government actions in the economic field.

- Economic policies cover taxation systems, government budgets, the money supply and interest rates, as well as the labour market, national ownership, and many other areas of government intervention in the economy.
- Business is essentially an economic activity that has a significant role to play.
- The economic environment is highly impacted by a country's economic model, irrespective of being a socialist, capitalist or a mixed economy.

2.9 MCQ

1) Agriculture, dairy, fishing, forestry are perfect examples of ________.

a) primary Sector

b) tertiary Sector

c) secondary Sector

d) none of the above

2) This sector covers activities in which natural products are altered into other forms through ways of manufacturing that we associate with industrial activity.

a) secondary sector

b) tertiary sector

c) primary sector

d) none of the above

3) Which of the following comes under the tertiary sector?

a) transport

b) communication

c) both (a) & (b)

d) none of the above

4) Service sector also add some crucial services that may not directly help in the production of goods. State whether true or false.

a) true

b) false

5) Which of the following shows how big the economy of a country is.

a)GSDP

b)GDP

c)PPP

d)None of the above

6) Which of the following statements are true regarding the services sector?

a) As income levels rise, certain sections of people start demanding many more services like eating out, tourism, shopping.

b) Over the past decade or so, certain new services such as those based on information and communication technology have become important and essential.

c) In the year 2010-11, the tertiary sector has emerged as the largest producing sector in India, replacing the primary sector.

d)All of the above are true.

7) Workers in which of the following sectors are under-employed.

a) IT

b) agricultural

c)manufacturing

d) none of the above

8) As per the same study by the former Planning Commission, if tourism as a sector is improved, every year, additional employment coud be given to more than _______ people.

a) 20 lakhs

b) 25 lakhs

c) 10 lakhs

d) 35 lakhs

9) The National Rural Employment Guarantee Act was passed by the Government of India in __________.

a) 2005

b) 2010

c) 2004

d) 2014

10) Which of the following statements are true regarding the organised sector?

a) Workers enjoy the security of employment.

b) They are expected to work only for a fixed number of hours.

c) If they work more, they have to be paid overtime by the employer.

d) All of the above.

Ans:

1	2	3	4	5	6	7	8	9	10
a	a	c	a	b	d	b	d	a	d

2.10 Short Questions

1. Define secondary sector.
2. State the microeconomic factors that affect the economy.
3. State two features of Capitalist economy.
4. State two features of Socialist economy.
5. Mention two advantages of Socialist economy.
6. State two disadvantages of mixed economy.
7. State two objectives of monetary policy.
8. What is contradictory monetary policy?
9. Define Small Finance Banks.
10. Define Payment Banks.
11. How much do Government securities yield?
12. Define Fiscal policy.
13. Define Fiscal deficit

2.11 Long Questions

1. Discuss the roles that the Government, State and market must play in development.

2. Describe the different of Economic system.
3. Discuss the advantages and disadvantages of a socialist economy.
4. Explain the role of union budget in the growth of business.
5. Describe monetary policy along with all its components.
6. What are the benefits of foreign capital and their collaboration within the country?
7. What are the Union Budget and its impact on the business environment?
8. Discuss the Definition and example of "Yield of Bonds"

Unit 3: Global Trends

3.0 Learning Outcome

At the end of this unit, you will be able to:

- Discuss the economic trends in business

3.1 Introduction

Global Trends is made to offer policymakers an analytical framework as they develop national security strategies and manage uncertain futures early in each administration**.**

> **According to the Cambridge Dictionary:** “a global trend or shift in a situation that has an impact on numerous nations: The expansion of the bank's wealth management division fits into a larger global pattern.”

3.2 Global trends in business and management:

No company runs in a vacuum. The world around today's companies continues to influence them, and the same will be true for tomorrow's organizations. So it stands to reason that if business leaders want to create a strong, long-lasting company, they must be vigillant on new developments in politics, economics, and society.

Let us examine the top five trends happening around the world and how businesses should get ready.

- **Trend 1:** How we interact with the environment

Our world is under tremendous strain, as is evident from the unusual weather patterns and natural disasters we are currently experiencing. You have a tinder box of uncertainty about agricultural output, food security, and migration, to mention a few when you combine that with an expanding global population. As many as 150–200 million people may be compelled to leave the territory that will be submerged by the end of this century. And according to predictions, by 2050, we'll need to raise food production by between 26 and 68 percent to keep up with the expanding world population.

- **Trend 2:** Changes in political and economic power

Cooperation amongst nations is necessary to address the climate crisis. Therefore, the fact that the global political and economic power structures are changing drastically makes this work even harder. By shifting power structures, what do I mean? In summary, the list of the world's most influential nations in terms of politics and economy will appear considerably different in 2050 than it does now.

For instance, it is currently anticipated that China's economy will surpass that of the United States by 2028, five years earlier than originally anticipated. And by 2040, the E7 economies—China, India, Brazil, Mexico, Russia, Indonesia, and Turkey—could have combined economic power equal to that of the G7.

The lesson here? Organizations will find it increasingly expensive to outsource services to nations like India as economic power moves. Businesses will need to prepare for this. Positively, these economies may develop into significant markets for goods and services.

- **Trend 3:** Growing polarization and divergence

In recent years, there have been some prominent instances of growing political diversity and fragmentation. Brexit. The US has left the Paris Agreement on climate change, according to President Trump. The announcement by Russia that it can entirely disconnect from the rest of the world's internet and run its autonomous internet... In other words, there are indications that countries are starting to "consciously uncouple" after decades of doing so.

IHS Markit, a provider of information and analytics, said that the "fragmented world" scenario, in which the US, China, the EU, and other major powers in the global shift away from globalization and focus inward, is the most likely.

As nations are compelled to concentrate on domestic issues as a result of COVID-19, this is probably going to get worse. Relying on any one overseas market in our rapidly changing globe is a high-risk approach since this rising divergence may result in companies being shut out of particular markets.

- **Trend 4:** Changing populations

The world's population will look considerably different from what it does today in 2050, or even in 2030. This is due to an increasing population (worldwide, while certain nations are suffering population decline). Additionally, the middle class is expanding, the population is getting older, and more people are relocating to cities. By way of illustration, the number of megacities, which the UN defines as cities with 10 million or more residents, is also increasing; there will be 43 megacities by 2030, up from 33 in 2018. There are a lot of economic prospects related to the expanding urban populations and consumer classes. However, for enterprises to succeed in these markets, they will need to adapt to various cultural and political contexts.

- **Trend 5:** Changes in the social, cultural, and workplace

The demographic at work is also dramatically changing. Gen Z and millennial employment rates are rising, and baby boomers are reaching retirement age. As a result of this evolving workforce, there are also evolving expectations and objectives. For instance, 65% of employees say they want to work for a company "with a significant social conscience."

The way we work is also evolving. The coronavirus epidemic would further hasten the "work from anywhere" culture, which is already prevalent in one in five employees worldwide.

There will be a greater expectation for workers to "float" between teams, roles, and employers, and organizational structures will become more flexible. The "career for life" is a thing of the past, and more individuals will work in the gig economy, as freelancers, and as independent contractors.

Therefore, all employers must evaluate their working procedures to determine whether they are providing the working environment this evolving workforce wants (and expects)—one in which people have more flexibility, a better work-life balance, and a meaningful connection with the brands they work for.

3.3 Foreign Capital and Collaboration

Several nations' economies have grown as a result of foreign investment.

Such capital is crucial to the efforts of developing nations that seek to speed up the industrialization process and build infrastructure but lack the necessary resources. Foreign companies may cover the import charge for equipment, technology, and management. Capital that may be directed further toward manufacturing activity. Thus the trade, investment, and production activities may all be accelerated, which would lead to the expansion of the nation's economy.

What advantages do capital inflows offer?

Undoubtedly, a developing country like India has many reasons to welcome capital inflows that could be crucial to the growth of our economy.

- Without technology, some natural resources can go undetected or untapped. Therefore, embracing new concepts can aid in the efficient use of resources and stop them from being wasted.
- Additionally, modernizing procedures with new technologies can produce better results while using less manpower, money, and time.
- Employment opportunities are established when new technology is adopted. Thus, it offers a variety of work prospects, especially for young people with fresh perspectives. As a result, skilled labor can be used more effectively.
- With the use of new technologies, Indian products can be sold in foreign markets for competitive pricing by opening up new markets and attracting marketing experts as well.
- Agriculture and industry are, of course, a nation's economic backbones. Infrastructure can be provided for both by foreign money.

India's foreign investment regulations

India's investment strategy may be roughly divided into two time periods: 1948–1990 and 1991 and after. There were only limited policies and controlled inflows before 1990. However, after 1991, India's regulations on foreign investment began to loosen.

A. The Restricting era, 1948–1990

First, the Industrial Policy Resolution (IPR), completely accepted foreign capital participation, especially with new technology ideas to encourage industrialization in our country, reflecting the policy of independent India. However, additional rules were included that mandated Indian ownership and control. When the need arose to nationalize a foreign enterprise, Pt. Jawahar Lal Nehru, then-prime minister of India, made a statement in the constituent assembly bringing up three major issues: no discrimination between foreign and Indian enterprises, fair compensation to foreign investors, and also allowing them to remit profits if foreign exchange positions allowed. Foreign cooperation was also encouraged in sectors that required significant capital investments, production skills and procedures, export industries, and sectors essential to the overall growth of the nation. Additionally, foreign partnerships with equity participation were well received, which contributed to a significant rise in their number. As a result, the nation experienced an outflow of revenues, dividends, and royalties, which sparked a foreign exchange crisis in the late 1960s.

The Foreign Exchange Regulation Act (FERA) of 1973 was passed to codify and update regulations governing transactions that indirectly affect currency exchange, foreign exchange payments, and the preservation and use of the nation's foreign exchange resources. All non-banking businesses and branches having a minimum of 40% foreign ownership were included. India became aware of its inferior technology and goods in the late 1970s as compared to other countries. This was caused in part by MNCs and tightly regulated local markets. However, the 1980 and 1982 Industrial Policy Statements loosened the requirements for licensing and provided several FERA exemptions.

B. The liberalization era began in 1991.

Foreign investment policy saw numerous profound modifications as a result of the 1991 introduction of a new industrial policy. Many limitations were lifted and incentives like tax exemptions were provided to encourage foreign cash and investments. It essentially encouraged foreign investment into practically every sector of the Indian economy, even renting foreign involvement with cutting-edge technologies and bringing new expertise. In contrast to the past, our nation is supporting foreign investments and business even when government delegations travel abroad. They are making an effort to get international investors to invest, viewing it as a component of industrialization and the interchange of new ideas, talents, and improved utilization of both human and non-human resources. Since 1947, India's foreign investment strategy has advanced significantly. Although they were first cordially welcomed to encourage swift industrialization and foreign investment, subsequently restrictions and choices were introduced. However, as India's technology did not advance over time and circumstances simply grew worse, further liberalization of foreign policy was required to draw in more foreign investment. But it's frequently questioned whether foreign technology and investments benefit India over the long term or harm our economy. However, everyone can agree that India lags in the efficient use of resources and qualified workers, heavily relying on foreign technology.

While many emerging nations, including Japan and China, are coming up with numerous unique concepts, we rely solely on them and consider ways to import their goods at low prices and shill them for the general public. By adding one or two extra points, disputes won't be resolved.

3.4 Economic Trends in Indian Industries

India has experienced rapid economic growth over the past few decades due to expanding industries such as medicine, biotechnology, nuclear technology, information technology, and technology-driven education. These changes have given India a global presence as its desire to trade with the world has increased.

India is said to have deliberately focused on markets it can enter immediately. Industries such as pharmaceuticals and biotechnology are considered the best to use the country's new knowledge that has been discovered to increase the country's income. India also currently exports a wide range of products and know-how, including petroleum products, textile products, jewellery, software, engineering products, chemicals and leather goods.

There are many comparisons between the industrialization model of India and China. Both countries have realized the significance of the export market and how to support their large workforce, making them world leaders in many ways. Western countries benefit from countries like India and China because their production costs are lower than European and American costs. Again, this is a good thing that allows the country to develop its economy.

India's economic growth is expected to continue for some time as India may become a major player in many global markets in the future.

3.5 The main contribution of foreign collaboration to national development is:

1. Best use of available resources:

One of the crucial elements that illustrate the firm's ability to compete is the availability of resources.

Resources are in short supply. Collaboration with various countries makes it simple to access the limited resources. Resources are transferred from a nation with plentiful supplies to one with limited supplies.

2. Technical support

Technology is constantly evolving. For continued high-quality production, modern and complex technological tools are needed. Compared to developed nations, impoverished nations have a very low degree of technology. Thus, international cooperation fills the technological gap between the nations.

3. International relations:

Economic cooperation between nations pulls nations closer together. This lessens the differences between the nations and fosters a friendly environment. When two nations enter into a pact, cultural ties are developed. Global integrity and peace are the fruits of such positive international relations.

4. Economic growth:

International cooperation helps the nation's economy grow more quickly. The technological gaps are filled by international cooperation. This promotes further industrialization. Other resources, including the capital, people, and physical resources, are mobilized as a result of international collaboration. This quickens the nation's economic expansion.

5. Research and Development:

One way that businesses might experience future growth is by creating new goods or procedures to enhance and broaden existing operations.

6. Enhances quality of life

Foreign partnership boosts economic development, creates basic industries, and establishes a strong economic base, which leads to increased job possibilities and better living and working conditions for the general public.

3.6 Summary

Environmental awareness laws have evolved over the years.

Environmental protection laws would result in rules that would be criticized and cause issues in the corporate world.

The benefits that these rules will have for organizations will outweigh the drawbacks.

Environmental evaluations assist companies in identifying prospective effects that could present a chance or a hazard to them. They can better plan for environmental changes as a result.

The primary factor used to analyze the business environment is PESTLE. The Indian economy is slowly losing steam as inflationary expectations stay elevated due to the rising global oil and food costs, monetary policy normalizes, and the global economic environment worsens after recording the strongest GDP bounce in the G20 in 2021. Despite a rise in business investment made possible by the Production-Linked Incentive Scheme, real GDP growth is predicted to be 6.9 percent in the fiscal year (FY) 2022–23 and 6.2 percent in FY 2023–24. The rise in the price of energy imports will cause the current account deficit to grow while inflation will progressively drop.

In recent years, there has been a noticeable recovery in the Indian economy. The deficits in the trade and budget have decreased, while inflation has calmed. The Indian government has also started implementing policies and reforms designed to boost productivity, promote investment, and guarantee fiscal sustainability. India's imports, particularly those from Australia, are recovering as a result of stronger domestic demand growth. Upside risks to inflation and the current account deficit exist due to the recent volatility in the foreign currency markets and the rebound in oil prices.

3.7 MCQ

1. What would the RBI not do if it decided to pursue an expansionist monetary policy?

a) Reduce and improve the statutorily required liquidity ratio

b) The marginal standing facility rate should be raised.

c) Reduce the bank and repo rates.

2. Which of the following are business components?

a) Economical Environmental

b) Political environment

c) Social environment

d) All of the above

3. Elements that affect the business environment externally?

a) Government policy

b) Political and legal factors

c) Company’s manager's decision

d) Workers work environment

4. Which of the following countries have a capitalist economy:

a) Hong Kong

b) China

c) India

d) Australia

5. Main sector for focus on socialist economy:

a. Public needs

b. Companies needs

c. Production planning

d. Private sector

6. Who determines the policy interest rate in India:

a. Reserve bank of India

b. Monetary policy committee

c. State bank of India

d. Government

7. Which of the following come under monetary policy instruments:

a. Cash reserve ratio

b. Reverse repo rate

c. Statutory liquidity rate

d. All of the above

8. Within how many years do small finance banks have to Minimum paid-up capital of at least 40%:

a. 10 years

b. 5 years

c. 12 years

d. no time limit

9. The benefit of foreign collaboration in the Indian Economy:

a. New technology

b. Fund raised

c. Economic growth

d. Efficient use of resource

Ans:

1	2	3	4	5	6	7	8	9	
a	d	b	d	c	b	d	b	c	

3.8 Short Questions

1. State two trends happening around the world.

2. What do you mean by growing polarization and divergence?

3. How do Global trends help in business?

4. State two advantages of capital inflow.

5. How do western countries benefit from India?

6. State two main contributions of foreign collaboration to national development.

3.9 Long questions

1. Define the economic status of India.
2. Define Economic trends in Indian industries
3. What do you understand about the global trends and the impact of these trends on the Indian business economy?

Case study:

1. India is expected to surpass China as the world's most populated country in less than five years. In addition, whereas many Asian nations are expected to age, India is anticipated to be the world's youngest nation by 2020. Concerns have been raised about the Indian economy's inability to produce enough "excellent jobs" to satiate the demands of its aspirant youth. In India, the informal labor force makes up the majority of the workforce. It is youthful, underemployed, and has low earnings and unfulfilled goals.

The informality, automation, globalization, and youth bulge are the present difficulties and disruptions in the labor market, and many institutions in the nation are already considering how to solve them. To maintain social cohesiveness, economic progress, and improvements in living standards, combating informality and youth unemployment in India are perhaps the most crucial issues to solve.

Analysis of this case studies and define the recent position of the Indian Economy along with the relation with other country's economies.

2. India has a 7517 km long coastline, 12 major ports, and 187 non-major ports. In 2019, these ports handled roughly 633.87 million tons of cargo.

The majority of India's trade is transported by sea.

The two million square kilometers of India's Exclusive Economic has a lot of natural resources, both biological and non-living, including a sizable amount of crude oil and natural gas.

It might increase value addition in trade, deep-sea minerals, aquaculture, marine-related technologies, and manufacturing and services along the shore.

More than 40 lakh fishermen and other sizable populations of coastal areas are also supported by the coastal economy. Pre-pandemic OECD predictions predicted that the global Blue Economy would expand at a rate twice as fast as the rest of the world economy. India has tremendous growth in the marine industry in the post-COVID-19 world due to the effective and sustainable use of ocean resources.

Analysis of this case study about the Indian economy in respect of the marine industry about the concept of Blue Economy.

Module 2

Unit 4: Politics and Business

4.0 Learning Outcome

At the end of this unit, you will be able to:

- Explain the relationship between business and political environment

4.1 Introduction

Political environment refers to the state, government, and the public and private parties that operate, interact, and/or have an impact on the system. For a business to succeed, the political climate needs to be favorable and extremely stable. The foundation of a country's commercial climate is its political environment. Businesses would be positively influenced by stable and improved government policies and vice versa. Policy changes are frequently brought about by changes in government.

4.2 Relationship between politics and business

In terms of PESTLE (Political, Economic, Social, Technological, Environmental, and Legal) analysis, the political environment has a significant role in a company's strategy.

- **Political Environment Types**

Political ideologies that are most common in various countries are typically used to categorize political environments.

a) Democracy: Citizens must fully participate in the important decision-making processes. Citizens have the right to vote in elections to choose their representatives, and freedom of speech is regarded as the most fundamental right of the people. Political parties have little influence over the judiciary or the defense. Citizens are granted power, and elected politicians are only in office for a short period. Elections that are free and fair are promoted as a political right of the populace, and elected officials are granted only a certain amount of authority to protect the rights of the minority population.

b) Totalitarianism: On one end of the scale, there is a democracy, and on the other, there is tyranny. Totalitarianism, in contrast to democracy, is a system in which one party or person monopolizes authority. The party in control seldom acknowledges the opposition, and a few people have the authority to decide critically important matters that affect the nation. Most of the resources are monopolized by the government.

c) Communism: Because of the complete integration of the political and economic systems, social revolution always precedes political change. The social revolution is typically led by the working class. The elimination of economic disparities and inequality is the only thing that can truly reform society on a long-term basis.

d) Fascism: In a fascist country, the military is in charge of politics. The individual must be subservient to the totalitarian nature of the state. The elimination of the class struggle is accomplished through nationalism and the corporate state.

How do political factors impact business?

Political issues may have a direct impact on the market, which may then have an impact on an organization's capacity to operate in that market. Political implications can make a market less welcoming to entrepreneurs. Businesses have little control over the vast powers that the government wields over them. There are numerous ways that politics can affect business. A risky external environmental component that can also result in a substantial loss in business is the political aspect. Companies should be better at handling local and international politics because this can potentially alter the outcome completely.

Many businesses have someone specifically chosen to deal with these politicians and political agendas.

Politics affects a variety of business-related variables and may have a big indirect effect on the company. Here are a few examples of the variables that political considerations may have an impact on:

Political decisions can have an impact on the cultural climate of the nation.

Political choices directly influence the economic environment. Political choices have an impact on how technology is accepted and maintained. Google, for instance, is prohibited in China.

- ❖ **Political factors that have an impact on the business climate**

The policies adjust to the new administration as well. These political forces have the potential to alter the overall commercial environment. These are some examples:

- Taxation

These are some examples:

The political atmosphere is greatly influenced by the taxation system. Companies are encouraged to produce more and expand if a government is fiscally and tax-wise balanced.

- Foreign Policy

A country's political environment should strike a balance between growth and international investment. Growth and technical know-how can be problems in the absence of international investment, but a loss of indigenous play might result from excessive input of foreign investment.

- Stability

One of the most crucial things is this. The economy and business, in general, are greatly benefited by the political environment's stability. A country cannot be economically stable if its political system is unstable and changes regularly. The GDP and stock market index would both decline, creating a vicious cycle.

- Employment Laws

The government creates and enforces employment laws to safeguard employees' rights. It covers every facet of commercial relationships between employers and employees. Additionally, employment law is thought to be exceedingly challenging and to have numerous pitfalls. Businesses can move their companies forward effectively when they use the most recent technology and advancements and put them into practice by the law. When starting a foreign firm, hiring natives is sometimes a requirement in other nations.

For instance, when Starbucks first entered India, it was required to establish a Starbucks located within the Tata joint-venture business. Companies are required to abide by local employment laws. However, complicating those laws will not benefit the government or businesses.

Relationship between politics and business environment in India:

In India, there is a genuine and intimate symbiotic interaction between business and politics. The future of this partnership hangs in the balance. The Indian government encourages growth and development while also facilitating rent-seeking. Due to the state's dual nature, business actors can gain access to several spaces and ports of entry within democratic institutions, public institutions, and regulatory organizations. State actors have changed over time, especially since the economic reforms of 1991 when they became more favorable to business inclusion.

In a recent book, the changing connection between business and the state in India is examined. The book looks at the strength of business actors across a variety of issue areas, including land, labor, cities, and the media, as well as states like Gujarat, Tamil Nadu, and Odisha.

There are three key ways that business is significant in the Indian parliament. It first strengthens the position of the company in a prestigious institution. By granting political legitimacy to business players, such representative authority strengthens the legitimacy of the business. In addition to having an impact on how policies are carried out, it also gives businesses the ability to make policies. The two houses' corporate environments influence a lot of laws.

Third, because it participates in legislative committees, the industry has a unique opportunity to criticize government initiatives and agencies while influencing legislation in more specialized fields that are relevant to its interests. This increases the ability of businesses to influence the concerned MPs, ministries, and officers.

4.3 Constitutional provisions affecting business

The Constitution of India is broad and contains numerous laws that have an impact on every Indian citizen.

The following headings provide a summary of the sections of the Indian Constitution that apply to business:

A) Constitution's Preamble:

A preamble that defines the Constitution's key goals appears at the beginning of the Indian Constitution. Although the preamble is not a part of the Constitution and cannot be justified, its importance cannot be overstated.

It acts as the Constitution's key. To determine the true intentions of the Constitution's framers whenever the judiciary has a question concerning a specific clause, it looks to the preamble. Reads the preamble:

WE, THE PEOPLE OF INDIA, having solemnly resolved to constitute India into a **SOVEREIGN SOCIALIST SECULAR DEMOCRATIC REPUBLIC** and to secure to all its citizens:

JUSTICE, social, economic, and political; **LIBERTY** of thought, expression, belief, faith, and worship;

EQUALITY of status and opportunity;

and to promote among them all **FRATERNITY** assuring the dignity of the individual and the unity and integrity of the Nation;

IN OUR CONSTITUENT ASSEMBLY this twenty-sixth day of November 1949, do **HEREBY ADOPT, ENACT AND GIVE TO OURSELVES THIS CONSTITUTION**

The preamble makes clear that India is to be a democratic, socialist, secular, and sovereign republic. It means that India, like other states, is a sovereign state and has the freedom to manage its internal and external ties however it sees fit.

The Forty-second Amendment included the words "socialist" and "secular," which state that the government must implement socialistic policies to guarantee a dignified life for all Indian residents. The word "Secular" is used to emphasize the requirement that the state refrains from favoring any religion.

Democracy implies that the people's elected representatives carry out the duties of the government, and the government remains in power as long as the people's elected representatives to continue to support it. Republic suggests that a person directly elected by the populace will have the highest executive position in India. In India, then, neither a monarchical nor a feudal system is appropriate.

The Indian Constitution's preamble provides to each citizen:

- Economic Justice: Every citizen of India is guaranteed social, economic, and political justice by the Indian Constitution. Therefore, corporate organizations have a responsibility to ensure social, economic, and political fairness for all citizens.
- Freedom of expression, religion, belief, and thought: Every citizen has the right to freedom of thought, expression, belief, faith, and worship, which is recognized by our constitution. This idea holds that every business and organization should be free to express themselves freely.
- Status and opportunity equality: This idea states that every businessperson should have this belief and treat everyone equally. This can be accomplished by ending poverty. This does not imply closing the wealth/poverty disparity.

B) Business and Fundamental rights:

The Indian Constitution includes a list of fundamental rights and ensures that the executive and legislative branches will not violate them. Articles 12-35 in Part III cover the Fundamental Rights accorded to each person. The committee of the Constituent Assembly led by Sardar Vallabhbhai Patel finalized these privileges. Fundamental rights are more important than ordinary laws and can only be changed by constitutional revisions. The list of essential rights originally had seven, but in 1978, the 44th amendment to the constitution eliminated the property right.

Following are the six categories of constitutionally guaranteed rights:

1. Right to Equality (Articles 14 to 18): According to the Constitution, no person should be denied equality before the law or equal protection under the law on Indian territory. It is forbidden to exclude any citizen based on their religion, race, caste, sex, place of birth or any combination of these.

2. **Freedom of expression [Articles 19(1)(a)]:** To advance the ideal of liberty guaranteed in the preamble, the Constitution grants specific positive rights, which are listed in Articles 19 to 22. Six essential freedom-related rights are promised to citizens in the article (originally there were seven, but now the property right is deleted).

3. **Right to Freedom(Articles19 -22):** In business, the right to freedom is equally applicable. Businessmen are free to discuss their issues with the government and receive a resolution. In a similar vein, any citizen is free to select any business or profession, as well as to create unions and hold meetings.

4. **Right against Exploitation (Articles 23 to 24):** The Articles 23 to 24 address the right against exploitation and work to stop the state and unscrupulous individuals from taking advantage of society's weakest groups. Human trafficking, unpaid labor performed involuntarily, and other forms of forced labor are all prohibited by Article 23. Article 24 forbids the hiring of women for night shifts in factories, the employment of children under the age of 14 in dangerous vocations, and other practices.

Economic significance:

- Right against exploitation is significant economically because the required procedures are taken by the government to end bonded labor.
- The Factories Act works to stop the exploitation of female and juvenile workers.

- The owners of the factories are instructed to provide for the health and welfare of the employees, and they are required to appoint a labor welfare officer whenever there are 500 or more new employees hired.

5. The right to freedom of religion (Articles 25 to 28):

These articles cover the subject of religious freedom. The citizens have the right to freedom of conscience and are free to profess, practice, and spread any religion, subject to public order, morality, health, etc. The state, however, has the authority to control or ban any political, economic, or other secular activities connected to a religion.

- No citizen may be compelled to pay taxes whose earnings are intended to support or uphold a specific religion or religious dominance.

- The government cannot use tax dollars to fund the development of any religion, making the right to freedom of religion economically significant. No one may be compelled to pay taxes to support a particular faith.
- An individual shall not be compelled to make a property transfer or a business deal in the name of a specific religion.

6. Cultural and the Educational Rights (Articles 29 to 30): According to Article 29, the community's culture is the only one that the State may impose on it. A minority community has the right to protect its religious and cultural traditions. A minority community has the right to create and run the educational institutions of its choice under Article 30. The educational and cultural right is unique for being unrestricted, unlike other fundamental rights, with the exception that the State may make special measures for the advancement of any socially and educationally underprivileged classes of citizens.

Economic importance:

The following are the cultural and educational rights' economic benefits:

- When providing financial aid to institutions serving minorities, the state does so without discrimination.
- The aided institution is not permitted to deny admission to any citizen because he or she is a member of a specific caste, religion, language, or geographic area.

The heart and spirit of the Constitution, according to Dr. Ambedkar, is the right to constitutional remedies (Article 32). The declaration of fundamental rights alone is meaningless if there is no effective means of enforcing them. This has been guaranteed by Article 32, which gives the right to petition the Supreme Court through the proper channels for the enforcement of the constitutionally granted rights. The supreme court has the supreme authority to issue appropriate directives or orders by writs, including writs in the name of habeas corpus, mandamus, prohibition, quo-warrant, and certiorari for the enforcement of any rights granted by Part III of the constitution, according to Article 32, clause (2).

As a result, the residents are guaranteed several economic and social freedoms under the fundamental rights listed in the constitution. In the interest of the populace, the state also has the authority to place reasonable limitations on such rights.

C) Directive Principles of State Policy: As stated in the preamble to the constitution, the Directive Principles of State Policy, which are incorporated in Part IV of the Constitution, seek to put into practice the lofty values of justice, and liberty, equality, and fraternity. There are concepts intended to motivate the government to advance the interests of the populace as a whole and build social and economic democracy in the nation.

The term "Directive Principles of State Policy" refers to the ideas that states should bear in mind while they draft their laws and develop their policies. The numerous directive principles are included in articles 39 to 51. These values are a synthesis of socialist, Gandhian, and liberal values.

Economic Importance:

The Directive Principles of State Policy are important economically because:

- To ensure that all citizens have sufficient means of subsistence.
- To ensure that all men and women receive equal compensation for equal effort.
- To keep workers, especially kids, safe
- .Controlling the nation's economic structure to prevent the concentration of wealth and productive resources.
- To provide for the protection of the right to work, an education, and public assistance in situations including unemployment, old age, illness, and similar situations.
- To guarantee all employees a respectable level of living and recreational amenities.

The aforementioned directive principles' primary goal is to give the individual the tools they need to live a happy and fulfilling life. The government policies toward business and other economic and social activities are all guided by the directive principles of state policy. The government has also thus far passed a variety of acts, laws, regulations, and policies while keeping in mind the guiding ideals that are directly associated with commercial activities. The Directive Principles of the Constitution serve as the foundation for numerous Acts, including FERA, the Factories Act, the MRTP Act, the Minimum Wages Act, the Industrial (Development and Regulation) Act, and Industrial policy, etc.

The government promotes and safeguards the interests of small and cottage industries, prevents the concentration of economic power, and safeguards the rights of working men, women, and children through various laws and regulations.

4.4 Summary

- Political conditions such as the nation's overall stability and peace, as well as the approach taken by the elected government toward business, are all inclusive of the political environment.
- The decisions made by a stable political system can support local firms and draw in foreign investors.
- Political issues can affect a business by altering how friendly the market is to that enterprise. Governments typically have a lot of influence over businesses, and frequently, there is little that businesses can do about it.
- A State's development is significantly influenced by trade and commerce.
- While the Indian Constitution on the one hand only grants people the fundamental freedom of occupation, trade, and commerce under Article 19(1) (g), it also grants everyone living on Indian territory the right to these freedoms under Article 301. This demonstrates the value of trade and commerce for democratic India.
- The case law serves as a supplementary guide for the Constitutional articles that particularly address trade, commerce, and sexual relations.

4.5 MCQ

1. Which of the following statements best describe systems of liberal democracy?

a) Liberal democratic political systems only occur in highly industrialized societies.
b) The same political party holds power continuously in liberal democratic regimes.
c) Liberal democratic governments prevent their citizens from travelling abroad.

d) Liberal democratic governments protect basic civil liberties.

2. In which political system does one person or a small group of people hold absolute power?

a. Liberal democratic systems
b. Authoritarian systems
c. Theocratic systems
d. Federal Systems

3.Which of the following statements best describes the 'New Public Management'?

a. State ownership of businesses
b. The separation of Government from business
c. The selling of state assets to business
d. Businesses of delivering services for government under contracts as a result of outsourcing

4. Why are governments often reluctant to embark on policies that would adversely affect big hi-tech MNCs? Is it because these MNCs could:

a. Cut employment by moving existing productive capacity abroad.
b. Locate new investment projects elsewhere.
c. Transfer R&D facilities abroad.
d. All of the options above

5. In countries with a federal system of government like the US, firms wanting public contracts:

a. Only ever need to negotiate with one department of central government to get a contract.
b. May have to persuade decision makers at different levels of the federation to award them contracts.
c. Can always adopt the same approach to selling as they do when dealing with a unitary system of government.
d. Only have to deal with sub-national government agencies to get contracts.

6. What role does the executive branch play in liberal democracies?

a. It passes the laws affecting business
b. It puts laws and regulations into effect and ensures that the desired outcomes are achieved.
c. It interprets and applies the law to business.
d. It imprisons business executives who break the law.

Ans:

1	2	3	4	5	6
d	b	d	d	b	b

4.6 Short Questions

1. What is totalitarianism?
2. Give an example of the political forces that have an impact of business.
3. State the economic importance of cultural and economic rights.
4. State two economic importance of Directive Principles of State Policy.
5. What do you understand by employment laws?

4.7 Long questions

1. Define the political factors which affect Indian business affairs and compare them with other developed countries.
2. Discuss the relationship between politics and business environment in India
3. State all the constitutional provisions affecting business.

Unit 5: Business Laws

5.0 Learning Outcome

At the end of this unit, you will be able to:

- Discuss different laws and acts that has an impact on the businesses

5.1 Introduction

Business law includes all the laws that address the how, what, and why of how firms are permitted to operate legally and are expected to do so. Contract law, manufacturing and sales law, recruiting procedures, and business ethics are all included in the definition of business law. It refers to and relates to the legal regulations that govern business and trade in both the public and private sectors. Because it regulates certain business sectors, it is also known as corporate law and commercial law.

5.2 The objectivity of Business Law:

Business law is a crucial component of law in general since, without it, the corporate, manufacturing, and retail sectors would all be under totalitarian rule. Maintaining secure and efficient workplaces for everyone involved in the business, whether they are running it or working for the people running it, is the goal of combining business and law.

Different Business Laws:

Countries throughout the world recognize and adhere to different types of business law. The kinds of business law sections that follow are some of these.

Contract law

A contract is any written agreement that imposes some type of legal duty on the parties to it. Contracts include agreements for the hiring of employees, the selling of commodities, leases, etc.

Employment Law

The crucial intersection of business and law is in employment law. These laws uphold the policies that control interactions between employees and employers. These address when, how, how much, and how long workers should be on the job.

Labour Law

The proper relationship between an employee and an employer, as well as pay scales and other things , are also specified by labour law. However, the union's relationship with the employer and employee adds another component to labour regulations.

Law of Intellectual Property

The intangible results of the operation of the human mind or intellect that are the sole property of a single entity, such as an individual or business, are referred to as intellectual property. Intellectual property law, which includes trademarks, patents, trade secrets, and copyrights, justifies this ownership.

the Securities Act

Securities are assets such as stock market shares and other sources of capital accumulation and growth. Businesspeople are not allowed to engage in fraudulent activity in the securities market, according to securities law. Insider trading and other types of securities fraud are punishable under this provision of business law. So, it is also known as Capital Markets Law.

Tax Law

Taxation in the context of business law refers to levies made against businesses. All businesses, except for a tiny number of tax-exempt small businesses, are required to pay their taxes on time; failure to do so is a breach of the corporation tax rules.

5.3 MRTP

Many new and large companies entered the Indian market after India gained its independence in 1947. These businesses attempted to monopolize the market because there was little other competition at the time. The Indian government recognized what was going on in the corporate world, and to protect consumer rights, the government passed the MRTP bill in 1969.

Monopolistic and Restrictive Trade Practices, or MRTP for short, is a crucial but highly contentious piece of economic policy. The MRTP act in India went into effect on June 1st, 1970, after the MRTP bill was enacted in 1969.

Over the years, this significant law has gone through numerous revisions (1974, 1980, 1982, and 1991). Except for Jammu and Kashmir, this law applies to all of India's states.

What does MRTP Act mean?

Monopolistic trading practices describe the market-dominating trade tactics where a company or an oligopolistic corporation made up of three companies achieves a dominant position. They can then exert control over the market by setting limits on prices and production.

Regardless of market share, restrictive trade practices are worked out by a group of two or more organizations working together to eliminate competition in the market. These actions are considered to be against the public interest.

The MRTP act was the first significant piece of law to regulate unrestricted commerce. This law aimed to distinguish between monopolistic and restrictive business practices.

The government established the Sachar committee in 1977 to oversee the MRTP act's required review. To streamline its operations, the committee also made sure that certain proposals were required.

The following is a list of the MRTP Act's original goals:

- The law ensured that a small number of businesses did not end up with all the economic power.
- to ensure monopolies are controlled
- monopolistic and limiting commercial practices must be controlled.

- **The fourth goal of the law was included in an addendum in 1984:**

  the control of unfair business practices.

Following its final revision in 1991, the MRTP act's goals were as follows:

MTP: Monopolistic Trade Practices Prohibited

RTP - Restrictive Trade Practices are Prohibited

UTP - Unfair Trade Practices Prohibited

Details on the Business Practices that the MRTP Act Regulated:

The MRTP statute regulates three different categories of business practices:

➢ Monopolistic Trade Practices – The idea refers to the exploitation of a market position to manipulate the production and distribution of goods and services. In line with this method, businesses:

- eliminated or stopped a contest
- took advantage of their exclusivity by imposing irrationally high pricing on customers.
- decreased the caliber of goods
- minimal technological advancement
- adopted unethical business practices

➢ Restrictive Trade Practices - Traders frequently engaged in actions that obstructed the flow of capital into production to consolidate their position in the market and increase their earnings. These dealers also impacted the supply by imposing delivery requirements, which in turn led to excessive expenditures.

➢ Unfair Trade Practices - Unfair trade/business practices include:

  - A misrepresentation of both new and used products.

- False representations of the products' standards, usefulness, style, need, etc.
- False representations or assertions regarding the cost of goods and services
- false assurances and warranties for products and services without conducting sufficient product testing

In regards to affiliation, sponsorship, etc., false information is provided.

Commission for MRT

The government formed the following to carry out this act.

- a commission with a minimum of two members and a maximum of eight.
- The commission's chairman is required to be qualified to serve as a judge on the supreme court or a high court (for a state).
- Members of this commission have demonstrated their ability to handle matters relating to law, economics, commerce, industry, accountancy, or public affairs or have the necessary knowledge and expertise.
- The commission members' terms of office could not last longer than five years.
- The DG (Director General of Investigation and Registration) supported the commission during the investigation by conducting the investigation, keeping a registry of agreements, and carrying out the proceedings.

5.4 Competition Law:

Origin and Background of the Competition Law in India:

In India, the initial competition law was introduced in 1969 i.e. Monopolies and Restrictive Trade Practices Act, 1969 ['MRTP Act, 1969']. The Monopolies and Restrictive Trade Practices Bill were enacted in Parliament in the year of 1967 and the same was mentioned to the Joint Select Committee. The MRTP Act, 1969 came into force, with effect on, 1 June 1970.

Emperors, rulers, and governments in different states tried many times to enact competitive markets by establishing prices and supporting local productions using tariffs which leads to modern competition or antitrust laws all over the world. Legislation related to competitive markets is found in over two millennia of history.

Additionally, the focus has transferred to international competition enforced in a globalized economy. The agreement of the European Community was duly signed by six Western European countries in 1957. Modern competition law started with the Sherman Act of 1890 and the Clayton Act of 1914 in the United States.

At present time, more than 90 countries have Competition Laws.

As per the Constitution of India, Articles 38 and 39 compulsories that the government should preserve a society where people will get social, economic, and political justice and it shall state all the organizations of the country, and the State shall direct its policy as-

1. The control of material resources is as divided as best.
2. The economic system does not operate as it builds a concentration of wealth and means of common detriment.

The MRTP Act became ineffective for different reasons. Some reasons:

- **Lack of clarification on many definitions and interpretations** – the Act neither state nor even mentions some restrictive trade practices. Such as abuse of dominance, collusion, price-fixing, etc.
- **Inequality between the public and private sector** – despite being a competition law, the MRTP Act could not be effective in the absence of the element of competition.

The Raghavan Committee states between amending the existing MRTP Act and enacting a new modern competition law. They permit the finance minister's idea that the MRTP Act has become worst in some areas in line with the international economic developments relating to competition laws.

This makes the establishment of the **Competition Act.** The report of the Raghavan Committee concluded in May 2000

Anti-competition agreements:

This is a form of agreement between the parties to prevent competition. Competition Act prohibits those agreements, contracts, and decisions that are anti-competitive.

The main type of anti-competitive agreement was made by the cartels. Cartel agreements mainly form to fix prices, rig competitive tendering processes, divide up markets, or limit production.

There are primly four types of Cartel agreements:

Price Fixing:

This agreement was formed to fix the prices and control the price of the goods and services. The agreement between the parties openly fixes the prices of the goods and services by either decreasing or increasing the price. This agreement should be essential in the writing, a verbal or oral understanding at, or any association meeting should describe the fixing price of the commodities.

Bid Rigging

Bid rigging is an unethical procedure in which two or more opposing parties work together to decide the winner of a bidding process. When bidders cooperate, it undermines the bidding process and may result in a rigged price that is higher than what would have resulted from a free market, competitive bidding process. Consumers and taxpayers will be harmed by bid manipulation because they will be required to pay higher prices and procurement costs.

Market sharing:

Market sharing may take the form of: -

a. allocating customers by geographic area dividing contracts; and

b. agreeing not to compete for established customers or produce each other's products or services or expand into a competitor's market.

Market sharing restricts competition, enhances prices in the market, and reduces the choice of price and quality for consumers and other businesses.

Production control:

This controls the production of goods and services among the competitors to limit the number of goods and services in the market.

Other than the above bases the agreements can also have signed on other majors like price guidelines, technology standards, and any other basis.

Competition advocacy.

One of the fundamental goals of competition law, which deals with fostering competition in the market, is competition advocacy. The term "competition advocacy" refers to campaigns to educate the public about the advantages of a competitive marketplace. The consumers, whose well-being is the primary goal of the law, must be represented by the Competition Commission of India (CCI) in lobbying efforts for the Competition Law.

The CCI has partnered with other sectors, including business entities, consumer activists, and statutory bodies made up of professionals like attorneys, chartered accountants, and company secretaries, to lobby for competition in both the Central and State Governments

The CCI has launched several projects to further the law of competition, including:

- CCI officials were given special lectures.
- research and articles are written to advocate for and raise awareness of issues relating to competitiveness.
- improving stakeholders' or CCI officials' capacity to take part in the competition regulating process

- Sectoral/regulatory impact assessments on competition; market analyses and commission-led research initiatives
- Publication or placement of consultation documents on the Commission's website.
- Press releases and press conferences.

Law on competition exempted from the following:

- Public financial institutions
- Institutional foreign investors (FIIs).
- Banks.
- Funds for venture capital (VCFs).
- Agreements about intellectual property rights (IPRs), including copyrights, patents, and trademarks.
- For the sake of public safety or national security, the Central Government may exclude any category of businesses from the Act's requirements.

Therefore, the Competition Law, of 2002 is regarded as a key piece of law. This law does not encourage the misuse of dominance. This law primarily aims to encourage market competition and aids in the distribution of earnings to businesses of all sizes to boost the community's business potential. Although the entire law has not yet been passed, its passage would undoubtedly increase both domestic and global market competition.

5.5 Industrial policy after 1991

On July 24, 1991, the Indian government unveiled its new industrial policy, which had the dual objectives of speeding industrial growth and rectifying the distortions and flaws in the country's industrial structure that had grown during the previous 40 years. The New Industrial Policy of 1991 served as the foundation for the early 1990s economic changes.

All following reform measures, including Liberalization, Privatization, and Globalization, were built around the new industrial policy. The Policy has drastically changed how the country regulates its economy.

As their name implies, these reform measures were made in a variety of areas related to the industrial sector.

What is 1991, New Industrial Policy?

- The industrial policy is a collection of benchmarks and measurements implemented by the government to track the development of the manufacturing industry, which promotes the nation's economic development and growth.
- The main goals of the 1991 New Industrial Policy were to increase efficiency and provide facilities for market forces.
- The government is committed to taking action to raise the capabilities and competitiveness of different industries.
- The government took several steps to encourage the development of industries, including allowing domestic businesses to import superior technology to increase productivity and have access to it.
- In several industries, the cap on foreign direct investment was raised from 40% to 51%.

The New Industrial Policy, 1991: Features

- By reducing the number of industries reserved for the public sector from 17 (as per 1956 policy) to 8, such as armaments and ammunition, nuclear energy, coal, mineral oil, mining of iron ore, manganese ore, gold, and silver, as well as copper and lead mining, government monopoly was lessened.

- Except for 18 sectors, all industries received an industrial license under the Industrial Licensing Policy, which was later cut to 6 industries in 1999. These included prescription medications, dangerous chemicals, and explosives like gunpowder and detonating fuses, among others.
- It made it possible for foreign businesses to own a majority of India. In 47 high-priority industries, for instance, FDI up to 51% was permitted.
- It made it possible for foreign businesses to own a majority of India. In 47 high-priority industries, for instance, FDI up to 51% was permitted.
- Non-Resident Indians (NRIs) were permitted to invest in any operations other than those on the negative list with 100% equity and on a non-repatriation basis.

  Several international agreements relating to foreign technologies have been made. For instance, granting consent in high-priority industries up to a lump sum payment of Rs. 1 crore, with a royalty rate of 5% for domestic sales and 8% for exports
- PSUs that were unlikely to be turned around were to be sent to the Board for Industrial and Financial Reconstruction as part of the portfolio restructuring of public sector investments (BIFR).
- The MRTP statute needed to be changed to do away with the necessity that new ventures, venture expansions, mergers, amalgamations, etc. receive prior clearance from the Central Government.
- A unit with an investment cap of less than Rs. 5 lakh now qualifies as a small unit, according to the new definition.
- To ensure a social safety net for workers, the government announced the creation of the National Renewal Fund (NRF) by this strategy.

New Industrial Policy's 1991 effects

- It prepared away with the limitations imposed by the license, permit, and quota raj.
- It aimed to liberalize the economy by reducing administrative barriers to economic development.
- Two sectors were set aside for the general public, and the public sector's role was reduced. In PSUs, the disinvestment process has begun.
- By reducing barriers, it made it possible for global corporations to enter, for privatization to occur, for MRTP firms' asset limits to be lifted, for licensing policies to become laxer, etc.
- Almost every area of the economy saw a boost in both domestic and foreign investment.
- Agri-Export Zones (AEZ), Export Processing Zones (EPZ), and other entities were created as part of increased attempts to promote exports.
- A new act and separate ministry were established in 2006 to more effectively address the problems facing MSMEs.

Conclusion: The New Industrial Policy of 1991 took several actions that ultimately resulted in the elimination of industrial licensing, the dismantling of price controls, the dilution of reservations for small-scale industries, the monopolies law's virtual abolition, and the easing of restrictions on foreign investment, etc. All of these actions contributed to the lifting of restrictions and helped the nation's economy expand and thrive.

5.6 Consumer Protection, 2019

The new Consumer Protection Act came into force in July 2020. The consumer protection Act 2019 replaced the Consumer Protection Act, 1986.

Given below are the details of the Consumer Protection Act, 2019:

Enactment Date:	August 9, 2019

Act Year:	2019
Short Title:	The Consumer Protection Act, 2019
Long Title:	An Act to provide for protection of the interests of consumers and for the said purpose, to establish authorities for timely and effective administration and settlement of consumers' disputes and for matters connected therewith or incidental thereto
Ministry:	Ministry of Consumer Affairs, Food and Public Distribution
Department:	Department of Consumer Affairs

Purpose of the New Act

- The Digital Age has ushered in a new era of commerce and digital branding, as well as a new set of customer expectations. Digitisation has provided easy access, a large variety of choices, convenient payment mechanisms, improved services and shopping as per convenience. However, there are also associated challenges related to consumer protection.
- To address the new challenges of consumers in the digital era, the Indian Parliament has passed the Consumer Protection Act 2019 to regulate and resolve consumer disputes in a speedy and efficient manner.

Protection of consumers is crucial

The era of "Caveat Emptor" is over; today, "Consumer is King." There is no lack of vendors that want to satisfy all customer requests yet cannot risk driving away customers by providing subpar goods or services. Consumers have resources at their disposal, including forums, courts, and consumer complaints.

Why is it important to protect consumers?

Many items on the market are harmful to the consumer's health; adulteration, false weights, monopolies, and unfair trade practices are just a few of the problems that must be handled to safeguard the consumer.

How can we safeguard consumers?

- The consumer's rights and obligations should be explained to them.
- Their complaints ought to be addressed.
- They must receive justice from the judicial system.

Unfair trade practices under the Consumer Protection Act of 2019

The phrase "unfair trade practices" is defined under Section 2(47) of the Consumer Protection Act of 2019.

- Producing counterfeit goods or giving subpar services
- Issuing cash notes or bills for items purchased or services rendered is not permitted.
- Refusing to accept or withdraw the goods or services and failing to repay the consideration paid for the goods or services.
- revealing the consumer's sensitive information

Restrictive Trade Practice

Section 2(1)(nnn) of the Consumer Protection Act of 1986 defines restrictive trade conduct. The section covers all price-related deception that traders may use to maximize their profits.

Restrictive trade practices are aimed at consumers who are burdened with restrictions and unreasonable costs as a result of the trader's actions. The trader manipulates the product's price or delivery conditions, resulting in restricted trade practices. This has an impact on the market supply of products and services and includes:

- A likely or certain increase in the price of a commodity is a result of the trader's failure to produce the good or service on time.
- A requirement to buy, hire or use one good or service to receive another good or service.

Unfair Trade Practice vs. Restrictive Trade Practice:

An unfair trade practice is the deceptive and misleading depiction of goods and services that creates a false picture of the product. Under this practice, information on the utility, quality and standard, style, and other aspects of goods and services may be twisted.

However, restrictive trade practice occurs when traders attempt to alter the flow of money in the market to maximize their earnings and obtain an advantage in market competition. Independent sellers increase their collective earnings by limiting supply by controlling selling prices or purchasing input prices. This is the key distinction between unfair and restrictive trade practices.

Unfair trade practices are defined in Section 2(1) (r) of the Consumer Protection Act of 1986, whereas restrictive trade practices are defined in Section 2(1)(nnn) of the Consumer Protection Act of 1986.

This is the primary distinction between the two, with unfair trade practices being a broader concept.

Consumers' perspective on the importance of the Consumer Protection Act

- Consumer Ignorance: When we look at it from the perspective of the consumer, we can acquire some information. Consumer Ignorance is one such issue that needs to be addressed; consumers should be aware of how to exercise their legal rights and how to request remedies.
- Unorganized Consumer: To unite consumers and assist them in finding solutions to their consumer difficulties, we need a consumer organization.
- Consumers are frequently taken advantage of by adulteration, fraudulent practices, phony weights, inadequate information on packaged goods, and misleading advertisements. For instance, numerous items on the market promise to help you lose weight or become fairer, but when used, they do not deliver as promised.

Relevance from a Business Perspective

Is there a way that businesses may also gain from consumer protection, or is it just not necessary? Let's look at a few of the details that offer us some clarification:

- Long-Run Business Interest: A delighted consumer is essential if one wishes to grow their clientele over the long term. A happy customer would spread the word about the business and bring in additional customers.
- The business utilizes resources from society; therefore, it shouldn't undermine customer confidence because most of its resources come from society. In response, businesses consider what the general public wants and produce goods appropriately.
- Social Responsibility: Businesses have obligations to the public, the government, and society. They should act in a way that benefits both parties because doing so will help the firm grow.

- Moral Justice: Businesses have a moral obligation to society and the consumer, and they should act in a way that doesn't negatively impact either. Any form of exploitation, such as adulteration, unfair practices, defective products, and unfair pricing and weight, should be avoided.
- To avoid a situation where the government interferes in the business, could be a laborious effort. Because of this, companies should create their business practices with the interests of the consumer in mind.

Consumer Complaints:

The first step in the process of consumer protection is for the customer to file a complaint. Therefore, this is the most crucial phase that organizations must undertake with great care and finesse. Additionally, consumer complaints and criticism have more clout than ever in the age of the internet.

Customer complaints might aid a company in refining its goods and services. It is an excellent method of feedback. You may get a fairly accurate indication of consumer happiness from it. Additionally, promptly resolving customer concerns helps to keep customers and even boosts the reputation of your business.

Therefore, businesses should view customer complaints as an opportunity to develop and expand their customer base rather than as a burden or a hassle.

Three-Tier System for Redress under the Consumer Act:

a. **District Forum**: These forums are established by the district of the state in question in each district, and they are made up of a president and two members, one of whom must be a woman and is chosen by the state government, along with two other members. The complaining party should not complain for more than 20 Lacs in this case, and after the complaint is filed, the goods are sent for testing. If they are found to be defective, the accused party is responsible for making amends, and if the complaining party is still unsatisfied, they have 30 days to file an appeal with the state commission

b. **State Commission**: Each state establishes this. There are two members and a president. The total amount of the complaints must be at least 20 lacs and not more than 1 crore. The products are tested, and if found to be defective, a replacement or reimbursement is requested. If unsatisfied, one may appeal to the National Commission within 30 days.

c. **National Commission:** There are four members and a president of the national commission. The complaint must be for more than Rs. 1 crore. The products are sent for testing, and if found to be defective, a replacement or reimbursement is requested.

Consumer Awareness, Consumer Rights, and Responsibilities:

Making ensuring the buyer or customer is informed of the facts regarding products, goods, services, and consumers' rights are known as consumer awareness. Consumer rights and responsibilities are also known as consumer rights. Consumers must be aware of their options so they can choose wisely. Customers have the right to safety, choice, and knowledge. Let's get a detailed understanding of consumer rights, obligations, and awareness.

Consumer Responsibility and Rights

Consumer Rights provide information on the rights that consumers have over the sellers of the goods. What if the products that the company sells to the customer are subpar? What should a consumer do in that situation, then? To be specific, consumers have legal recourse to challenge the sellers' or commercial firms' wrongdoing in court.

Customers' Rights

a. Right to safety: The first and most significant of consumer rights is the right to safety. They need to be shielded from any products that endanger their safety. Any product that could be harmful to their health, whether it be mental, physical, or a variety of other elements, needs to be protected.
b. Right to Information: They have a right to product information. The information that should be disclosed to the consumer should be listed on the product packaging; it should not be concealed or given in error.
c. Right to Choose: They shouldn't be pressured into making a decision. A customer should be persuaded by the product he is about to select and should use independent judgment. This implies that there should be a wide selection of products available to consumers. Monopolistic behavior is forbidden by law.
d. Right to Be Heard: If a customer is unhappy with the goods they have purchased, they have every right to complain about it. Additionally, the complaint must be heard and responded to promptly.
e. Right to Seek Redress: If a product does not meet a customer's needs, that customer has the right to ask for a refund, a replacement, or compensation. The Consumer Protection Act of 1986 mandates that we have a three-tiered dispute resolution system.
f. Right to Consumer Education: Consumers have a right to complete information and should be made fully informed of the government's rights and obligations. The most critical issue that needs to be addressed by our administration is a lack of consumer knowledge.

Responsibilities of a Consumer:

The consumer has a responsibility to uphold because a knowledgeable consumer can influence society and encourage other consumers to oppose unfair practices or become aware of them.

a. They ought to be knowledgeable of and exercise any applicable rights granted by the Consumer Protection Act.
b. They ought to be fully informed about the item they are purchasing. Should exercise caution when making a product purchase.
c. A complaint should be made if a product is discovered to contain any incorrect information or to be unsatisfactory.
d. A client should look for the newly introduced standard markings, such as ISI or Hallmark, to verify the legitimacy of the product's quality.

What Does "Consumer Awareness" Mean?

Making a consumer aware of his rights is the practice of promoting consumer awareness. It involves informing a customer about his rights to information, safety, and recourse.

As was previously mentioned, one of the most enduring issues the government has about consumer protection is consumer awareness. The government has developed several solutions to this issue over time. In actuality, that is the Department of Consumer Affairs' primary goal.

- Indian consumer awareness

The "Jago Grahak Jago" campaign is one of the most significant and effective Consumer Awareness campaigns in recent memory. Undoubtedly, you have encountered it. It is a superb illustration of effective consumer awareness.

Consumer legal protection:

The Court of Law, often known as the Consumer Court, has established specific actions to safeguard consumers legally. This legal safeguard preserves the consumer's right, which, if used, will give them justice if a merchant, company, or manufacturer causes them any unhappiness.

The Consumer Court's legal framework in India also consists of numerous rules that are scrupulously upheld to protect consumers. Some of these rules are implemented as follows:

a. Consumer protection laws:

   Customer Protection Act of 1986 (COPRA)

   In doing so, it defends consumer rights and informs users of their rights. To safeguard consumer rights, a three-tier structure has been created, consisting of District Forums, State Commissions, and National Commissions.

b. Indian Contract Act of 1972

   They specify the terms and the conditions under which the parties promise to fulfill each other's requests for services. A legally binding agreement is struck between the parties. They safeguard the interest that the contract is not broken and, if it is, that compensation will be paid.

c. The Sales of Goods Act of 1930

   to protect the rights of the customer if the goods given to them fall short of the promises made and fraudulent claims were made.

d. The Essential Commodities Act of 1955

   to track the important commodities and keep an eye on their production and supply. Maintain a watchful eye out for any hoarders, black marketers,

e. The Bureau of Indian Standards Act of 1986

The Bureau of Indian Standards Act guarantees the quality of the products that consumers can use. To certify the product's quality, the BIS Mark was introduced, and a grievance cell was established to receive complaints about the product's quality.

f. The Standards of Weights and Measures Act of 1976

The right against underweight goods or measured is protected by the Standards of Weights and Measures Act.

g. The Trade Marks Act of 1999

This law guards consumers against fake marks that can deceive them about the product's quality and so defraud them.

h. The 2002 Competition Act

The Monopolies and Restrictive Trade Practices Act were replaced by the Competition Act to take action against businesses that engage in such practices, which in turn impair market competition.

i. The Agricultural Produce (Grading and Marking) Act of 1937

To put the grading standard into practice and thereafter keep track of whether the required standard checks have been made before issuing the grading. The standard for agricultural commodities introduced in this is called AGMARK.

j. The Prevention of Food Adulteration Act of 1954

This action protects both the consumers' health, which could be harmed by contaminated products and the purity of the food products.

Changes to the Consumer Protection Act of 2019

The following changes were made as a result of the passage of the Consumer Protection Act of 2019.

a. District Commissions would be able to hear complaints if the value of the commodities, services, or products paid as consideration to the vendor does not exceed 50 lakh rupees.
b. State Commissions would have the authority to hear complaints if the value of the goods, services, or products paid to the seller exceeds 50 lakh rupees but does not exceed two crore rupees.
c. When the value of the commodities, services, or products paid as consideration to the seller surpasses two crore rupees, the National Commission will have jurisdiction to hear the case.
d. The Act further specifies that any complaint regarding a consumer dispute must be resolved as soon as feasible. A complaint filed under this Act must be resolved within three months of the date of receipt of notice by the opposing party if the complaint does not require analysis or testing of the goods and services, and within five months if analysis or testing of the goods and services is required.
e. The Consumer Protection Act of 2019 also makes it easier for customers to file complaints online. In this regard, the Central Government has established the E-Daakhil Portal, which provides a convenient, quick, and low-cost service to consumers across India, allowing them to approach the relevant consumer forums in the event of a dispute.
f. The Act defines the legal framework for e-commerce and direct selling.
g. The Consumer Protection Act of 2019 includes provisions for mediation and alternative dispute resolution, allowing the parties to settle the case without going through the trouble of litigation.

h. The 2019 Consumer Protection Act includes provisions for product liability, unfair contracts, and three new unfair trade practices. The old Act, on the other hand, only listed six types of unfair trade practices.

i. The Consumer Rights Act of 2019 serves as a consultative body for the promotion and protection of consumer rights.

j. The Consumer Protection Act of 2019 makes no provision for selection committees, instead authorizing the Central Government to appoint the members.

As a result of the changes in the digital era, the Indian Parliament enacted and implemented the Consumer Protection Act, 2019 to include regulations for e-commerce, as digitalization has enabled convenient payment mechanisms, a variety of choices, improved services, and so on.

Consumer Protection Act of 2019 essential provisions

The following are the essential provisions of the Consumer Protection Act of 2019.

1. Consumer Protection Councils

The Act establishes consumer protection councils to protect the rights of the consumers at both the national and state levels.

2. Consumer Protection Central Council

The Central Consumer Protection Council, also known as the Central Council, is established by the Central Government under Chapter 2 Section 3 of the Consumer Protection Act, 2019. The Central Council is an advisory council that must have the following members:

- The chairperson of the council will be selected by the Minister in charge of the Department of Consumer Affairs in the Central Government, and

- The Act allows for any number of official or non-official members to represent necessary interests.

The Central Council may meet as needed, although they must hold at least one meeting per year. The Central Council's role under the Act is to protect and promote the interests of consumers.

3. State Consumer Protection Councils

Every state government must create a State Consumer Protection Council, sometimes known as the State Council, with jurisdiction over that state. The State Council serves as a consultative body. The State Council is made up of the following individuals:

- The chairperson of the council will be nominated by the State Government's Minister in Charge of Consumer Affairs.
- Any number of official or non-official members representing the Act's necessary interests, and
- For this Act, the Central Government may additionally select up to ten members.

Every year, the State Councils must convene for at least two meetings.

4. District Consumer Protection Council

Section 8 of the Act requires the state government to form a District Consumer Protection Council for each district, known as the District Council. The District Council is made up of the following individuals:

- The collector of the district shall be selected as the District Council's Chairperson, and
- Any other members are required to represent necessary interests under the Act.

Central Consumer Protection Commission

Under Section 10 of the Consumer Protection Act, 2019, the Central Government shall establish a Central Consumer Protection Authority, known as the Central Authority, to regulate matters relating to consumer rights violations, unfair trade practices, and false or misleading advertisements that are prejudicial to the interests of the public and consumers, as well as to promote, protect, and enforce consumer rights. As required by the Act, the Central Government will appoint the Chief Commissioner and the other Commissioners of the Central Authority.

Section 15 of the Act requires the Central Authority to have an 'Investigative Wing' to undertake an inquiry or investigation. The investigative wing must include the Director-General and the necessary number of Additional Director-Generals, Directors, Deputy Directors, Joint Directors, and Assistant Directors who have the necessary expertise and credentials to carry out the responsibilities outlined in this Act.

Some landmark cases:

Employees of Sapient Corporation v. Hdfc Bank Ltd. & Ors (2012)

Sapient Corporation Employees Provident Fund Trust filed a consumer complaint against HDFC Bank Ltd in this issue. The complainant alleged that OP-Bank provided inadequate services by debiting the complainant's account. In this case, the court determined that OP-bank provided adequate service and that the complainant's arguments were unfounded. Behavior that follows the direction of a regulatory authority cannot be considered negligent or a lack of service.

Horlicks Ltd. v. Zydus Wellness Products Ltd. (2020)

In this dispute, both parties are nutritious drink makers; nonetheless, Zydus aired a television commercial trivializing Horlicks Ltd's products. The commercial was broadcast in several languages, including English, Tamil, and Bengali. As a result, the Delhi High Court relied on several judgments on misleading marketing, disparagement, and the law governing the broadcast of advertisements on television to rule that the advertisement is disparaging because it does not provide any actual proof of the product's quality. Furthermore, because electronic media creates an impression on the minds of viewers, these types of commercials would not only be harmful to consumers but would also cause irreversible harm to the complainant.

- Thus, the adoption of these rules solves gaps in the Consumer Protection Act of 1986. The Act's passage was critical, as it expanded the scope of the country's consumer protection laws.

5.7 Environment Protection Act 1986

Introduction:

The Bhopal Gas Tragedy of 1984 highlighted the urgent need for a comprehensive law concerning environmental protection on a domestic level, which led to the need for the Environment (Protection) Act, 1986. The Stockholm Conference, which advocated environmental protection at the international level and was one of the most devastating incidents of all time, was held in 1972. The act's goal is listed as the preservation and enhancement of the environment in the preamble. It aims to defend against environmental dangers for people, other living things, plants, and property.

It encompasses all of India and strives to stop, manage, and lessen the environmental pollution. Even though we already had the Water Act of 1974, the Air Act of 1981, and the Indian Forest Policy of 1988, there was still an urgent need for broad law that included harsh criminal penalties to protect environmental rights.

The Environment Protection Act's historical context

In India, environmental concerns are nothing new. We have held to the idea of "Vasudhaiva Kutumbakam," or "the world is one family," since ancient times. Indians have long held the view that all living things, including all plants, animals, and microorganisms, are members of one big family.

The Constitution we currently have attests to our founding ideals. Here are a few of them:

- Article 48A of the Directive Principles of State Policy, which was adopted by the 42nd Amendment Act, said that it was the state's duty to make measures to "protect and improve the environment, and to safeguard the forests and wildlife of the country."
- Every citizen of the nation has a fundamental obligation to "protect and improve the natural environment, including the woods, lakes, rivers, and wildlife, and to have compassion for living creatures," according to Article 51A(g).
- In several rulings, our judiciary has stated that Article 21, which upholds the right to life and dignity, also includes the right to live in a secure and healthy environment. The right to obtain clean water and the air is recognized as a fundamental right under Article 21 in the case of Subhash Kumar v. the State of Bihar.

- The Indian Constitution grants the Parliament the authority to enact any legislation necessary to give effect to any foreign treaty, accord, convention, or conference decision (Article 253). The Environment (Protection) Act, 1986 was passed by the Indian Parliament with the aid of Article 253 to implement the conclusions made at the 1972 Stockholm UN Conference on the Human Environment.

The Environmental Protection Act's goals:

- to put into action the important conclusions made about the protection and safety of the environment at the Stockholm Conference on the Human Environment in June 1972.
- There was a need for comprehensive legislation that covered the gaps in the existing laws because India already had several laws covering various parts of the environment. As a result, it was passed to bring about universal environmental protection legislation and to encompass other significant environmental threats that had previously gone unrecognized.
- to establish new agencies to safeguard and enhance the environment, as well as to coordinate the operations of agencies that have already been established under earlier laws.
- To offer severe and dissuasive punishment to those who violate the environment and put its safety and health in peril.
- to encourage the expansion of delegated and subordinate laws on ecologically delicate issues and environmental protection.
- to encourage sustainable development, which aims to balance environmental protection with economic growth.

Why does India need an environment protection act?

India saw the necessity for strict environmental protection legislation for the following reasons:

- The first was the Stockholm Conference, which brought attention to the effects that human activity was having on the environment on a global scale. The conference highlighted the necessity of resolving the conflict between development and the environment to benefit both people and the earth as a whole.
- The Bhopal Gas Tragedy was the second. It dealt with an oil gas leak from an industry that proved disastrous to the neighborhood's residents and the environment. This instance highlighted the need for industry regulation to prevent businesses from getting away with environmental damage penalties too lightly.
- Additionally, the need was recognized because while India had laws like the Air Act and Water Act for environmental protection, there was no overall law that linked them and coordinated their responsibilities.

India's Environment Protection Act

When the Planning Commission asked the Department of Science and Technology to evaluate the environmental impact of the river valley projects, the EIA concept first made its way to India in 1976–1977. Later, it was broadened to incorporate further projects. They had to receive the Public Investment Board's blessing. However, these were primarily administrative choices without any formal support. However, it gained popularity after the Environment Protection Act of 1986 was passed. Following the implementation of EPA, a notification under the Act mandated EIA for 30 specific activities. The Ministry of Environment and Forestry has been tasked with issuing clearances. In 2006, the Notification underwent revision.

Environmental Protection Act advantages

Some advantages of the Act include the following:

- Protection of public health- It aims to stop, manage, and reduce environmental contamination to maintain a clean and safe environment. This promises that we have a clean environment to live in that is free of all contaminants that are bad for our health. As a result, the Act attempts to safeguard public health.
- The Federal Government has been given immense powers to not only appoint authorities to carry out various responsibilities but also to take all feasible actions to achieve the objectives of the Act. This positively enables the central government to take tangible steps to safeguard the environment.
- Strict criminal provisions: The Act has penalties for breaking its rules. It also establishes the responsibility of businesses and government agencies for environmental pollution.
- Protecting ecological integrity- The Act intends to maintain ecological integrity by preserving it in its unpolluted and natural state by establishing punitive penalties and laying out numerous directions for the Central Government to take proactive measures for environmental conservation.

Note: Concern for the environment has grown since the Stockholm Conference and the Oleum gas leak case. The provisions of the Environment (Protection) Act, 1986 represent a significant advancement in the preservation and enhancement of the environment. For the prevention, control, and reduction of environmental pollution, it has established some strict rules. To advance the goals of this Act, the central government has been granted a broad range of powers to create regulations and name authorities.

By calling out the polluting companies under the EPA, it has also given the public the power to take an active role in environmental protection, which has resulted in several environmentally good judicial decisions. Some gaps in the Act that must be filled with later changes to bring it up to current with the times.

5.8 Dimensions of the above acts on the business:

A.MRTP Act:

Monopolistic and Restrictive Trade Practices Legislation of 1969 is known as the MRTP act. The effects on business before the law's passage were as follows:

- Economic power was heavily concentrated, meaning that just a small number of companies controlled how the market was run.
- This resulted in a widespread concentration of economic freedom and power.
- The majority of the market had strong barriers to entry and exit and was extremely monopolistic.

As a result, there were fewer competitors in the market.

5.9 Summary

A. Competition Law:

Businesses are positively impacted by competition law because it creates a competitive corporate culture that encourages innovation and growth to remain a formidable competitor.

Additionally, competition law protects other enterprises against the exploitation of a dominating market position by one organization. Due to increased service options for customers as a result of market competition, competition legislation promotes firms to improve themselves. Therefore, companies must uphold compliance with competition legislation to maintain the market's vitality and value.

B. Industrial policy after 1991:

These improvements' effects on business and industry are as follows:

1. Increased competition: The regulations governing industrial licensing and foreign enterprises' admission have changed, which has made it more difficult for Indian businesses to compete, particularly in service sectors like banking, communications, health, etc.

2. Customers with higher standards: The market now offers a greater variety of items as a result of increased competition. Customers are growing pickier as a result.

3. The technology environment is advancing quickly, which encourages businesses to create novel strategies for surviving and expanding in the market. And as a result, small businesses are faced with difficult issues related to changes in procedures, technology, equipment, and goods.

4. The need for change: The need to adapt to ongoing market developments is a requirement for businesses.

5. The need to develop human resources: The current market circumstances call for individuals with the necessary abilities and a greater level of commitment. Consequently, there is a growing need for developing human resources.

6. Market Orientation: Earlier businesses were production-focused; they created products first, then sold them to customers. But today's production-oriented techniques have given way to market-oriented ones, in which businesses first research and analyze the market before producing items.

7. Loss of budgetary support for the public sector: Over time, there has been a decrease in budgetary support for financing the public sector. Therefore, public sector organizations must understand that to survive, they must create their resources and improve their efficiency.

C. Consumer Protection Act, 1986:

Any piece of government legislation created to safeguard customers against subpar goods and dishonest business activities is referred to as "consumer law." Following the law will help a firm avoid legal issues and reassure clients about the caliber of the goods it sells. Maintaining the company's positive reputation will also be beneficial.

D. Environment Protection Act, 1986:

Environmental protection regulations raise production costs and reduce productivity, which may cause an organization to relocate to a region with less onerous environmental regulating laws. Environmental rules, however, are more advantageous for human protection, ecological preservation, and disease prevention. The benefits to society from environmental protection laws, therefore, seem to outweigh the costs of compliance by a wide margin.

Nearly half of the plants had to be relocated following the first clean air act's implementation so that the company could comply with those nations' environmental regulations. In this process, almost half a million jobs were lost. But these job losses are quite tiny in the macroeconomic sector compared to the total number of jobs lost around the globe. This shows that regulations promoting environmental protection encourage job mobility among nations. Due to pollution clean-up and other prevention measures, it is evident that environmental regulatory regulations generate a significant number of work possibilities.

5.10 MCQ

1. Which section of MRTP Act 1966 deals with Survey of Region and preparation of Regional plan ?

A. Section 16 of MRTP Act 1966
B. Section 14 of MRTP Act 1966

C. Section 13 of MRTP Act 1966
D. Section 18 of MRTP Act 1966

2. Section 25 of MRTP Act 1966deals with_______?
A. Interim Development plan
B. Provision for survey and preparation of existing-land- use map
C. Procedure in the trial of offenses
D. Implementation of plans

3. When did the Competition Act, 2002, come into force?

A) 01 April 2004
B) 31 March 2003
C) 01 May 2002
D) 23 April 2003

4. Which section of the Competition Act, 2002 deals with the Selection Committee for Chairperson and Members of competition Commission of India ?

A. Section 12 of the Competition Act, 2002
B. Section 9 of the Competition Act, 2002
C. Section 14 of the Competition Act, 2002
D. Section 20 of the Competition Act, 2002

5. Which section of the Competition Act, 2002 deals with Compensation in case of contravention of orders of Commission_?

A. Section 42A of the Competition Act, 2002
B. Section 44 of the Competition Act, 2002
C. Section 43 of the Competition Act, 2002
D. Section 41 of the Competition Act, 2002

6. Consumer Protection Act is significant to

A) Immovable Goods

B) Movable Goods

C) Particular Goods and Services

D) All Goods and Services

7. How many rights does a consumer have under the Consumer Protection Act?

A) 8

B) 6

C) 4

D) 5

8.Under the Consumer Protection Act, the rights of a consumer do not include to be

A) Safety

B) Choose

C) Presented

D) Informed

9.When the seller manipulates the price, it is known as

A) Caveat Emptor

B) Unfair trade practices

C) Restricted trade practices

D) None of the above

10. Under this act, the minimum age of forum member of a district forum should be

A) 30

B) 40

C) 35

D) 65

Ans:

1	2	3	4	5	6	7	8	9	10
c	b	b	b	a	d	b	c	c	c

5.11 Short questions

1. When was the competition law introduced?

2. State 2 features of New Industrial Policy.

3. Why is it important to protect consumers?

4. State two goals of Environment Protection Act.

5. Write two advantages of Environment Protection Act.

6. How does the Competition law remove the MRTP act?

8. States the objectives of Environmental law in the case of business affairs.

5.12 Long questions

1. Define your views on the amendment of the MRTP act.
2. How the competition law regulates the business affairs in India and compares them with other developed countries' competition laws.
3. Discuss the three-tier system for redress under the Consumer Act.
4. Compare India’s business law with the United State of America’s business laws.
5. Define industrial policy 1991 in short.
6. How did the industrial policy 1991 affect the business?
7. Define the effect of the Bhopal Gas Tragedy on environmental laws and business.

Module 3

Unit 6: Finance Market

6.0 Learning Outcomes

At the end of this unit, you will be able to:

- Explain the role of commercial banks and other financial institutions

6.1 Introduction

A form of the marketplace that offers a venue for the selling and purchase of assets including bonds, equities, foreign exchange, and derivatives is known by the moniker "finance market." They go by a variety of titles, such as "Wall Street" and "capital market," but all of them refer to the same thing. Simply said, corporations and investors can raise money on the financial markets for business expansion or to increase their wealth, respectively.

To put it more succinctly, consider a bank where someone keeps a savings account. The bank may lend money to other people and organizations while charging interest using their money as well as the money of other depositors. Through the interest that is accrued on their deposits, the depositors themselves profit and watch their money increase. As a result, the bank acts as a financial market that is advantageous to both depositors and borrowers.

6.2 Different Finance Markets:

Stock Exchange

The stock market is further divided into the primary market and secondary market. Companies raise new cash from the market through the primary market. Companies conduct Initial Public Offerings, or IPOs, in which they sell their company's assets or stocks to the public to raise new money for expansion. These securities or shares become available for traders and investors in the secondary market, where the daily trades occur, once the company is listed on stock exchanges. You can either carry long-term positions to profit from long-term changes in stock price or trade intraday, which entails purchasing or selling a stake during a single trading session.

Bonds market

The bond market provides chances for businesses and the government to receive funding for a venture or investment. Investors purchase bonds from a firm in a bond market, and the company returns the bonds' principal and interest within a predetermined time frame.

Commodities market

Natural resources or commodities like corn, oil, meat, and gold are bought and sold on the commodities market by merchants and investors. Such resources have their market because of the erratic nature of their prices.

The derivatives market

Due to several benefits over traditional equities, derivatives are among the traders' and investors' top choices. Financial instruments known as derivatives derive their values from an underlying asset or collection of assets. Contracts involving two or more parties are known as derivatives. Every time the value of the underlying asset fluctuates, it also influences the cost of the derivative contract. Stocks, indexes, bonds, currencies, or even commodities like silver, gold, crude oil, etc., may be among the underlying assets. Trading in derivatives is a wonderful way to achieve risk management goals.

The Forex market

According to the regulations established by SEBI and the RBI, no Indian citizen is permitted to engage in forex trading in India through any electronic or online currency trading platform. The RBI circular from 2013 states that forex trading is not allowed in India. Only using specific foreign exchange trading platforms and using the Indian Rupee as the basic currency for all transactions makes forex trading lawful (INR). Simply said, only currency pairs that are benchmarked against the Indian Rupee are allowed for trading in India.

6.2.1 Services Provided by Markets

It is difficult to exaggerate the vitality of financial markets to the health and viability of an economy. Here are four crucial tasks performed by financial markets:

Utilizes savings in a more beneficial way

The money in a savings account shouldn't be left sitting in the vault, as was described in the aforementioned scenario. As a result, financial institutions like banks make it available to people and businesses in need of a home loan, school loan, or business loan.

Determines how much securities cost

The goal of an investor is to earn from their securities. The prices of securities are set by the financial markets, as opposed to the pricing of products and services, which are decided by the law of supply and demand.

Liquidates financial assets

The decision to trade securities can be made at any time by buyers and sellers. They can buy and sell stocks on the financial markets as they want.

Reduces the transactional cost

Financial markets allow for the free acquisition of a variety of information on securities.

Finance Markets' Importance

The importance of financial markets to the global and national economies cannot be overstated. Buyers and sellers can trade financial assets on a platform provided by financial markets. The market's driving force, which is the supply and demand mechanism, determines the prices for the same. The investors' savings are released so they can be used for profitable investments.

It is one of the most popular sites for connecting traders with potential buyers or sellers for the trade. In the financial markets, investors can sell their financial securities. Thus, the financial markets also offer liquidity to the tradable assets.

6.3 Composition of Indian money and Capital markets

Companies and governments in India can raise long-term capital in the capital market, which is a market for securities. It is a market designed specifically for buying and selling stocks and bonds. The two main sources of capital and long-term funding are stocks and bonds. As a result, the bond and stock markets are referred to as capital markets. The primary (new securities) market and secondary (stock) market for equity and debt make up the Indian securities market. While the secondary market deals with the trading of already issued securities, the primary market offers a conduit for the selling of new securities.

History of the Indian Capital Market

One of the first-born stock markets in Asia is India. It has a history that goes back about 200 years. The oldest records of financial transactions in India are scant and hazy. The East India Company was the dominating institution at the time, and near the end of the eighteenth century, transactions in its loan securities were common. The beginning of the American Civil War in 1861 marks the beginning of the history of the Indian capital markets and the stock market in particular.

Several firms were established during this time, and numerous banks emerged to handle the money associated with these transactions as a result of the opening of the Suez Canal in the 1860s, which resulted in a significant increase in exports to the United Kingdom and the United States. The Mumbai Stock Exchange was established in 1875, with many of these being registered under the British Companies Act. Under a banyan tree, a group of unincorporated stockbrokers began conducting business in the city. The business was mostly conducted by business owners and brokers, with the general public showing relatively little interest. Due to the American war and the wars in Europe, the stock market experienced significant swings. For many years, Sir Premchand Roychand held the position of the kingpin.

Before Independence, India's capital market

Before Independence, the Indian capital market was not well developed. Due to the lack of enterprises and the tiny volume of securities traded on stock exchanges, the industrial securities market's expansion was severely constrained. Instead of the Indian capital market, the majority of British businesses in India went to the London capital market for funding. Government and semi-government securities were mostly traded on the gilt-edged market, which made up a sizable portion of the capital market.

After Independence, the Indian Capital Market

The Indian capital market has greatly expanded since Independence, especially after 1951, and the amount of saving and investment has steadily increased. The nation offers a variety of tax breaks and incentives to encourage saving. In addition, numerous measures have been made to safeguard investors' interests. The expansion of corporations or joint stock firms is a key sign of the health of the capital market. With a paid-up capital of Rs. 775 crores, there were around 28,500 public limited and private limited firms in 1951.

Speculators' go-to stocks in the 1950s were Century Textiles, Tata Steel, Bombay Dyeing, National Rayon, and Kohinoor Mills. As speculating increased, the stock market adopted the moniker "Satta bazaar." In 1951, India began its planning process, emphasizing the development of institutions and markets. After the Indian Contract Act of 1872, a fundamental law to be adhered to by security markets in India, the Securities Contract Regulation Act of 1956 became the parent regulation. The Controller of Capital Issues Act (CCI) was enacted in 1947 to control share price issuance.

In the 1960s and 1970s, the nation witnessed and experienced droughts, which contributed to bearish trends. These tendencies were made worse by forwarding trading, sometimes known as "contracts for clearing," or badla. Financial institutions, including LIC and GIC, were the most significant class of investors, which contributed to the revival of the mood. The markets have also seen various prosperous periods. With the downsizing of the FERA in 1978, small-scale participation by retail investors in the stock markets started. Multinational corporations with operations in India were compelled to sell off a set amount of their overseas shares, or issue new stock, to comply.

The Indian securities market experienced an exponential expansion in the 1980s as millions of investors unexpectedly discovered lucrative opportunities. Many people invest in the stock market. When Mr. Dhirubhai Ambani entered the market in 1980, there was the following significant boom and widespread engagement by retail investors. One might argue that Dhirubhai is the originator of contemporary capital markets. Huge attention was sparked by the Reliance public problem and following reports on numerous Reliance enterprises. Share certificates were so unknown to the general public that Dhirubhai is said to have given them out to educate people. The 2000s saw Ketan Parekh's ascent to prominence and the rise of the information, communication, and entertainment industries. Software businesses were the most popular equities at this time, which also happened to coincide with the US dot-com bubble. Early in 2000, the value of software stocks collapsed. Continuing the liberalization and reform drive, Mr. P. Chidambaram opened up the firms, eliminated taxes on long-term earnings, and instituted a short-term turnover tax. Since then, the markets have rebounded, and we have seen a persistent uptrend that has sent the index above 21,000 in 2008.

This history demonstrates that long-term individual investors have yet to contribute significantly to the market. In India, there is extremely little retail activity relative to household savings as a whole. There are over 20–30 million investors who own shares in limited firms and mutual fund units. There are 2–3 million people who participated in secondary markets. If capital markets expand outside urban areas and stock exchange hubs reach Indian villages, they would undergo a complete transformation. Spreading market knowledge and assisting investors in budgeting their money and comprehending the markets should be priorities for both SEBI and retail participants.

For the Indian capital market, it has been a very long and difficult road. The capital market now is highly well-run, somewhat integrated, mature, and more international. In terms of technology, the Indian capital market is among the best in the world. In India, numerous business news publications, newspapers, and magazines are published. Online trade has spread around the world. The Indian capital market would be a part of the global market.

Indian capital market's function:

The capital market is crucial in fostering and maintaining an economy's expansion. It serves as a crucial and effective mechanism for allocating capital to businesses and acts as a reliable source of investment in the economy. To improve a country's prospects for long-term growth, it is essential to mobilize savings for investment in productive assets. As a result, it plays a significant role in converting the economy into a more innovative, competitive, and efficient market on a worldwide scale.

The development of the capital markets, which are essential to the Indian economy, will assist to lower unemployment rates, increasing per-capita incomes, and consequently lowering the number of people living below the poverty line. With individuals becoming more knowledgeable, they begin investing in capital markets with long-term orientations, which would bring cash into the industries that need it.

- Capital arrangement: The country's capital market encourages capital formation. Savings in the nation affects the rate of capital formation. Despite the banks' ability to mobilize savings, they are insufficient to meet the needs of the industrial sector. Savings from consumers and businesses are mobilized through the capital market. These savings are subsequently put to use by making productive investments. Savings and investment lead to a country's capital structure a result.
- Economic expansion: The capital markets smooth out the expansion of the industrial sector and other economic sectors. Transferring resources from the general population to

industry is the capital market's primary objective. Lending money for various projects, both public and private, is made possible by the capital market.

- Growth of underdeveloped areas: The capital markets provide funding for initiatives in underdeveloped areas. This helps underdeveloped areas prosper economically.
- Creates jobs: The capital market creates jobs in the nation. Because of the money allocated for development projects, there is both direct employment in the capital markets, such as stock exchanges and financial institutions and indirect employment in all other areas of the economy.
- Long-term capital for the industrial sector: The capital market offers businesses dependable long-term finance. After being raised through difficulties, the money stays with the business. The corporation is left alone with the money, and investors trade securities with one another.
- Capital market: The capital market enables the creation of foreign capital. Bonds and other securities enable Indian businesses to raise money from international markets. Such foreign exchange funds are essential for the country's economic growth.
- Changing role of financial institutions: Several capital market organizations, including the Industrial Development Bank of India (IDBI), State Finance Corporations (SFC), Industrial Credit and Investment Corporation of India (ICICI), Unit Trust of India (UTI), and Life Insurance Corporation of India (LIC), have been helping industries grow. They have been supporting, promoting, and underwriting the capital market's operations.
- Investment opportunities: The public has access to fantastic investment opportunities through the capital markets. Alternative investment options for the general public include bonds, shares, and debentures, among others.

The capital market is crucial to the Indian financial system for the reasons listed below:

1. To access long-term savings to finance long-term investments
2. To encourage the purchase of more productive assets.
3. To increase capital allocation effectiveness through a competitive pricing mechanism.
4. To give a tool for the investor to view financial assets while also providing liquidity.
5. To lower information and transaction costs.
6. To provide a connection between businesses and investors.
7. To quickly value financial products, including both debt and equity.

8. To safeguard against market risk, pricing risk, and default risk through derivative trading and investment protection funds.
9. Ensuring operational effectiveness.
10. To invest, reinvest, and disinvest to channel the flow of money into effective routes.
11. To create integration between long-term and short-term funds, and financial and non-financial industries.
12. To provide risk-takers with possibilities for equity and return-takers with debt opportunities.

A capital market, then, acts as a crucial conduit between individuals who want to save and those who want to invest their savings.

6.4 Role of commercial banks

Commercial banks are businesses that seek financial gain. Customers deposit money with them at a lower interest rate, and they provide business loans at a higher interest rate. They offer their services to small and medium-sized organizations, as well as to individuals. By providing extra banking services and investment products, such as current account deposits, savings accounts, fixed deposits, cash credit, advances, overdrafts, locker facilities, and investments, commercial banks can increase their revenues. They must constantly transform to stay ahead of the competition, adjusting to automation, data analytics, digitization, artificial intelligence, speedier transactions, and quicker reactions to market developments.

Important Role of Commercial Banks:

Commercial banks play an important role in economic growth in emerging nations in addition to carrying out the typical commercial banking duties. Most people live in poverty, are unemployed, and work in traditional agriculture in these nations.

There is a severe capital shortage. People lack entrepreneurship and initiative. Transportation infrastructure is lacking. The industry is in a slump. Commercial banks assist in removing these barriers and fostering economic growth. Following is a discussion of a commercial bank's position in a developing nation.

1. Mobilizing Deposits for Capital Formation:

Through their network of branch banks, commercial banks assist in mobilizing savings. Low earnings are a problem for people in developing nations, but banks encourage saving by creating a variety of deposit programs that are tailored to the needs of specific depositors. They also mobilize the wealthy few are dormant savings. The banks convert savings into profitable investments by mobilizing them. Thus, they assist a developing nation's capital formation.

2. Industry Financing:

Commercial banks offer a variety of strategies to finance the industrial sector. They offer loans to the industry for short-, medium-, and long-term periods. They offer short-term loans in India. For one to three years, they make medium-term loans based on the income of Latin American nations like Guatemala. But in Korea, long-term loans to the industry are also provided by commercial banks.

Commercial banks in India provide hire-purchase financing as well as short- and medium-term financing for small businesses. Additionally, they underwrite the bonds and shares of big businesses. Thus, they aid in the development of the capital market, which is underdeveloped in such nations, as well as financing for the industry.

3. Financing Trade:

Commercial banks assist in funding both domestic and international trade. Retailers and wholesalers can borrow money from the banks to stock the products they sell. They also aid in the transportation of commodities by offering a variety of services, including discounting and accepting bills of exchange, offering overdraft facilities, issuing drafts, etc. Additionally, by offering foreign exchange facilities to importers and exporters of goods, they finance both the exports and imports of emerging nations.

4. Financing Agriculture:

Commercial banks provide a variety of financial services to the developing world's extensive agriculture industry. To traders of agricultural commodities, they offer loans. To offer agricultural finance, they establish a network of branches in rural areas. They directly finance farmers' marketing of their products, modernization, and mechanization of their farms, installation of irrigation systems, land development, etc.

Additionally, they offer financial support for horticulture, dairy farming, sheep breeding, poultry farming, pisciculture, and animal husbandry. The regional rural banks in India offer financial support to the small and marginal farmers, landless agricultural laborers, craftsmen, and petty shopkeepers in rural areas. These local rural banks are managed by an industrial bank. Therefore, all different types of rural residents can get the financing they need through commercial banks.

5. Consumer activity financing

Due to their poverty and low earnings, people in developing nations lack the means to purchase durable consumer items. Consumers can get loans from commercial banks to buy things like homes, scooters, fans, refrigerators, etc. By offering loans for consuming activities, they also contribute to improving the standard of living in poorer nations.

6. Employer-Generating Activities Financed by Commercial Banks:

In emerging nations, commercial banks are financing employment-generating activities. They offer educational loans to young people enrolled in engineering, medical, and other vocational colleges and universities. They provide loans to budding business owners, recent graduates in the fields of medicine and engineering, and other technically skilled individuals. Many commercial banks in India are offering these lending facilities. In this way, banks support the development of human capital while also encouraging entrepreneurship in underdeveloped nations.

7. Support for Monetary Policy:

By obediently adhering to the central bank's monetary policy, commercial banks contribute to the economic growth of a nation. The effectiveness of the central bank's monetary management policy in line with the needs of an expanding economy rests on the commercial banks.

As a result, commercial banks play a significant role in the development of a developing economy by funding trade, industry, and agriculture, assisting in the creation of physical and human capital, and adhering to the nation's monetary policy.

6.5 Financial institutions and Non-banking financial institutions.

A financial institution (FI) is a firm that deals with financial and monetary transactions such as deposits, loans, investments, and currency exchange. Banks, trust companies, insurance companies, brokerage firms, and investment dealers are just a few of the many business operations that fall under the umbrella term "financial institutions" in the financial services industry. In a modern economy, almost everyone has ongoing or at least sporadic demand for financial institution services.

Financial activities are a crucial component of any economy, and consumers and businesses rely on financial institutions for transactions and investments. As a result, financial institutions provide services to the majority of people. Governments view the supervision and regulation of banks and other financial institutions as essential due to their crucial role in the economy. Financial institution failures have in the past led to panic. Regular bank accounts are insured in the United States by the Federal Deposit Insurance Corporation (FDIC) to reassure people and businesses about the security of their money with financial institutions. The strength of a country's financial sector is essential to its overall economic stability. A bank run is a simple outcome of losing trust in a financial organization.

Financial institutions that provide a range of banking services without a banking license are referred to as nonbank financial businesses (NBFCs), often known as nonbank financial institutions (NBFIs). Typically, the public's readily accessible monies, including those in checking or savings accounts, cannot be accepted as demand deposits by these organizations. This restriction keeps them out of the purview of traditional federal and state financial regulator scrutiny.

Nonbank Financial Companies are deemed to be "predominantly engaged in a financial activity" by the Dodd-Frank Wall Street Reform and Consumer Protection Act when more than 85% of their consolidated yearly gross revenues or consolidated assets are financial. Investment banks, mortgage lenders, money market funds, insurance firms, hedge funds, private equity funds, and peer-to-peer lenders are a few examples of NBFCs.

Loans and credit facilities, currency exchange, retirement planning, money markets, underwriting, and merger operations are just a few of the services that NBFCs can provide.

Foreign nonbank financial companies, American nonbank financial companies, and American nonbank financial companies under the control of the Federal Reserve Board of

Governors are the three categories of nonbank financial companies as defined by the Dodd-Frank Wall Street Reform and Consumer Protection Act.

Overseas nonbank financial institutions

Incorporated or established outside of the United States, foreign nonbank financial enterprises engage primarily in financial activities like those mentioned above. Foreign nonbanks might or might not have American branches.

6.5.1 US Non-Bank Financial Institutions

Despite being incorporated or formed in the United States, U.S. nonbank financial enterprises, like their overseas nonbank counterparts, focus primarily on nonbank financial activities. Nonbank financial institutions operating in the United States are prohibited from acting as national securities exchanges, Farm Credit System institutions, or any other kind of financial institution.

U.S. nonbank financial institutions that the Board of Governors regulates:

The fundamental distinction between these nonbank financial institutions and others is that they are governed by the Board of Governors of the Federal Reserve. The Board has determined that the financial stability of the United States may be threatened by financial difficulty or by the "nature, scope, size, scale, concentration, interconnection, or mix of activity" at these institutions.

The 2008 Financial Crisis and Shadow Banks: Case Study

Long before the Dodd-Frank Act, NBFCs already existed. Paul McCulley, an economist and the managing director of Pacific Investment Management Company LLC (PIMCO) at the time, coined the term "shadow banks" to refer to the expanding network of institutions contributing to the then-prevailing environment of easy money lending, which in turn caused the subprime mortgage meltdown and the subsequent 2008 financial crisis.

Even though the name has a menacing tone, many reputable brokerages and financial firms were involved in shadow banking. Lehman Brothers and Bear Stearns, both investment banks, were two of the most well-known NBFCs at the crux of the 2008 crisis.

Traditional banks came under increased regulatory scrutiny as a result of the ensuing financial crisis, which caused a sustained decline in their lending activities. The banks tightened up on loan or credit applicants as the regulators tightened up on the banks. More people needed alternative finance sources as a result of the stricter rules, which led to the expansion of nonbank institutions that could conduct business without being constrained by banking laws. In the era that followed the financial crisis of 2007–2008, NBFCs multiplied and came in many forms, fulfilling a crucial need for financing that traditional banks were unable to fill.

Why Are NBFCs called Shadow Banks?

Because they operate much like banks but with less regulatory oversight, NBFCs are frequently referred to as "shadow banks." With a few exceptions, they are unable to accept deposits from individuals and must instead issue bonds or borrow money from banks.

NBFC Argumentation:

NBFC proponents contend that these organizations are crucial in supplying the growing demand for credit, loans, and other financial services. Customers can be both businesses and people, especially those who would have a hard time meeting the stricter requirements set by traditional banks.

Supporters assert that NBFCs not only offer alternative sources of financing but also more effective ones. In a process known as disintermediation, NBFCs eliminate the middleman—the function that banks frequently perform—to allow clients to deal with them directly, decreasing costs, fees, and rates. It's critical to offer loans and finance to maintain a healthy economy and money supply.

However, NBFCs' lack of accountability to authorities and their ability to operate outside of the conventional banking laws and regulations alarm detractors. If they are public corporations or brokerages, they may occasionally be subject to oversight by other agencies such as the Securities and Exchange Commission (SEC) or the Financial Industry Regulatory Authority (FINRA). They might, however, be able to operate in some situations without being completely transparent. The financial system might be under more stress as a result of all of this. The 2008 financial crisis that triggered the Great Recession was centered on NBFCs. Critics remind out that their population has grown since then, making them a bigger concern than before.

Real-World NBFC Example

NBFCs include organizations like mortgage lender Quicken Loans and financial services company Fidelity Investments. Peer-to-peer (P2P) lending, on the other hand, has experienced the sector's fastest growth. The power of social networking, which connects like-minded people from all over the world, has helped P2P lending develop. P2P lending platforms like LendingClub Corp. (LC), StreetShares, and Prosper connect potential borrowers with investors who are prepared to put their money into loans with significant potential returns.

P2P borrowers typically fall into one of two categories: those who would not otherwise be eligible for a standard bank loan or who want to deal with non-banks. By distributing small payments across a variety of borrowers, investors have the chance to create a diversified portfolio of loans. Even while peer-to-peer lending accounts for a very tiny portion of all loans made in the US, a survey from IBIS World estimates that $938.6 million will be kept in P2P platforms in the US by 2022, an increase of 7.9 percent from the previous year.

6.6 Summary

- After years of challenges and catastrophic loss, the Indian stock market has undergone significant adjustments.
- The two main sources of capital and long-term funding are stocks and bonds.
- Loans and credit facilities, currency exchange, retirement planning, money markets, underwriting, and merger operations are just a few of the services that NBFCs can provide.
- Over the years, there have been tremendous and revolutionary developments, as well as some major modifications that have lowered the number of financial fraud instances. Over the years, there has been a decrease in trade misconduct.
- In terms of institution construction, the capital market has made significant progress. They have changed and improved the lives of investors and market intermediaries. The market has become friendlier by improving performance and reducing obstacles.
- The scope of Non-Banking Financial Companies is very vast and goes across several dimensions.
- From a modest loan company in a rural location to chit funds on which most middle-class people rely to venture capital and investment firms on which large corporations rely, NBFCs lend their assistance and find its scope in an economy.
- Though banks shadow NBFCs, their position in a rising economy like India is widely recognized and vital since they can serve all classes of people across the country and contribute to the country's development.

6.7 MCQ

1. What is Capital Market?

a. Market in which securities are bought and sold.

b. A financial market in which long-term debt or equity-backed securities are bought and sold.

c. Entrepreneurs in one country copy an existing market.

d. A market structure is defined by a large number of small firms competing against each other.

2. Who controls the Capital Market in India?

a. SEBI

b. NABARD

c. RBI

d. SBI

3. What is the role of the Securities and Board Exchange of India?

a. To promote individual businesses.

b. Facilitating credit flow for promotion and development of agriculture, cottage, and village industries.

c. The custodian of the foreign reserve, controller of credit, and managing printing and supply of currency notes in the country.

d. Protect the interests of investors in securities.

4. What is the difference between primary and secondary markets?

a) Primary markets help in capital formation, while secondary capital provides liquidity to the investor

b) Initial public offerings are undertaken in both primary and secondary markets

c) Stock exchanges are an example of secondary markets

5. Which of the following is considered as a Non-Banking Financial Company (NBFC)?

a) Equipment leasing company

b) Hire Purchase Company

c) Loan Company

d) All of above

6. Which of the following are correct statements with regard to NBFC in India?

a) All NBFCs should be registered with RBI

b) NBFCs cannot accept demand deposits.

c) NBFCs do not form part of the payment and settlement system and cannot issue cheques drawn on itself

d) Deposit insurance facility of Deposit Insurance and Credit Guarantee Corporation is not available to depositors of NBFCs

7. What are Primary Markets?

a. The amount the seller receives following the sale of an asset after all costs and expenses are deducted.

b. The value of the assets of the Company or the value of the assets being disposed of, determined without regard to any liabilities associated with such assets.

c. Where investors buy and sell securities they already own.

d. Market in which new Securities are issued by the Corporations to raise funds

Ans:

1	2	3	4	5	6	7
b	a	d	a	d	c	d

6.8 Short Questions

1. Define Bond Market.

2. What is Forex Market?

3. State 2 services provided by a Market.

4. Name the two sources of Capital and long term funding.

5. What is Financing Agriculture?

6. Why are NBFCs called Shadow Banks?

6.9 Long Questions

1. Discuss the different types of market

2. Explain the roles of banks in the economy.

3. The capital market is crucial to the Indian financial system. Discuss.

Unit 7: Finance Institutions

7.0 Learning Outcome

At the end of this unit, you will be able to:

- Get familiarized with the roles and functions of different financial institutions

7.1 Introduction

Financial institutions, often known as banking institutions, are commercial organizations that offer services as middlemen for many kinds of financial and monetary transactions.

Financial institutions comprise of banks as well as nonfinance banking institutions. It involves monetary and financial transaction. It deals with loans, deposits and investments. A lot of banking operations area included in the roles and responsibility of Financial institutions. Such operational activities include trusting the brokerage firms, dealers, different companies and insurance agencies. Financial institutions also offer financial services such as wealth management, safe deposits and wealth management.It is legally authorized to lend and borrow money.

7.2 SEBI and Capital Market Reforms

The Central Government of India has the sole authority to regulate stock exchanges thanks to the Securities Contract (Regulation) Act, 1956. The Indian government recognized the need for an overarching body to control stock exchanges and encourage the orderly expansion of the securities industry.

As a result, on April 12, 1988, the Government of India issued an exceptional announcement in the Indian Gazette that established the Securities and Exchange Board of India (SEBI). A Parliamentary Act established SEBI as a formal organization in April 1992. The Securities and Exchange Board of India Act, 1992 was revised by an ordinance on January 25, 1995, giving SEBI more authority and enhancing the organization's functionality.

Those three parties, which operate in the securities market with vested interests, are:

(a) Securities issues,

(b) market intermediaries

(c) Investors who subscribe to securities and subscribers to securities.

In the primary interests of the investing public and the healthy development of the capital market, SEBI seeks to develop and regulate the securities market.

The following list outlines SEBI's primary goals:

(a) To protect the interests of investors in securities by requiring corporations that issue securities to disclose information that would help the investing public form an accurate picture of risk and return; and

(b) To control all shady operations related to the securities market, including the work of brokers and sub-brokers on stock exchanges, as well as the activity of bankers to issues, underwriters, merchant bankers, and mutual funds.

SEBI's Capital Market Reforms:

In recent years, SEBI has implemented the capital market changes listed below:

1. SEBI has given stock exchanges instructions on how to broaden the composition of their governing boards. These regulations provide that a stock exchange's governing council should consist of five elected members, no more than four government or SEBI nominees, and no more than three public representatives.
2. SEBI established a registration system for intermediaries, including brokers and sub-brokers. The registration is based on a set of eligibility requirements, such as capital sufficiency.
3. SEBI has established regulations to separate client and broker accounts as well as to increase the transparency of the relationship between them.
4. SEBI has implemented a system of regular stock exchange inspections. Up to January 1993, SEBI investigated 8 stock exchanges.
5. SEBI has asked stock exchanges to modify the listing agreement so that listed companies provide them with yearly disclosures demonstrating differences between financial predictions and project utilization of funds provided in the offer documents and actuals. This will make it possible for shareholders to contrast promises with performance.
6. When a firm applies to list its securities (such as shares and debentures) on stock exchanges, SEBI reviews the offer document to make sure that all disclosures made by the company in the offer document have been disclosed.
7. SEBI must review the offer document for any schemes that Mutual Funds want to launch. The method for determining and disclosing the Net Asset Value (NAV) of each Mutual Funds scheme has also been prescribed by SEBI. Investors could assess mutual fund performance with the aid of this. As part of their investment activities, mutual funds are also permitted to underwrite issues. To guarantee adherence to these rules, SEBI conducts routine monitoring of Mutual Funds.

8. SEBI has incorporated merchant banking within its framework for regularity. The SEBI-issued code of conduct for issue pricing and premium determination must be adhered to by merchant bankers.
9. Control over the price and premium of shares to be issued has been lost as a result of the office of the Controller of Capital Issues being abolished. Companies can only approach the capital market, though, after SEBI has given its approval.
10. To ensure fair and accurate disclosures, SEBI has established a code of advertisement for public issues. When releasing information to the public, businesses are expected to disclose all pertinent information and specific risk considerations related to their initiatives.
11. SEBI has published rules for the distribution of new issues. The recommendations state that preferential allocations should be made to the extent of 20% for Mutual Funds, 20% for domestic financial institutions, 24% for international institutional investors, and 10% for employees of the issuer company.
12. The entire public will receive the remaining 25%. However, the small investors asking for up to 1000 shares shall receive 50% of the minimum public offering of 25% of the whole issue. Both categories' unsubscribed portions can be used interchangeably.
13. New guidelines have been established by SEBI for this reason, and the practice of the preferential distribution of shares at prices unconnected to the current market price has been discontinued.
14. The rules for the issuance of bonus shares have been loosened by SEBI.
15. SEBI has established rules governing significant share purchases and takeovers.
16. To create clear regulations for trading on stock exchanges, SEBI outlawed the badla system in December 1993.

17. After becoming registered with SEBI, Foreign Institutional Investors are now able to enter the Indian capital market. By the end of January 1995, SEBI had registered 286 foreign institutional investors.
18. To bring primary and secondary market intermediaries under its regularity framework, SEBI has notified regulations for them.
19. Through the support of the network of depositories, SEBI has undertaken several steps to encourage dematerialized trading in securities. Incorrect deliveries and shares that are false or falsified will no longer be a risk. Without managing real assets, the depositories offer a means for recording ownership information about securities in a book entry form. Dematerialized trading, then, is paperless trading in financial instruments.
20. To reduce share price volatility, SEBI banned the short sale of securities on June 15, 1998. From July 6, 1998, it imposed additional volatility margins (AVM). The daily pricing band was cut in half, from 10% to 8%. The weekly 25% band was eliminated to make way for the graded margin system.
21. Trading in derivatives. The majority of the L.C. Gupta Committee on Derivatives Trading's recommendations have been adopted by SEBI. Derivatives contracts would be regarded as "Securities" under this arrangement. Trading in stock indices and derivatives will give investors a tool for risk management and will increase the liquidity of India's secondary markets.
22. While floating a public issue, SEBI exempted infrastructure firms from several regulations. They would not be required to make a minimum 25% equity public offer, a minimum 90% subscription, or a minimum of five shareholders every Rs. 1 lakh of the offer.
23. SEBI created the rules governing share buybacks by Indian corporations. For capital restructuring, buy-backs are allowed, but not for treasury operations.

24. SEBI has removed the restriction that corporations issue shares at set price values of Rs. 10 and Rs. 100 by allowing companies to choose the par value of the shares they issue.
25. The current SEBI IPO norm has been eased to allow "capacity to pay" in place of "actual payment of dividend," to promote Initial Public Offerings (IPOs).

The effects:

In India's primary and secondary securities markets, SEBI has made an effort to streamline trading procedures and increase transparency. These are essential in the context of the Indian economy's Liberalization, Privatization, and Globalization (LPG). The aforementioned capital market reforms in India would contribute to the development of a robust financial system, assisting in the financing of the expanding private sector in the liberalized economic climate. Since public sector organizations also turn to the capital market rather than the State Exchequer for funding for expansion, these organizations will also benefit from the robust capital market.

The Indian Equity Market is now very transparent and liquid, attracting investors from all over the world thanks to SEBI regulations. In terms of transactions each year, the National Stock Exchange (NSE) is currently the third largest in the world. Outside of the equities market, there hasn't been much development, and the corporate bond market, in particular, hasn't grown much. Due to strong regulatory restrictions on banks and other financial institutions' capacity to participate in corporate bonds, the investor base for these bonds has remained small. It will be challenging for India to become a major financial hub without the expansion of all capital market categories. Additionally, our equities market has a serious flaw. Stock prices are very volatile and risky for small or individual investors because of the rapid changes they undergo.

As a result, retail investors still put their money into established instruments like bonds, post office savings, bank deposits, NSCs, and other traditional commodities like gold and silver. These products are not good enough to offer small investors sufficient profits when yield or return on investment are taken into account after taking inflation and taxation into account. A recent study demonstrates unequivocally that retail investors have been fleeing mutual funds as well as the equity market. Only 3.5 million Indians, out of the country's 321 million working-age population, invest in equities, according to the report.

Only 7.2 million people, or barely 2% of the working population, invest in equities overall, either directly or through mutual funds. In this context, the RBI data also reveals that, compared to 34% in the USA, only 5% of total savings find their way into the securities market, including equities, Gilts, and MF. In our opinion, the issue of high volatility needs to be addressed to entice small investors to invest in corporate equities.

7.3 Foreign Direct Investment (FDI)

When a firm acquires majority ownership in a company in another nation, this is referred to as foreign direct investment (FDI). With FDI, foreign businesses are actively involved in regular operations in the host nation. This indicates that they are contributing more than just money; they are also bringing technology, knowledge, and skills.

An investor establishes international business activities or acquires foreign business assets, including acquiring ownership or controlling a stake in a foreign company, in general.

How FDIs (Foreign Direct Investments) Operate

Companies that are thinking about making a foreign direct investment often only examine open economies with trained labor and above-average growth potential for the investor. The value of minimal government regulation is also common. FDI typically includes non-capital investments as well. It might also entail the provision of management, technology, and tools. The fact that foreign direct investment develops effective control over the foreign company, or at the very least significant influence over its decision-making, is one of its key characteristics.

According to the United Nations Conference on Trade and Development, the COVID-19 epidemic caused a global decline in foreign direct investment in 2020. Investments around the world totaled $859 billion, down from $1.5 trillion the year before. And in 2020, China overtook the U.S. as the biggest investor, luring $163 billion in investment as opposed to $134 billion in the U.S.

Particular Considerations

Opening a subsidiary or associate firm abroad, buying a controlling stake in an existing overseas business, merging with another foreign business, or forming a joint venture are all examples of ways to make foreign direct investments. According to rules established by the Organisation for Economic Co-operation and Development (OECD), a minimum 10% ownership position in a foreign-based company is required for foreign direct investment to create a controlling interest.

That description is open-ended. It is possible to acquire an effective controlling interest in a corporation even if you only own less than 10% of the voting stock.

7.3.1 Foreign direct investment examples:

Mergers, acquisitions, or joint ventures in the retail, service, logistics, or manufacturing sectors may be part of foreign direct investments. They point to a global business expansion plan. They may also encounter regulatory issues. A British chip designer named ARM has been acquired by the American firm Nvidia. The U.K.'s competition authority stated in August 2020 that it will look into whether the $40 billion transaction would lessen competition in sectors dependent on semiconductor chips.

FDI in India and China

An infusion of FDI aimed at China's high-tech industries and services has boosted the country's economy. The government no longer needs to approve 100% of foreign direct investment in single-brand retail in India due to laxer FDI restrictions. According to reports, Apple's aim to create a physical store in the Indian market is made possible by the regulatory decision. The company's iPhones were previously solely offered through independent offline and online stores.

7.3.2 Benefits and Drawbacks Come that come with Foreign Direct Investment (FDI)

1. FDI may promote and maintain economic growth in both the investing nation and the recipient nation.

2. To finance the development of new infrastructure and the creation of jobs for their native workforce, developing nations have promoted FDI.

3. On the other side, global corporations gain from FDI as a way to increase their market share abroad.

However, one drawback of FDI is that it is subject to the scrutiny and regulation of numerous governments, increasing the political risk.

What Kinds of Investments Are Made Abroad Directly (FDI)?

How Do You Define Foreign Direct Investment (FDI)?

The Chinese plan known as One Belt One Road (OBOR) is one of the largest examples of Foreign Direct Investment (FDI) in the world at the moment. This effort, often known as the Belt and Road program, entails China's commitment to significant FDI in several infrastructure projects throughout Africa, Asia, and even some regions of Europe. Typically, the program is supported by Chinese state-owned businesses and other entities with strong ties to the Chinese government. Other countries and international organizations, such as the United States, the European Union, and Japan, run initiatives of a similar nature.

- **Foreign Direct Investment Types (FDI)**

1. **Horizontal Foreign Direct Investment**

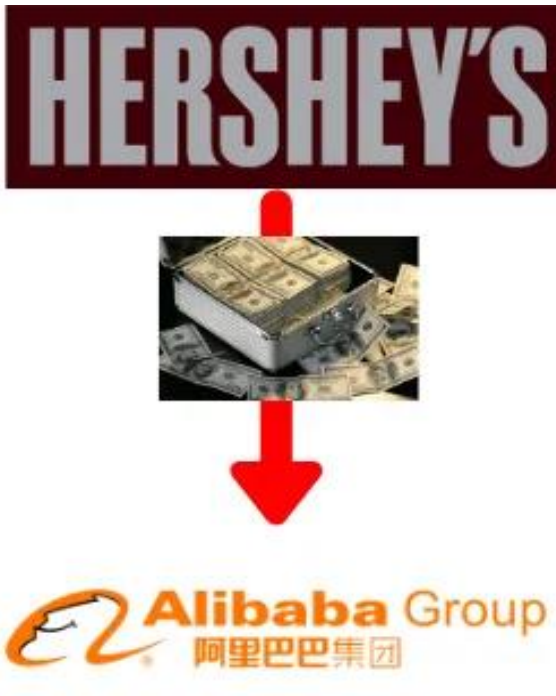
Horizontal FDI refers to funds invested in the same industry abroad. In other words, a company invests in a foreign firm that manufactures similar goods. For example, Nike, a company based in the United States, may acquire Puma, a company based in Germany. They are both in the sportswear industry and thus would be classified as horizontal FDI.

2. **Vertical Foreign Direct Investment**

Vertical FDI is defined as an investment made within the supply chain but not in the same industry. In other words, a company invests in a foreign firm to which it may supply or sell.

For example, Hershey's, a US chocolate company, may consider investing in Brazilian cocoa producers. Because the firm is purchasing a supplier, or potential supplier, in the supply chain, this is known as backwards vertical integration.

Then there's forward vertical integration. In this case, a company invests in a foreign company that is further along in the supply chain. For example, Hershey's may consider purchasing a stake in Alibaba, where it sells its products.



3. **Conglomerates FDI**

Conglomerate FDI is defined as an investment in a completely different industry. In other words, it is not directly related to the investor's business. For example, Walmart, a US retailer, may invest in BMW, a German automaker.

This may appear strange to some, but it allows large corporations to expand and diversify into new markets. To explain, some large corporations reach a point where demand for their core business begins to decline. It must invest in new ventures in order to survive. Even large corporations with high demand may look to new industries with higher growth and returns on investment.

4. **Platform FDI**

The final type of foreign direct investment is platform FDI. In this case, the investor's company expands in a foreign country with the ultimate goal of exporting manufactured goods to a completely different, third country. For example, a North American clothing company may outsource its manufacturing process to a developing Asian country and sell the finished goods in Europe. Thus, the expansion takes place in one foreign country, and the output is transferred to another. This type of FDI is typically seen in free-trade zones and in countries actively seeking FDI. A classic example of this type of FDI and manufacturing process is luxury clothing brands.

Different methods of FDI:

Foreign investors can participate in foreign direct investments in a variety of ways. They can either expand their own operations in a foreign country or acquire voting stock in a company based in another country. Here are a few examples of how FDIs can be used to enter foreign markets:

1. Mergers and acquisitions
2. Purchasing voting stock in a foreign-based corporation
3. Proposing joint ventures with foreign companies
4. Expansion through the establishment of a new subsidiary or branch of a domestic company in a foreign country.

7.4 WTO, Its roles, and functions

The World Trade Organization (WTO), which was established in 1995, is a global organization in charge of regulating international trade. The General Agreement on Tariffs and Trade (GATT), established in 1947 in the wake of World War II, was replaced by it. Most of the world's trade nations have ratified the agreements that form the foundation of the

WTO. The organization's primary goal is to assist exporters, importers, and producers of goods and services in managing and protecting their companies.

The two latest members of the WTO, Liberia, and Afghanistan, joined in July 2016. There are also 25 "observer" nations and governments as of 2021.

KEY LESSONS:

- The World Trade Organization (WTO) regulates international trade laws and settles disputes.
- Globalization has been influenced by the WTO, with both beneficial and detrimental results.
- Large corporations frequently back the WTO because of its favorable effects on global economic expansion.
- According to doubters, it will worsen the wealth divide and harm local workers and communities.

The WTO effectively acts as an alternate conflict or mediation body that respects universal trade agreements. Governments of the organization's members can use the platform it offers to discuss and settle trade disputes with other members. The major goal of the WTO is to develop channels of communication on trade among its members.

Trade between members of the WTO has increased and trade barriers have been lowered. When doing so makes sense from a global perspective, it has also maintained trade barriers. To help the world economy, the WTO makes an effort to settle disputes between governments. The WTO agrees to interpret the agreement in the event of a future dispute once negotiations are finished and an agreement is in place. Every WTO agreement has a dispute resolution procedure that enables it to carry out impartial conflict resolution.

7.4.1 WTO Management

Ngozi Okonjo-Iweala, a former finance minister of Nigeria, was chosen by the WTO's General Council to serve as its director-general on February 15, 2021. She is the first African female to be chosen for the role. On March 1, 2021, she began her four-year term in office.

Without the core WTO agreements, there could be no negotiation, mediation, or resolution. The legal guidelines for international trade, which the WTO regulates, are established by these accords. They impose obligations on a nation's government that must be upheld when formulating future trade policy.

In addition to defending producers, importers, and exporters, the accords push other nations to adhere to a set of social and environmental norms.

7.4.2 Benefits and Drawbacks of the WTO

The WTO has fuelled globalization, which has had both beneficial and detrimental repercussions. The history of international commerce has been a struggle between protectionism and free trade. The organization's activities have accelerated the expansion of international trade. Globalization has unfavorable consequences on local communities and human rights, among other adverse effects.

The WTO's supporters, especially multinational businesses, think the organization is good for business because it encourages free trade and reduces trade disputes, both of which are good for the world economy. Skeptics contend that the WTO erodes basic democratic foundations and deepens the global wealth divide. They highlight the deterioration of home sectors and the rise of foreign influence as hurting the global economy.

When he was president, Donald Trump threatened to leave the WTO, calling it a "failure," as part of his broader efforts to renegotiate U.S. foreign trade agreements. Trillions of dollars in international trade may have been affected had the United States left the WTO. Nevertheless, he did not expel America from the WTO while he was president.

7.4.3 THE FOUR ROLES OF THE WTO: Market regulation and gradual market opening

The WTO's goal is to gradually open markets while making sure that the rules are upheld. The organization was founded at a time when the concept of international peacekeeping was only beginning to take hold after World War II. The General Agreement on Tariffs and Trade, the forerunner of the World Trade Organization, was established in 1947 when several nations chose to open their markets based on shared values (GATT). The WTO is attempting to achieve equitable trade in the ongoing round of trade discussions.

- The WTO serves as a conductor, arbitrator, watchdog, and educator.

1. Conductor of an orchestra

The WTO's members created very specific regulations that control international trade. When trading with other nations, these regulations must be followed. The WTO conducts the orchestra, making sure that the regulations are followed. Although the WTO was established in 1995, the GATT, which was its forerunner, was established in 1947. Since then, these regulations have been modified by WTO members to reflect new developments. For instance, during the 1980s, the sector of services has grown significantly and is currently one of the most significant in the economy.

As a result, the WTO's members created regulations for the trading of services internationally. It takes a cycle of discussions between WTO members to adapt or alter the fundamentals of global trade. The ninth round since 1947, the most recent, was started in 2001.

2. Tribunal

The WTO's primary function is to resolve conflicts amongst its members. Members may submit complaints against other members who disobey the rules of international commerce at the WTO, which serves as a trade tribunal. The resolution of a disagreement involves three steps. The disputing nations initially attempt to resolve their disagreements on their own. If that doesn't work, a panel of three experts decides the matter and makes a decision. The judgment may be challenged. Once a final decision has been made, the losing side must abide by it. If it doesn't, sanctions may be applied. Over 400 complaints have been submitted by WTO members since 1995.

3. Monitor

The trade policies of WTO members are routinely reviewed. These evaluations determine whether WTO members are following WTO regulations and calculate the effect of home policy on global commerce. These reviews' main objective is to stop issues before they start, rather than to solve them.

4. Trainer

The WTO offers training courses for ministry employees and customs agents who work for governments in developing nations. Currently, the WTO invests roughly 35 million Swiss francs yearly in these initiatives. Asia, Latin America, and Africa are the biggest recipients. About 26% of training activities in 2011 were conducted in Africa.

7.4.4 World Trade Organization Functions:

1. Facilitates free trade agreements:

The primary mission of the WTO is trade facilitation. The institution monitors agreements between trading partners to ensure that all countries trade following the trading system's set standards, which include non-discrimination, reciprocity, binding and enforceable obligations, transparency, and safety values. The organization is in charge of over sixty developed WTO agreements, which operate as international legal texts. The Agreement on Agriculture (which controls domestic assistance, market access, and export subsidies), the Information Technology Agreement, and the Agreement on Trade-Related Aspects of Intellectual Property Rights are among these agreements.

2. Provides a forum for negotiations and disputes:

A venue for negotiations and disputes: A global forum for multilateral trade talks is the World Trade Organization (WTO). The WTO provides a forum for the resolution of trade disputes known as the "Understanding on Rules and Procedures Governing the Settlement of Disputes" or WTO dispute procedure. This forum allows each party to present their trade concerns and, ideally, resolve them.

3. Central location for economic studies:

For economists and other experts, the WTO is a center for economic research and study. The organization additionally releases a yearly report on the state of global commerce.

4. Collaborates with other businesses:

The International Monetary Fund (IMF), the World Bank, and the United Nations are just a few of the several economic or international organizations with which the World Trade Organization collaborates closely (UN).

5. Examines national trade policies:

The WTO monitors member nations' trade policies through the "Trade Policy Review Mechanism," which includes assessing any trade-distorting limitations such as safeguards, technical barriers, or import licenses.

6. International trade training for underdeveloped countries:

The organization provides resources to developing and least-developed countries who wish to join, assisting them in engaging in healthy international trade.

7.4.5 A recent conference of WTO:

The World Trade Organization (WTO) just completed its 12th Ministerial Conference.

- The primary debate subjects included the WTO's response to the pandemic, negotiations on, agriculture issues such as public stockholding for food security, fishery subsidies WTO reforms, and a moratorium on customs duties on electronic transmission.

- Following the postponement of Covid-19, the 164-member World Trade Organization conducted its first ministerial conference in nearly five years.

What are the 12th Ministerial Conference's Key Results?

- WTO Reform: Members reaffirmed the WTO's founding values and pledged to an open and inclusive process of reforming all of its activities, from deliberation to negotiation to the process of monitoring.

- Notably, they contracted to work toward having a fully functional dispute resolution system available to all members by 2024.

1. Agreement to Reduce Harmful Fishing Subsidies:

For the next four years, it would limit 'harmful' subsidies to illegal, unreported, and unregulated fishing to better conserve world fish populations.

It was important to get a provision of the proposal that threatened some incentives for small-scale artisanal fishing detached. This agreement would not impose any restrictions on artisanal and traditional farmers.

2. Global Food Security Agreement:

Members agreed to a binding decision to exempt food acquired for humanitarian purposes by the UN World Food Programme (WFP) from any export restrictions. Because of the worldwide food shortages and rising costs caused by the conflict between Ukraine and Russia, the group's members released a statement emphasizing the essentialities of trade in global food security and vowing to escape food export prohibitions.

Therefore to meet domestic food security demands, the countries would, be permitted to restrict food supplies.

3. E-commerce Transactions Agreement:

From 2017 to 2020, developing nations lost about USD 50 billion in impending tariff income on imports of only 49 digital products.

The members of WTO first agreed in 1998, when the internet was still in its early stages, not to levy customs taxes on electronic transmissions. Since then, there was a practice of extending moratorium. The members jointly decided to extend the long-standing ban on customs taxes on e-commerce transmissions until March 31, 2024, or until the next Ministerial Conference or whichever comes first.

4. Agreement on ‘Covid-19’ Vaccine Production:

WTO countries decided to temporarily ignore intellectual property protections on Covid-19 vaccines lacking the approval of the patent owners for 5 years, allowing them to manufacture them more easily domestically.

This "will help to continue efforts to concentrate and diversify vaccine manufacturing capacity so that a crisis in one location does not cut off others."

It is a watered-down version of India and South Africa's original proposal for 2020. They want bigger intellectual property concessions for vaccines, treatments, and in the fiesld of diagnostics.

Rich pharmaceutical corporations had vehemently resisted this, stating that IP does not impede access to Covid medicines and that removing patent rights sends a negative message to researchers who quickly generated life-saving vaccinations.

Advocacy groups opposed the WTO waiver for being too restrictive in scope, as it does not include all medical tools such as diagnostics and therapies. "As it does not sufficiently waive IP on all essential Covid-19 medical equipment and does not apply to all countries, this agreement fails to provide an effective and meaningful solution to help expand people's access to vital medical tools during the pandemic."

What are the issues that India has raised?

WTO Reforms: India believes that WTO reform negotiations should center on strengthening the organization's fundamental principles.

India put forward a proposal in which it took the lead in criticizing the European Union and Brazil's proposals, both on the process and its goals. It was opposed to a never-ending exercise on WTO changes.

1. Transactions in E-commerce:

India had requested that the World Trade Organization (WTO) reconsider the extension of the moratorium on customs charges on e-commerce transactions, which comprise digitally traded goods as well as services. The less developed countries suffer the financial consequences

2. Food Security:

The World Trade Organization must rethink subsidy regulations for government-backed food purchasing programs aimed at feeding the needy in developing and impoverished countries.

India wants reassurance that its state stock-holding program, which buys entirely from the country's farmers and has previously exported, will not be challenged as illegal at the WTO.

WTO Ministerial Conference:

This is the WTO's highest decision-making body, which meets every two years.

The MC includes all WTO members and has the authority to make decisions on any issues covered by multilateral trade

7.5 MNCs

A multinational corporation (MNC) has operations and assets in at least one country other than its own. A multinational corporation typically has offices and/or factories in other countries, as well as a centralized headquarters where worldwide management is coordinated. Some of these corporations, also known as international, stateless, or transnational corporate organizations, may have budgets larger than some tiny countries.

KEY LESSONS

- Corporations with a global reach conduct business in two or more nations.
- MNCs may have a favorable economic impact on the nation in which they conduct business.
- Many people think that the loss of American industrial jobs causes the economy to suffer.
- International trade is regarded as investment diversification.

Some authorities define a multinational firm as any company with a foreign branch; others limit the definition to enterprises that generate at least a quarter of their income outside of their home country. Many global corporations are headquartered in industrialized countries. Multinational proponents claim that multinational corporations create high-paying jobs and technologically advanced commodities in countries that would not otherwise have access to such opportunities or goods. However, critics of big firms argue they wield undue political power over governments, exploit developing countries, and produce employment losses in their own countries.

The history of colonialism and the multinational are intertwined. Many of the early multinationals were commissioned to go on excursions at the whim of European rulers. Some of the first multinational corporations in history were in charge of running many of the colonies that weren't controlled by Spain or Portugal. The British East India Company, which participated in international trade and exploration and ran trading offices in India, was one of the first to emerge in 1600. Other examples include the Hudson's Bay Company, which was established in the 17th century, and the Swedish Africa Company, which was established in 1649.

The vast majority of high-revenue corporations in the United States are global.

Multinational Organizations: Types

There are four types of multinational corporations. They are as follows:

1. A decentralized corporation with a strong local presence.
2. A multinational, centralized corporation that gains a cost advantage where low-priced resources are accessible.
3. A multinational corporation that capitalizes on the parent corporation's R&D.

4. A multinational corporation that employs all three types.

The many types of multinational corporations have slight variations. A transnational, a sort of multinational, might, for instance, have its headquarters in at least two countries and disperse its operations throughout many nations to maximize local reaction. A worldwide corporation that carries out commercial and operational decisions both inside and outside of its headquarters is Nestlé S.A.

Meanwhile, a multinational corporation owns and operates plants in at least two countries. This sort of multinational will participate in foreign investment since it invests directly in host country plants to make an ownership claim, minimizing transaction expenses. Apple Inc. is a significant example of a global corporation because it seeks to optimize cost advantages through foreign investments in international plants.

Advantages and disadvantages of multinational corporations:

There are several benefits to developing foreign operations. A presence in a foreign country, such as India, enables a company to address Indian demand for its product without incurring the transaction costs related with long-distance transportation.

Corporations typically set up shop in markets where their capital is most efficient or wages are the lowest. Multinational corporations lower prices and improve the purchasing power of consumers worldwide by producing the same quality goods at a lower cost. A multinational can take advantage of tax variances by establishing its firm formally in a country with a low tax rate—even if its operations are conducted elsewhere—by establishing operations in several different countries.

The creation of new jobs for the local economy, potential improvements in tax income for the business, and a wider selection of items are some of the other advantages.

The cost of cheaper costs that comes with globalization is that domestic jobs are vulnerable to being outsourced. This implies that having a mobile or adaptable labor force is crucial for an economy to prevent long-term unemployment from being caused by changes in the general state of the economy. In this regard, sustaining a flexible, adaptive workforce depends on education and the development of new skills in line with developing technologies.

Those who oppose multinational firms argue that they allow corporations to build monopolies (for certain products), raise consumer prices, restrict competition, and impede innovation. They are also considered to harm the environment since their operations promote land development .

The entry of multinational corporations into a host country's economy may also result in the demise of smaller, local enterprises. Activists have frequently charged that multinational corporations violate ethical standards, accusing them of skirting ethical regulations and exploiting wealth to advance their corporate objectives.

What Qualifies a Company as Multinational?

A multinational corporation (MNC) is a company that operates in two or more countries. These businesses are frequently controlled by and have a central office located in their native nation, but have offices all around the world. Simply exporting items to be sold in other countries does not qualify a corporation as a multinational.

What Makes a Business Want to Go Global?

A business could aim to become an MNC to expand its clientele globally and boost its market share internationally. Growth and profit are consequently the main objectives. Companies could seek to promote their products in ways that are altered or specially designed for certain international cultural sensibilities. MNCs might also profit from certain tax or regulatory systems that can be found abroad.

What are some of the risks that multinational corporations face?

MNCs face risks relating to the many countries and regions in which they operate. These can include regulatory or legal risks, political instability, criminality or violence, cultural sensitivity, and currency exchange rate volatility. People in the home country may also be resentful of MNCs that outsource work to other countries.

List of Indian Multinational Corporations

1. Microsoft
2. Apple
3. LTI
4. Deloitte
5. The Coca-Cola Company
6. TCS
7. Accenture
8. IBM
9. Capgemini
10. Adidas

7.6 International institutions: World Bank and IMF

7.6.1 World Bank:

The World Bank, or World Bank Group, is an international organization linked with the United Nations (UN) that finances programs that help member countries' economic development. The World Bank, headquartered in Washington, D.C., is the greatest source of financial aid to poor countries. It also provides technical support and policy advice, as well as oversees the implementation of free-market reforms on behalf of international creditors. It collaborates with the International Monetary Fund (IMF) and the World Trade Organization to oversee economic policies, restructure public institutions in developing nations, and define the global macroeconomic agenda.

The World Bank has defined 17 goals that it hopes to fulfill by 2030 as 2022. Their goal statement states the top two. The first goal is to reduce the number of people living on less than $1.90 per day to less than 3% of the global population. The second goal is to boost overall prosperity by raising income growth in the poorest 40% of every country on the planet.

KEY LESSONS

1. The World Bank is identified as an international organization that helps poor countries progress their economies by providing money, advice, and research.
2. The World Bank and the International Monetary Fund (IMF), established concurrently under the Bretton Woods Agreement, seek to serve international governments.
3. The World Bank has evolved into the World Bank Group, which includes five cooperative institutions known as the World Bank.
4. The World Bank Group gives a wide range of exclusive financial assistance, goods, and solutions to international governments, as well as research-based thought leadership to the global economy as a whole.
5. The World Bank's Human Capital Project aims to assist nations in investing in and developing their human capital to create a better society and economy.

The World Bank gives both financial and technical assistance to governments all over the world. The bank sees itself as a one-of-a-kind financial institution that creates partnerships to alleviate poverty and promote economic development.

The World Bank provides qualifying countries with low-interest loans, zero-interest credits, and grants to help individual economies thrive. Debt borrowings and cash infusions aid global education, healthcare, governmental administration, infrastructure development, and private-sector development. Through policy guidance, research and analysis, the World Bank also exchanges information with diverse entities. It provides both public and private sector guidance and training.

Examples of World Bank Activities:

The World Bank offers developing countries with finance, guidance, and other resources in the fields of education, public safety, health, and other critical needs. Nations, organizations, and other entities frequently collaborate with the World Bank to fund development projects.

Origins

The World Bank was established in the year 1944 during the United Nations Monetary and Financial Conference (commonly known as the Bretton Woods Conference) to construct a new post-World War II international economic structure. It officially commenced operations in June 1946. Its initial loans were aimed toward postwar reconstruction in Western Europe. Beginning in the mid-1950s, it played a significant role in financing investments in developing-country infrastructure projects such as roads, hydroelectric dams, water and sewage systems, marine ports, and airports.

The World Bank Group is made up of five institutions: the International Bank for Reconstruction and Development (IBRD), the International Development Association (IDA), the International Finance Corporation (IFC), the Multilateral Investment Guarantee Agency (MIGA), and the International Centre for the Settlement of Investment Disputes (ICSID). The IBRD makes loans to middle-income developing nations and creditworthy lower-income countries at market interest rates. The IDA, established in 1960, provides low-income developing nations with interest-free long-term loans, technical aid, and policy guidance in sectors such as health, education, and rural development. Unlike the IBRD, which raises the majority of its funding on global capital markets, the IDA's loan operations are funded through contributions from rich countries.

The IFC, in collaboration with the private investors, provides loans, loan guarantees, and equity funding to businesses in developing nations. The MIGA provides loan guarantees and insurance to international investors against losses caused by non-commercial hazards in developing countries. Finally, the ICSID, which functions independently of the IBRD, is in charge of resolving investment disputes between international investors and their host developing nations through conciliation or arbitration.

Former US Secretary of Defense Robert S. McNamara presided over the World Bank from 1968 to 1981. Under his direction, the bank developed the concept of "sustainable development," which sought to balance economic expansion and environmental conservation in developing countries. Another aspect of the concept was the utilization of capital flows (in the form of development assistance and foreign investment) to developing countries to close the income gap between affluent and poor countries. The bank has extended its lending activities and evolved into a powerful and authoritative international agency, thanks to its multiple research and policy sections.

Brief description of 5 institution groups that make up the World Bank:

1. International Bank for Reconstruction and Development (IBRD)

Following World War II, the International Bank for Reconstruction and Development expanded its mandate to include fostering global economic growth and eradicating poverty. Only sovereign governments or projects backed by sovereign governments are funded directly by the Bank. The IBRD now focuses its services on middle-income nations, defined as countries with per capita incomes ranging from $1,026 to $12,475 per year. These countries, such as Indonesia, India, and Thailand, frequently have fast-growing economies that attract significant foreign investment and huge infrastructure construction projects.

At the same time, while the advantages of economic progress are unevenly spread across their populations, middle-income countries are home to 70% of the world's impoverished.

2. International Finance Corporation (IFC) :

The IFC is the world's largest development organization focused only on the private sector in developing countries. The Bank Group has set two global goals for 2030: to reduce extreme poverty and foster shared prosperity in all countries. It is a private-sector subsidiary of the World Bank Group that invests in for-profit and commercial initiatives to alleviate poverty and promote development. IFC is also a key mobilizer of third-party project resources.

3. International Development Association (IDA):

IDA is a World Bank subsidiary that assists the world's poorest countries. IDA, which is overseen by 173 shareholder countries, strives to eliminate poverty by providing loans (known as "credits") and grants for initiatives that promote economic growth, reduce disparities, and enhance people's living conditions. IDA is one of the world's 75 poorest countries, 39 of which are in Africa, and is the single largest source of donor contributions for basic social services in these countries. IDA funds a variety of development initiatives that promote equity, economic growth, job creation, greater salaries, and improved living conditions. IDA's work includes elementary education, basic health services, clean water and sanitation, agriculture, improved business climate, infrastructure, and so on.

4. International Centre for Dispute Settlement in Investment Matters (ICSID):

The Convention on the Settlement of Investment Disputes between the Nationals of Other States founded ICSID in 1966 and States. (the ICSID Convention). The ICSID Convention is a multilateral instrument drafted by the World Bank's Executive Directors to support the Bank's goal of stimulating international investment.

Most international investment treaties, and several investment legislation and contracts, have agreed on ICSID as a forum for investor-State dispute settlement. Bilateral investment treaties (BITs) are increasing, and many of them include language referring to current and prospective investment disputes with the ICSID. ICSID provides for the resolution of disputes through conciliation, arbitration, or fact-finding.

5. Agency for Multilateral Investment Guarantees (MIGA)

MIGA is a World Bank Group member with the mission of encouraging cross-border investment in poor countries by offering guarantees (political risk insurance and credit enhancement) to investors and lenders.

MIGA was established to supplement public and private sources of investment insurance in developing countries against non-commercial risks (currency inconvertibility and transfer restrictions; government expropriation; war, terrorism, and civil disturbance; breach of contract; and non-payment of financial obligations). MIGA's basic goal was outlined in a convention submitted to the IBRD Board of Governors in 1985, which led to MIGA becoming the World Bank Group's newest member in 1988. The MIGA Council of Governors has the primary authority to change the Convention.

Organization

The World Bank is affiliated with the United Nations, but it is not accountable to either the General Assembly or the Security Council. The board of governors, that meets once a year, is made up of representatives from each of the banks in more than 180 member countries. The governors are usually the finance ministers or central bank governors of their respective countries. The bank's 25 executive directors have the majority of decision-making power. The United States, Japan, Germany, the United Kingdom, and France each appoint their executive directors. The remaining countries are divided into regions, each of which chooses one executive director.

The World Bank's president, who also serves as chairman of the Executive Board, has always been an American citizen.

The voting power of a country is determined by its capital subscription, which is determined by its economic resources. Wealthier and more developed countries own the majority of the bank and hence wield greater power and influence. In the early twenty-first century, the United States held nearly one-sixth of the votes in the IBRD, more than doubling that of Japan, the second greatest contributor.

Because developing nations have a small number of votes, the system does not provide them a strong voice, even though they are the principal receivers of World Bank financing and policy assistance. The bank's funds are raised by capital subscriptions from member countries, bond issuances on global capital markets, and net revenues from interest payments on IBRD and IFC loans. One-tenth of the subscribed capital is paid immediately to the bank, with the remaining subject to call if obligations are not met. The World Bank employs around 10,000 individuals, roughly one-fourth of whom are stationed in poor nations.

The bank has over 100 offices in member nations, and staff employees many of them act directly as policy advisers to the ministries of finance and other ministries. The bank maintains consultative and informal ties with the world's financial markets and institutions, as well as with non-profit organizations in both developed and developing countries.

Debt and policy reform:

The early 1980s debt crisis, in which many developing countries were unable to service their external debt to multilateral lending institutions due to a slowing global economy, high-interest rates, a decline in commodity prices, and wide fluctuations in oil prices, among other factors, played a critical role in the evolution of World Bank operations. The bank had gotten more involved in defining economic and social policies in debt-ridden emerging countries. Borrowing countries were obliged to adopt harsh "structural adjustment programs," which often included severe cuts in health and education spending, the abolition of price controls, trade liberalization, banking sector deregulation, and the privatization of state-owned firms. Although intended to restore economic stability, these policies, which were implemented in a wide number of developing nations, frequently resulted in greater poverty, mounting unemployment, and spiraling external debt. Following the debt crisis, the World Bank prioritized financial assistance in the form of balance-of-payments support and loans for infrastructure projects such as roads, port facilities, schools, and hospitals. Despite prioritizing poverty reduction and debt relief for the world's least developed countries, the bank has maintained its commitment to economic stabilization policies that require recipient countries to implement austerity measures.

Following the fall of communism in Eastern and Central Europe in the 1980s and 1990s, the World Bank and the IMF played critical roles in overseeing free-market reforms. The reforms, which included the establishment of bankruptcy and privatization programs, were contentious since they usually resulted in the closure of state-owned firms. "Exit mechanisms" were put in place to allow for the liquidation of so-called "problem enterprises," and labor rules were changed to allow businesses to lay off superfluous personnel. Larger state corporations were frequently sold to foreign investors or separated into smaller, privately controlled firms.

In Hungary, for example, almost 17,000 firms were dissolved and 5,000 were reformed in 1992-1993, resulting in a significant increase in unemployment. In addition, the World Bank provided reconstruction loans to nations that experienced internal conflicts or other disasters (e.g., the successor republics of former Yugoslavia in the late 1990s). However, this financial aid did not result in the rehabilitation of productive infrastructure. Macroeconomic reforms in some nations have resulted in rising inflation and a significant decrease in living standards.

As the world's largest multilateral creditor institution, the World Bank owes huge quantities of money to many of the world's poorest countries. Indeed, for dozens of the poorest countries, the World Bank and multilateral, regional development banks hold the lion's share of their external debt—in some cases, more than half of it. According to some observers, the burden of these debts, which cannot be canceled or rescheduled under the bank's regulations, has perpetuated economic stagnation throughout the developing world.

Human Capital Initiative by World Bank:

The World Bank established the Human Capital Project in 2017 to assist nations in investing in and developing their people so that they may be productive citizens and active contributors to their economies. Leaders throughout the world are being urged to prioritize investments in education, healthcare, and social protections to build a stronger economy full of healthy, thriving individuals.

To mention a few, the Human Capital initiative describes how governments can invest in providing quality, affordable childcare to promote and improve child development, expand women's access to better career prospects, and boost economic growth.

The World Bank has detected several areas of focus for building human capital globally: the Human Capital Index (HCI), measurement and research, and national engagement.

The Human Capital Index, which was launched in October 2018, quantifies a country's investments in human capital, specifically in health and education. The index is intended to detect what is lost due to a lack of human capital investments; it also pushes executives to consider how to address these shortfalls.

The World Bank assesses the performance of a country's educational and healthcare systems in addition to human capital. This allows them to determine what should be kept and what should be modified. It can also guide where to devote resources.

Country participation necessitates a "whole-government" strategy to tackle challenges that jeopardize human capital. The nation, its leaders, and influencers unite to advocate for poverty reduction and increased shared prosperity.

7.6.2 India and the World Bank Group:

India is regarded as one of the original forty-four signatories to the Bretton Woods agreements that established the International Bank for Reconstruction and Development (IBRD) and the International Monetary Fund (IMF). In addition, it was a founder member of the IFC in 1956 and the IDA in 1960. In January 1994, India turn out to be a member of the MIGA. India is not an ICSID member. India alleged that the ICSID Convention is unjust since its arbitration rules favor wealthier countries. The Chairman of ICSID is also the Chairman of the World Bank. The arbitrators are appointed by the Chairman.

If the arbitration award is not satisfactory, the aggrieved party may appeal to a panel, which will be appointed by the ICSID as well. Even if the award is against the public interest, there is no way for an Indian court to examine it.

IBRD lending to India began in 1949 with a loan to the Indian railways; the IFC made its first investment in India in 1959, and IDA in 1961The IBRD was India's sole source of World Bank borrowings during the 1950s. By the end of the decade, India's rising debt troubles had played a significant role in the establishment of the IDA, the World Bank (WB) group's soft credit affiliate.

By the end of the 1960s, the United States, India's largest source of external resources until then, had drastically reduced its bilateral aid program. Since then, the World Bank has emerged as the primary provider of official long-term credit.

During the 1960s and 1970s, the IDA accounted for about three-quarters of all World Bank lending to India, and India was by far the largest beneficiary of IDA funds, accounting for more than two-fifths of all credit. The succeeding decade saw a steep fall in India's share of IDA, with China joining the WB in 1980 and thereby entering its claims to restricted IDA resources, Africa's worsening economic fortunes, and India's stronger performance.

Instead, its proportion of IBRD loans increased dramatically in the 1980s, bolstered by its rising creditworthiness and the Indian government's easing restrictions on non-concessional borrowing.

While the World Bank switched its attention to emphasizing policy reforms and increased economic liberalization throughout the 1980s, it continued to lend to poorly controlled public sector organizations in India and was more circumspect in its criticism of India's closed economy.

Following the 1991 macroeconomic crisis, the loan portfolio underwent significant changes. In the immediate aftermath, India was one of the last significant World Bank borrowers to participate in structural adjustment funding, which aided policy reforms in finance, taxation, and the investment and trade system.

India is currently categorized as a "blend" country, defined as one in transition from lower to middle income, and is creditworthy for IDA and IBRD lending. The World Bank's largest IBRD client is India. Between 2015 and 2018, the World Bank lent India approximately $10.2 billion. For the period 2019-22, the World Bank Group (WBG) has authorized a $25-30 billion commitment plan for India. MIGA Performance Standards are environmental and social standards that aid in the planning and implementation of long-term projects. One alternative for the Indian market is a breach of contract insurance, which MIGA would provide to investors. If the government fails to meet its obligations under the contract, MIGA can come in and cover the risk of investment.

Reforms at the World Bank:

Some critics have pointed out that the World Bank, under the guise of its "Structural Adjustment Programme" (SAP), serves the purpose of World Capitalism and is still dominated by affluent countries. SAP is a series of "free market" economic policy reforms enforced by the World Bank on developing countries as a condition for receiving loans. It is believed that SAP policies have widened the divide between affluent and poor on a local and global scale. The world's growing new economic powers, particularly India and China, as well as certain other Asian and Latin American countries, should be given their proper place and role.

The debate over leadership succession should be used to create space for reflection on the multilateral body's purpose, the substantive role it should play in the future, the need to strengthen inclusive multilateralism, and the actions required to strengthen the position of emerging economies and developing countries.

If the World Bank fails to adapt to the changing world order, emerging economies may go their own way.

For example, China's establishment of the Asia Infrastructure Investment Bank (AIIB).

This would represent the growth of multipolarity without multilateralism, creating an environment of competing interests and values among a broad set of countries.

Deep World Bank reforms are required to rethink the current world order and provide emerging powers and developing countries a genuine voice in this institution.

7.6.3 IMF:

The Worldwide Monetary Fund (IMF) is a United Nations (UN) specialized organization that was established in 1944 at the Bretton Woods Conference to assure international monetary cooperation, stabilize currency exchange rates, and increase international liquidity (access to hard currencies). Member country quotas are a major driver of voting power in IMF decisions. Votes consist of one vote for every 100,000 SDR of quota plus basic votes. SDRs are an international sort of monetary reserve currency issued by the IMF to bolster member countries' existing money reserves.

KEY LESSONS

1. The IMF's objective is to promote global economic growth and financial stability, boost international trade, and alleviate global poverty.

2. The IMF was founded in 1945 as part of the Bretton Woods agreement, which sought to promote international financial cooperation by instituting a system of convertible currencies with set exchange rates.

3. The IMF analyzes large amounts of data on national economies, international commerce, and the global economy as a whole and then makes economic forecasts based on that data.

4. One of the most significant functions of the IMF is to make loans to nations in economic hardship to avert or ameliorate financial catastrophes.

Origins

The first half of the twentieth century was distinguished by two world wars that inflicted massive physical and economic destruction in Europe, as well as a Great Depression that devastated both Europe and the United States. These events fueled a desire to establish a new international monetary system that would stabilize currency exchange rates without relying entirely on gold; reduce the frequency and severity of balance-of-payments deficits (which occur when a country loses more foreign currency than it gains), and remove destructive mercantilist trade policies such as competitive devaluations and foreign exchange restrictions—all while substantially preserving each.

In July 1944, the United Nations Monetary and Financial Conference convened in Bretton Woods, New Hampshire, United States. Delegates from 44 countries prepared the Articles of Agreement for a planned International Monetary Fund to oversee the new global monetary system. The new Bretton Woods monetary regime's architects sought to foster global trade, investment, and economic growth by keeping convertible currencies at stable exchange rates. Countries with transitory, moderate balance-of-payments deficits were expected to fund them by borrowing foreign currency from the IMF rather than adopting exchange controls, devaluations, or deflationary economic policies that could transfer their economic woes to other countries.

The Articles of Agreement come into force on December 27, 1945, after being ratified by 29 countries. The next year, the fund's board of governors met in Savannah, Georgia, to enact bylaws and elect the IMF's first executive directors. The governors opted to establish the organization's permanent headquarters in Washington, D.C., where the organization's 12 founding executive directors convened for the first time in May 1946. The following year, the IMF's financial operations began.

Organization

The IMF is led by a board of governors, each representing one of the organization's roughly 180 member countries. The governors, who are usually the finance ministers or central bank directors of their respective nations, attend yearly IMF meetings to discuss IMF matters. The day-to-day activities of the fund are overseen by an executive board of 24 executive directors who meet at least three times per week. Eight directors represent particular countries (China, France, Germany, Japan, Russia, Saudi Arabia, the United Kingdom, and the United States), while the remaining 16 directors represent the fund's remaining members, which are divided into world regions.

The executive board rarely holds formal voting because it makes most decisions by consensus. The board is chaired by a managing director, who is appointed by the board for a five-year term and oversees the fund's staff of around 2,700 people from over 140 countries. The managing director is traditionally a European and not an American. Christine Lagarde of France was named as the first female managing director in June 2011.

Each member makes a monetary contribution known as a quota subscription. Quotas are evaluated every five years and are determined by each country's income and economic performance; the wealthier the country, the higher its quota. The quotas create a pool of loanable funds and govern how much money each member can borrow as well as how much voting power they have. For example, the United States contributes the most to the IMF (about $83 billion), accounting for approximately 17 percent of overall quotas. As a result, the United States obtains around 17% of the total votes cast on both the board of governors and the executive board. The Group of Eight (Canada, France, Germany, Italy, Japan, Russia, the United Kingdom, and the United States) controls roughly half of the overall votes in the fund.

Operation:

Since its inception, the IMF's primary activities have been currency exchange rate stabilization, financing member countries' short-term balance-of-payments deficits, and providing advice and technical assistance to borrowing countries.

Currency exchange rate stability:

The IMF oversaw a modified gold standard system of pegged, or stable, currency exchange rates under the original Articles of Agreement. Each member stated a value for its currency about the US dollar, and the US Treasury responded by committing to buy and sell gold to foreign nations at $35 per ounce. A country's currency rate could fluctuate by just 1% above or below its proclaimed value. To avoid competitive devaluations, the IMF approved currency rate moves of more than 1% only for nations in "fundamental balance-of-payments imbalance," and only after consultation with and approval from the fund. In August 1971, US President Richard Nixon abolished the fixed exchange rate arrangement by refusing to sell gold to other governments at the agreed-upon price. Since then, each member has been given the option of determining its exchange rate: a free float, in which the exchange rate of a country's currency is determined by the supply and demand for that currency on international currency markets; a managed float, in which a country's monetary officials will occasionally intervene in international currency markets to buy or sell its currency to influence short-term exchange rates; and a pegged exchange arrangement, in which a country's monetary officials pledge to tie their currency's exchange rate to another currency's exchange rate. The IMF turned its attention to lending money to developing countries after losing its ability to regulate currency exchange rates.

1. Balance-of-payments shortfall financing:

   Members with balance-of-payments deficits may borrow amount in foreign currencies, which they must repay with interest, by purchasing foreign currencies held by the IMF with their currencies. Each member may borrow up to 25% of its quota immediately in this manner. The purchase amounts are denominated in Special Drawing Rights (SDRs), the value of which is computed daily as a weighted average of four currencies: the US dollar, the euro, the Japanese yen, and the British pound sterling.

   SDRs are an international reserve asset introduced by the International Monetary Fund (IMF) in 1969 to enhance members' existing reserve assets of foreign currencies and gold. Countries use the SDRs assigned to them by the IMF to satisfy international debts. From 1969 through 1981, members received more than 20 billion SDRs in successive allocations. SDRs are not included in the quota subscriptions provided by members, and so are not included in the general asset pool accessible for loans to members. The SDR is the IMF's unit of account for all transactions. Drawing on the IMF increases the fund's holdings in that country's currency while decreasing its holdings of another country's currency by the same amount.

   As a result, the composition of the fund's resources varies, but the total resources in SDRs stay constant. The country repays the loan over a set period (typically three to five years) by repurchasing its national currency with IMF-accepted member currencies. During a typical year, only approximately 20 currencies are borrowed, with the majority of borrowers swapping their currency for the big convertible currencies: the US dollar, the Japanese yen, the euro, and the British pound sterling. Countries whose currencies are borrowed by other member states are compensated—roughly 4% of the amount borrowed.

Additional loans are available for members who are experiencing financial difficulties and need to borrow more than 25% of their quotas. To determine the amount of the loan and the macroeconomic adjustments and structural reforms required to reestablish the country's balance-of-payments equilibrium, the IMF employs an analytic framework known as financial programming, which was first fully developed by IMF staff economist Jacques Polak in 1957.

For these loans, the IMF has several financing programs or facilities, including a standby arrangement, which provides short-term assistance to countries experiencing temporary or cyclical balance-of-payments deficits; an extended-fund facility, which supports medium-term relief; a supplemental-reserve facility, which provides loans in cases of extraordinary short-term deficits; and, since 1987, a poverty-reduction and growth facility. Each facility has a different access restriction, disbursement method, maturity structure, and repayment timeline. An upper-credit tranche arrangement is a common IMF loan that has an annual access limit of 100 percent of a member's quota, quarterly disbursements, a one- to three-year maturity structure, and a three- to five-year repayment schedule.

Every country that borrows from an IMF funding facility pays the same interest rate. Annual interest charges on loans are normally around 4.5 percent.

Each of these loans is accompanied by a "letter of intent" outlining the macroeconomic adjustments and structural reforms that the IMF requires as a condition for assistance. Since 1968, loan terms, or "conditionality," have been explicitly authorized by the Articles of Agreement.

Borrowing governments are typically required to reduce budget deficits and rates of money growth; eliminate monopolies, price controls, interest rate ceilings, and subsidies; deregulate specific industries, particularly the banking sector; lower tariffs and eliminate quotas; remove export barriers; maintain adequate international currency reserves, and devalue their currencies if they face fundamental balance-of-payments deficits.

These changes are intended to cut imports while increasing exports, allowing the country to earn enough foreign currency in the future to cover its foreign debts, including the newly incurred IMF debt. Most lending programs establish quarterly targets for key economic factors, which must be satisfied to receive the next loan instalment.

2. Providing advice to borrowing governments

   The IMF interacts with each member government on an annual basis. The IMF uses these interactions, known as "Article IV Consultations," to analyze each country's economic health and to prevent future financial issues. The fund also runs the IMF Institute, a department that trains officials from member nations in macroeconomic analysis and policy formulation.

3. Surveillance:

   The International Monetary Fund collects large volumes of data on national economies, international trade, and the global economy as a whole. The group also gives frequent updates on national and worldwide economic forecasts. These estimates are supplemented by comprehensive analyses of the impact of fiscal, monetary, and trade policy on growth prospects and financial stability, which are published in the World Economic Outlook.

7.7 Difference Between the IMF and the World Bank

The following are the primary distinctions between the IMF and the World Bank:

1. The International Monetary Fund is in charge of the global monetary system. The World Bank is a multilateral financial institution.
2. The IMF prioritizes economic stability, whereas the World Bank prioritizes developing-country economic growth.
3. The World Bank is more than three times greater in size than the International Monetary Fund.
4. The World Bank is a bilateral organization, but the International Monetary Entity is a unitary organization.
5. The IMF currently has 188 member countries, whereas the World Bank has 188 member countries of IBRD and 172 member countries of IDA.
6. The International Monetary Fund was established to provide guidance and support. The World Bank, on the other hand, was established to facilitate lending.
7. The IMF's main goal is to deal with issues concerning the financial sector and macroeconomics. The World Bank, on the other hand, exists to alleviate poverty and promote economic development.

7.8 Criticism and discussion:

The impact of IMF loans has been extensively discussed. Opponents of the IMF believe that the loans allow member nations to adopt risky domestic economic policies in the knowledge that the IMF will bail them out if necessary. Critics claim that this safety net stalls important reforms and encourages long-term dependency. Opponents further claim that the IMF bails out foreign lenders that have made poor loans, pushing them to authorize increasingly risky international projects.

The IMF's conditions have also been hotly contested. Critics argue that IMF policy recommendations give uniform solutions that are insufficiently customized to each country's specific circumstances. These conventional, harsh loan terms impede economic growth while deepening and extending financial crises, causing significant misery for the poorest people in borrowing countries and growing local antagonism to the IMF.

In conclusion:

The IMF seeks to alleviate poverty, boost trade, and ensure global financial stability and economic progress. This is accomplished through the monitoring of capacity building and the provision of loans. While the IMF is now working on these objectives with its 190 member countries, the agency has been chastised for the potentially detrimental consequences of its structural adjustment plans.

7.9 Trading blocs

Countries can "guard" their economies from outside competition in a variety of ways. One method is to use trading blocs. A trading bloc is a type of intergovernmental agreement, often part of a regional intergovernmental organization, in which regional barriers to international trade (tariffs and non-tariff barriers) are reduced or eliminated among participating states, allowing them to trade as easily as possible with one another. The premise is that member countries freely trade with one another but erect trade barriers with non-members, which has had a considerable impact on world trade patterns.

International trade agreements can provide exporters with new opportunities. They can also ensure access to low-cost imports from other countries.

As a result of the exceptional deepening of economic life internationalization in the second half of the twentieth century, two major tendencies that influence the present development of the world economy - globalization and regional integration - emerged.

The variety of integration models enables the majority of countries, regardless of their global position, capabilities, or level of development, to seek and find their place in these processes.

The increased interdependence of countries' economies as a result of international, regional integration and globalization of foreign economic connections provides a tremendous push to the development of economic systems at the state, regional, and global levels. The establishment of trading blocs is one of the outcomes of these factors.

Trade blocs typically have their own administrative and regulatory agencies. Some trading blocs also have political objectives. The goal of trade blocs is to free commerce from protectionist measures and to provide an enabling environment for members to trade with one another.

The World Trade Organization (WTO) allows trading blocs to remain as long as they give less protection against foreign countries than existed before the formation of the trading bloc. The trading bloc, like any other sort of integration process, has advantages and disadvantages.

What are some good examples?

The most well-known European trading blocs are:

1. The European Union is abbreviated as the EU-This is Europe's most important trade bloc. The EU as a whole is one of the world's largest exporters, with about two-thirds of overall EU trade done with other EU nations.
2. EFTA - European Free Trade Association, comprising Iceland, Liechtenstein, Norway, and Switzerland as members.
3. EEA - The European Economic Area, which includes EU members as well as the three EFTA countries of Iceland, Norway, and Liechtenstein.
4. CEFTA - The Central European Free Trade Agreement, which includes Albania, Bosnia and Herzegovina, Croatia, the Former Yugoslav Republic of Macedonia, Moldova, Montenegro, Serbia, and the United Nations Mission in Kosovo

Other international trade blocs include as follows:

1. NAFTA (North American Free Trade Agreement) is a trade agreement that includes Canada, the United States of America, and Mexico.
2. MERCOSUR -Argentina, Brazil, Paraguay, Uruguay, and Venezuela are full members of MERCOSUR; Bolivia, Chile, Colombia, Ecuador, and Peru are associate members, with Bolivia becoming an accessing member in December 2012.

The Benefits of the Trading Bloc:

- Within the bloc, there is free trade. Members of the bloc have unfettered access to each other's markets, allowing them to specialize not only regionally but also state-wide.
- Market entry and trade creation Members' trade is projected to increase as they get easier access to each other's markets. The formation of trade conditions occurs when free trade facilitates the replacement of expensive domestic goods with cheaper and more efficient foreign commodities. Because low-cost imports lead to lower-priced imports, there is a consumption effect, with lower costs resulting in higher demand.
- It is connected with the change in the value of a unit of production as a result of the firm's production scale. Long-term consideration Economies of scale refer to lowering the cost per unit of output through manufacturing consolidation.
- Economies of scale can benefit producers, resulting in cheaper costs and lower prices for consumers. Increased trade among member countries generates new job opportunities.
- Local enterprises within the bloc are shielded from cheaper imports from outside, such as the EU shoe sector from cheap imports from China and Vietnam.

The trading bloc's disadvantages

- The benefits of free trade between countries in different blocs are lost.
- Trade blocs have the potential to distort global trade and limit the benefits of specialization and comparative advantage. Within the bloc, inefficient manufacturers can be shielded from more efficient producers outside the bloc. Inefficient European farmers, for example, may be shielded from low-cost imports from underdeveloped countries. Trade diversion occurs when trade is diverted away from efficient producers located outside of the trading zone.

- The growth of one regional trading bloc is likely to spur the growth of others. This can result in trade conflicts, such as those between the EU and NAFTA, as well as the latest Boeing (US)/Airbus (EU) disagreement.

7.9.1 Different types of trading blocs

1. PTAs emerge when governments within a geographical region agree to lower or abolish tariff barriers on certain goods imported from other countries in the territory. This is frequently the first tiny step toward forming a commercial bloc.
2. A free trade zone (FTZ) is a sort of international integration in which participating nations remove customs duties, taxes, and fees and quantitative limits on mutual trade in line with an international Treaty. This is a more comprehensive kind of integration than preferential agreements.
3. Each country-member preserves the ability to set its trade regime concerning third parties. In most circumstances, the free trade zone's terms apply to all goods except agricultural products. For instance, the North American Free Trade Agreement (NAFTA) between the United States, Canada, and Mexico.
4. Customs Union, CU – an agreement between two or more states (a type of interstate pact) to eliminate customs taxes in bilateral trade, a sort of collective protectionism from third countries. The Customs Union also calls for the establishment of a "one customs territory." The Eurasian Economic Union is an excellent example of CU (EAEU).
5. A common market (or single market) is the first critical step toward full economic integration, and it emerges when member countries freely trade all economic resources, not only tangible goods.
6. This means that all trade obstacles in products, services, capital, and labor have been abolished. Non-tariff obstacles are also being decreased and abolished in tandem with tariff elimination.
7. To be successful, the common market must also have a high level of harmonization of microeconomic policies and General laws on monopolistic power and other anti-competitive conduct. There may also be similar strategies affecting significant industries, such as the European Union's common agriculture policy (CAP) and common fisheries policy (CFP) (ESM). Southern Common Market, for example (Mercosur).

7.10 Summary:

- Financial institutions are organizations that help individuals and businesses meet their monetary or financial needs by depositing, investing, or managing money.
- Banks, investment firms, trusts, brokerage ventures, insurance companies, and other institutions fall into this category.
- Above discussed, all financial institutions aid in country overall growth by enhancing the monetary flow through these institutions.
- The trade bloc is a free trade zone comprised of numerous countries that have agreed to one or more tax, tariff, and trade accords.
- In recent decades, against the backdrop of expanding globalization, the processes of international economic integration have evolved dramatically and taken on new characteristics.
- As a result of this process, a wide range of trade blocs emerged, as well as the strengthening of integration associations.
- State membership in a trade bloc has its own set of advantages and disadvantages that affect the state's economy.

7.11 MCQ

1. ______ serves as a link between savings and borrowers and aids in the formation of a link between savers and investors

a) Marketing

b) The financial market

c) capital market

d) None of the above

2. Which of the following is a financial market function?

a) Facilitate price discovery

b) Reduce the cost of transaction

c) Provide liquidity to financing asset

d) All of the preceding

3. What was the name of the first commercial bank established by Indians in 1881?

a) Indian Imperial Bank
b) Oudh Commercial Bank
c) The Reserve Bank of India (RBI)
d) Indian State Bank

4. Foreign direct investment consists of.

a) Intellectual property
b) Human capital
c) Physical goods
d) Intangible assets

5. The World Trade Organization is a.

a) Permanent Establishment
b) Multilateral Treaty
c) Provisional Institution

d) Provisional Institution

6. Why was the World Bank founded?

a) To encourage international trade

b) Rebuilding the economy that was harmed during WWII

c) To improve non-member nations' negative balance of payments condition

d) None of the preceding

7. Which of the following sentences is true?

a) Every IMF member country automatically becomes a World Bank member.

b) The World Bank was founded by 45 people.

c) India is not a World Bank founding member.

d) The IMF is a member of the World Bank Group.

8. Which of the following is incorrectly matched?

a) IBRD (founded)—->1945

b) IFC (founded)—->1948

c) IDA (established)—->1960

d) MIGA (founded)—->1988

9. Who is the current World Bank Group President?

a) Robert Zoellick

b) David Malpass

c) Christine Lagarde

d) Mr. Jim Yong Kim

Ans:

1	2	3	4	5	6	7	8	9
b	d	b	c	b	b	a	b	b

7.12 Short Questions

1. What are Financial Institutions?

2. Name the three parties that operate in the securities market.

3. Name two changes made by SEBI in the capital market.

4. What is FDI? State an example of FDI.

5. Write 2 benefits of FDI.

6. What is WTO? Write one drawback of WTO.

7. State two important functions of WTO.

8. Define Trading Bloc. Briefly.

9. Name 4 Multinational Corporations.

10. Name 5 institution groups that make up the world Bank.

11. Write one difference between World Bank and IMF.

7.13 Long questions

1. Write the SEBI’s capital market reforms.

2. Write the effect of SEBI’s reforms on the capital market.
3. Write about the WTO, its role, and function. Also, define its benefits of it.
4. What are the MNCs and their advantages in a country’s economy and list some of them?
5. Write about the World Bank and how World Bank is formed.

Unit 8: Economic Development

8.0 Learning Outcome

At the end of this unit, you will be able to:

- Get familiarized with green marketing, environmental technologies and other ecological implications of technology

8.1 Introduction

Economic development is the transformation of primitive, low-income country economies into contemporary industrial economies. Although the term is frequently used as a synonym for economic growth, it is primarily intended to denote a transformation in a country's economy that includes both qualitative and quantitative gains. The theory of economic development—how primitive and poor economies can evolve into sophisticated and reasonably rich ones—is crucial for developing countries, and economic development issues are typically discussed in this framework.

Following World War II, economic development became a key preoccupation. In simple words, Economic development, usually referred to as economic growth or advancement, is the accumulation of wealth for the benefit and advancement of society. It is found not just in isolated development projects, but also in the overall advancement of the economy in terms of aspects such as education, resource availability, and living standards. Economic development is concerned with the construction of educational systems, recreational parks, and public safety infrastructure. When formulating policies, sovereign authorities use the concept of development as a significant aspect of their decision-making process. Economic progress is strongly reliant on the effective distribution of resources (a reason for the slow growth of command economies).

Development is found not just in initiatives, but also in economic approaches, such as how resources are allocated to companies that require them the most. Another way to promote economic growth is to stimulate commerce through policies, laws, and regulations. Private sector investment is critical for development, particularly in free market nations (consumer-centric economies).

Example of economic development

Government spending is one example of economic development. When a government undertakes the construction of a new railway, consumers, particularly those in the private sector, will gain greatly. This phrase encapsulates the core of economic development.

8.2 Economic Development and Ecology

The ecological and economic development debate began in the late 1960s, generating serious concerns about whether global industrialization could progress much further without jeopardizing human life and the planet's habitability. Ecologists and economists provide a wide range of answers to the topic of how much growth may have to be sacrificed to safeguard the natural environment and sustain a habitable planet.

Pessimists argue that it is critical to start planning a global economy based on an acceptance of ecological limits right now. On the other hand, optimists argue that global pollution and resource scarcity make it preferable to proceed as before, but with caution. "The most crucial lesson of ecology is prudence," said Ross and Passell, "since each step toward more sophisticated technology risks transgression against nature."

Environmental pessimists are concerned about the interaction between growth dynamics and humanity's limited space and usable resources. These pessimists predict a steady decline in quality of life as a result of future crowding and depletion. This deterioration may reduce the life prospects of future generations and may even precipitate a catastrophic ecological collapse.

According to H. Daly, there is a restriction on how long the earth's natural resources may be consumed at their current rate, and this limit is not far away. He believes that methods should be developed to minimize human consumption levels as measured by the rate of economic growth while maintaining the quality of life.

Carl Kaysen has voiced optimism in this regard. According to him, there are no convincing reasons to believe that the globe as a whole would be unable to sustain a relatively high rate of economic development (albeit not necessarily the current one) for an extended period into the future. Furthermore, if it becomes necessary to slow down the growth rate for any reason, a rather seamless transition from higher to lower rates will be completely conceivable, and not only through a catastrophe.

Harlem Brundtland questioned the market mechanism's ability to deal with the two critical concerns of resource scarcity and environmental deterioration. According to her, economic progress in the developed world over the last 30 years has provided people with security, welfare, and prosperity.

In our search for a solution, we encounter new constraints, the most significant of which are imposed by the biosphere and the planet's delicate ecological system. The social costs of growth—structural changes, migration, and environmental impacts—will undoubtedly become more burdensome as prosperity grows.

Furthermore, environmental and ecological concerns are to blame for people questioning the need for more economic expansion. Natural resources are being depleted at an alarming rate in the manufacture of more and more things, and energy sources are being stressed by the production of non-essential goods and services requested by affluent civilizations. Pollution of the air and water is destroying the world as man depletes his energy reserves in his pursuit of more and more products.

As a result, the ecological problem has serious consequences for a world order system based on the idea of basically unrestrained and unregulated growth. Wasteful consumption patterns and environmentally detrimental behavior should be curtailed as soon as feasible, and conservation measures should be developed and applied fairly.

We may end with E.J. "The current goal of environmentalists is not a no-growth economy per se, much less a recession in a thriving economy," Mishan writes. It is the task of persuading the general public to accept a steady-state economy as a desirable social policy norm."

8.2 Green Marketing

Green Marketing has emerged in India, as it has in other developing and developed countries. In the late 1990s, India experienced a new revolution. It has resulted in a fundamental shift in consumer choices and lifestyles during the last few decades. Consumer behavior and cognitive processes toward a green lifestyle have shifted dramatically. More and more businesses are adopting green marketing to reach out to new customers.

The transformation from traditional marketing to green marketing has presented new problems to businesses. Nonetheless, green marketing has influenced consumer sentiments as well as the ambition of businesses and organizations to achieve a competitive advantage by utilizing the green market industry.

What exactly is Green Marketing?

Promotional actions are designed to capitalize on shifting consumer sentiments regarding a brand. These changes are increasingly impacted by enterprises' policies and practices that affect environmental quality and reflect the level of concern for the community. [1] Green marketing, according to Mr. J. Polonsky, is "any activity meant to generate and support any transaction intended to satisfy human needs or wants in such a way that satisfying their needs and wants occurs with a little adverse effect on the national environment."

Green marketing is the process of producing and selling environmentally friendly products or services. These items or services can be ecologically friendly or created in an environmentally friendly manner, such as:

- Products or services produced in a sustainable manner
- Products that do not contain any harmful substances
- Products manufactured from renewable or environmentally friendly materials (for instance bamboo, coconut bark, cotton, etc.)
- Products whose production does not deplete or destroy the environment's resources
- Products with environmentally friendly packaging
- Products that have not been subjected to animal testing
- Products manufactured with approved chemicals
- Recyclable and biodegradable products

Green Marketing: Its Origins and Evolution:

The 1980s saw the birth of the first wave of green marketing. The primary point of reference for the primary wave of green marketing came in the shape of books titled Green Marketing. Ken Pattie (1992) in England and Jacquelyn Ottman (1993) in the United States of America wrote them.

According to Ken and Pattie (2001), the evolution of green marketing occurred in three stages.

1. Begin, the first stage was known as "Ecological" green marketing, and all marketing operations during this period focused on assisting in the resolution of environmental problems and providing solutions to these environmental problems.
2. The second stage was referred to as the "Environmental" green marketing stage. The topics that were stressed were clean technology, which involved the design of new and creative products that could address contamination and waste issues.
3. The third stage was referred to as the "Sustainable" green marketing stage. It rose to prominence in the late 1990s and early 2000s. It was concerned with creating high-quality things that could suit the needs of consumers by focusing on quality, performance, cost, ease of availability, and convenience in an environmentally friendly manner.

Review of Literature:

1. Madhumita, G., and Sara. (2014) provided an overview of green marketing, how it works, and it's potential in India.
2. Prothero, A. (1998) introduced several papers that were discussed in the July 1998 issue of the 'Journal of Marketing Management,' which focused on green marketing.
3. According to Jain, S.K., and Kaur (2004), business firms have risen to the occasion and begun responding to environmental concerns by implementing green marketing techniques.
4. According to the United Nations Organization's "Report of the World Commission on Environment and Development," Chauhan, H.P.S. (2015), sustainable development is discussed. He discussed the secrets to success in green marketing, as well as its benefits and drawbacks.

Methodology:

Green marketing is an urgent necessity. Sustainable development is required for humanity's survival, and green marketing is one of the most significant aspects of sustainable development. The study is exploratory to provide specific suggestions. The theological technique of research was used. Data was gathered from books, academic journals, government publications, and websites.

Why Are Businesses Embracing Green Marketing?

1. Opportunity - Roughly 25% of Indian consumers prefer eco-friendly items over non-eco-friendly products, while about 28% are health-conscious. Many businesses and organizations see this as a chance to capitalize on and gain a competitive advantage over businesses and organizations that have not embraced green marketing. For example, due to growing customer concern about polystyrene manufacture and Ozone, McDonald's replaced Clamshell packaging with waxed paper.

2. Corporate Social Responsibility - Organizations have begun to recognize that they, too, are members of society and must act in an environmentally responsible manner, and many see this as a way to gain more customers. Organizations in this circumstance have two options: I leverage their environmental responsibility as a marketing weapon, or (ii) become responsible without promoting these facts for the sake of the environment and society. Body Shop, for example, was founded primarily to provide environmentally friendly alternatives to traditional cosmetic items. Rather than being merely a competitive weapon, this attitude is integrally related to the broader corporate culture.

3. Competitive Pressure- Another key force in the green marketing sector is the desire of businesses and organizations to maintain their competitive position. Companies observe their competitors' environmental behavior and practices and attempt to emulate this behavior in a variety of instances. This forceful pressure has pushed entire industries to change and, in some circumstances, minimize their negative environmental behavior. For example, Revive 100 percent Recycled paper was developed a few years ago as an

attempt by Xerox to produce recycled photocopier paper, which prompted other manufacturers to follow suit.

4. Cost and profit issues- Companies and organizations can use green marketing as a tool to handle cost and profit difficulties. Companies and organizations that can reduce their hazardous waste can save a lot of money.

5. Government pressure- Governments strive to protect consumers and society through all marketing activities. The government's green marketing regulations are intended to save customers in a variety of ways.

Issues with Green Marketing

Here are some noteworthy issues with Green Marketing

1. Green Spinning- Some businesses and organizations frequently attempt to respond to environmental concerns and issues by presenting their version of facts through public relations activities rather than environmentally enhancing the product. These types of techniques and activities contribute to the existing market confusion and undermine the credibility of real claims made by other companies and organizations.
2. Green Selling- Organizations continue to produce essentially the same item, but they include some "new" environmental advantages in their advancement struggles to capitalize on the growing client base in the environment. When green marketing is practiced in this manner, firms are just concerned with promotional activity, with little effort made to manufacture truly green things.
3. Green Harvesting: Green marketing can contribute to a reduction in a product's production costs. Many organizations and businesses are enticed by green marketing and choose to harvest the market. They sell their products at higher prices even when their production costs are low to earn more profit, and when these organizations and companies truly need to take a step toward sustainable development, they retreat and become hesitant because it would result in a decrease in profit levels.

4. Compliance Marketing- Organizations and businesses that follow this strategy undertake only those environmental measures that are mandated by government rules. Compliance with environmental legislation by these corporations and organizations serves only to increase the marketability of their products. They are unconcerned about environmental issues.
5. Greenwashing- Greenwashing is the overstatement of an offering's ecologically or socially conscious features while understating its negative attributes for the benefit of the firm. [3] A variety of corporations see this as an opportunity to gain short-term profits rather than a market opportunity. When firms and organizations adopt or make inaccurate or misleading environmental claims, they engender customer distrust in green marketing initiatives.

8.3 Green Marketing Principles

1. Consumer-Oriented Marketing: The concept states that the firm should view marketing efforts through the eyes of the consumer to build a long-term and lucrative relationship with them.
2. Customer Value Marketing: According to this concept, the company should allocate resources that add value to the product or service they offer, rather than merely changing

the product packaging or investing heavily in advertising. This is because when value is added to a product, the customers value it as well.

3. Innovative Marketing: The third concept, innovative marketing, states that one should seek real product and marketing advancements. We are all aware that the world is always changing, as are client tastes and preferences. As a result, the organization should continuously be on the lookout for new and improved tactics to avoid losing clients.
4. Mission Marketing: The mission of the organization should be broadly defined, in terms of society rather than the product. This is because when a corporation declares a mission that includes some social welfare, the employees feel glad to be working for a worthy cause and on the right path.
5. Societal Marketing: According to this idea, the company's marketing decisions must take into account the wants and interests of the consumers, the company's requirements, and societal welfare.

As a result, green marketing requires products and services that are not just environmentally benign but also useful to society.

8.2.3 Green Marketing Mix?

Firms utilize a green marketing mix, similar to traditional marketing, to employ marketing factors and acquire the desired response from the target audience. The four Ps of the green marketing mix are as follows:

1. Product: Products should be designed and developed in such a way that they consume fewer resources, are pollution-free and do not include any dangerous substances that could be detrimental if used. Furthermore, the product must promote the conservation of limited resources.
2. Price: In green marketing, price is important because people would pay a higher price if they believe they will be obtaining premium quality items in terms of design, performance, appeal, flavor, or anything else.
3. Green advertising can be done in three ways: commercials that highlight the relationship between the product and the environment, ads that encourage green and organic lifestyle, and ads that showcase a corporate image of environmental responsibility.
4. Place: Because location determines product availability, marketers should choose the best manner to make such things available as it will have a significant impact on customers.

It is a well-known truth that all forms of production use energy and generate trash. As a result, green marketing could be a fantastic marketing endeavor undertaken by the company.

8.3 Green Marketing vs. Traditional Marketing

Green marketing	**Traditional Marketing**
Goals 1. Satisfaction of customers 2. Organizational objectives 3. Ecological compatibility	Goals 1. Satisfaction of customers 2. Organizational objectives
Decision-Making Reference Frame 1. Integrated reasoning 2. boundary crossing 3. Long-term perspective	Decision-making Reference Point 1. Disjointed thinking 2. non-boundary crossing 3. Focus on the short term
Philosophical foundation	Philosophical foundation

1. Biological 2. Because the ecosystem is a physical limiting element, an eco-cost must be paid.	1. The Anthropocene 2. An open sink in the ecosystem
General methods/tools 1. Reduce and redirect waste management by using life cycle assessment and environmental audits. 2. Proactive waste management strategy 3. Concentrate on industrial processes 4. Total environmental quality management	General methods/tools 1. Use planning to reduce the cost of local trash disposal 2. Reactive waste management 3. Concentrate on industrial functions 4. Management of total quality
Environmental Accountability/Responsibility 1. Product danger 2. International/Global 3. Complete accounting of environmental costs	Environmental Accountability/Responsibility 1. Low product risk 2. National/Regional/Local 3. No/underpaid environmental costs

India's Green Initiatives

1. HCL Technologies Inc.

HCL Technologies has developed a strategy known as HCL's Ecosafe to identify, develop, and maintain an environmental management system at the corporate level. The ultimate purpose of this objective is to encapsulate knowledge, awareness, and critical developments on all environmental concerns confronting the modern world and to infuse these into HCL's operations, ensuring their dedication to producing quality products, solutions, and services.

The major goal of HCL Ecosafe is to integrate environmental management methods into its corporate processes, so safeguard the planet, wellbeing, and security of all of its partners.

HCL is determined to provide things that are environmentally friendly in every way and devoid of hazardous ingredients. The primary goal of HCL EcoSafe is to successfully carry out product lifecycle management to ensure that items are created, acquired by consumers, recovered at end-of-life, and responsibly recycled after useful life. As a result, HCL Technologies might be regarded as the poster child for India's green endeavors.

2. Lead-Free Paints from Kansai Nerolac

Kansai Nerolac's lead-free paints are the result of activities to remove toxic and dangerous heavy metals from their paints. These dangerous heavy metals can be harmful to people. Lead, mercury, chromium, arsenic, and antimony are examples of heavy metals. Lead-containing paints are hazardous to human health since they can severely harm the Central Nervous System, kidneys, and reproductive system. Children are particularly sensitive to lead poisoning, which can result in decreased IQ and, in some cases, memory loss. Kansai Nerolac created Nerolac Impressions Eco Clean. This is environmentally friendly paint. contains few volatile organic compounds (VOC). Volatile Organic Compounds in paint have an impact on water, soil, and outdoor air, as well as the inside air. They contaminate it. This might cause respiratory difficulties as well as eye irritation and redness. By introducing low VOC paint and raising awareness about lead-free items in India, Nerolac has made a reasonable step and led the industry.

3. Oil and Gas Corporation (ONGC)

Oil and Natural Gas Company, India's largest oil producer, is on track to lead the list of the top ten Indian firms that have embraced green marketing with energy-efficient, green crematoriums that will soon substitute the traditional hardwood fire across the country. Following Mokshada Green Cremation activities brought to light by ONGC will save 60 to 70 percent of wood and a fourth of the time consumed per cremation.

4. Suzlon Power

Suzlon Energy, the world's fourth-largest wind turbine manufacturer, is one of India's greenest and greatest firms. Tulsi Tanti, the visionary of Suzlon, has convinced the world that wind is the energy of the future and has built his plant in Puducherry totally on wind power. It accounts for up to 30% of renewable energy in India, making it one of the world's largest enterprises in terms of carbon footprint reduction. Suzlon's corporate building is the most energy-efficient structure ever constructed in India.

5. Wipro

Wipro is an Indian information technology service organization that has divided its operations into various entities. It is the first Indian firm to introduce environmentally friendly peripherals. Wipro has introduced a new line of laptops and desktop computers known as Wipro greenware, which are ROHS [restriction of hazardous substances] compliant, minimizing e-waste in the environment. It was India's first company to develop eco-sustainability through energy, water efficiency, and waste management. It is attempting to become a green enterprise.

Its primary initiatives to become a green company include fulfilling its goals of becoming carbon neutral, water positive, and energy saving in the corporate organization. It creates products that reduce hazardous waste. Wipro has cut its per capita electricity use and increased its use of renewable energy. Wipro buildings meet a variety of international green standards.

6. Godrej

Godrej is one of India's largest conglomerates, catering to the requirements of many categories of people. Godrej Green Centre claims to be energy, water, and construction material efficient, lowering the impact on human health and the environment through improved design, building, operation, maintenance, and waste management. The drive for reform in the Indian construction industry was created by Godrej green buildings.

Conclusion

Consumers are becoming increasingly concerned about climate change. Consumer preferences and lifestyles are changing dramatically. Companies are now confronting a slew of new issues as a result of the change from traditional to green marketing. So, if successful marketing today is about appealing to human values and providing consumer empowerment, surely the time has come to incorporate sustainable development into the marketing mix to help address some of the nitty-gritty concerns confronting our world. Green marketing techniques provide extremely effective results. In their marketing policies, agencies must implement all of the processes to reduce costs, increase response rates, and increase growth. The economic side of marketing should not be overlooked in green marketing. Marketers must be aware of the ramifications of green marketing.

8.4 Environmental Technologies

According to current estimates, 7 billion people share the globe with the natural environment, vying for space and resources. Attempts to mitigate humanity's harmful effects on the natural world and the global environment place major issues such as climate change high on the political agendas of many countries throughout the world. A new breed of technologies, in addition to policy and governance, is assisting humanity in fine-tuning the delicate balance between the developed and natural worlds.

Environmental technology, sometimes known as 'green' or 'clean' technology, is the application of environmental sciences in the creation of new technologies to conserve, monitor, or reduce the harm humans cause the environment while utilizing its resources. Sustainable development is at the heart of environmental technology; it refers to techniques that promote economic development by preventing natural resource depletion and pollution.

Simply put, environmental technologies are designed to protect the environment. They provide new ways to consume that are less polluting or more sustainable, and they frequently present new means to avoid the depletion of natural resources entirely. Solar and wind energy are prominent examples, as is water desalination (the removal of salt or other minerals from saline water), electric cars, and pyrolysis (thermochemical decomposition of organic material).

Every year, dozens of new and innovative environmental technologies emerge, some of which are ready for mass consumption and many more which are in the prototype and proof of concept stages, all of which are ultimately linked by the aim to create sustainable instruments for our common usage. Here are some recent instances of inventions that can influence and shape our future environmental processes.

Light Manufacturing's new innovative discovery in plastics production uses heliostats (appliances with driving mirrors to reflect light) to focus and reflect the sun's rays to melt plastic and make it moldable. Traditional plastic production uses fossil fuels as a feedstock and to supply energy for the manufacturing process, whereas Light Manufacturing's breakthrough new approach uses no fossil fuels at all. The method is not restricted to new plastics; it may also be used to mold recycled polymers.

Din Ping Tsai, a physicist at National Taiwan University, has devised a low-power approach for treating wastewater utilizing ultraviolet light and zinc oxide applied to CD-ROMs in the field of recycling and wastewater treatment. CDs, which are plentiful in the millions, are now rarely used and provide a cheap and widely available source for wastewater treatment. After an hour of treatment, the gadget broke down over 95 percent of the water contaminants in recent studies in which the spinning disks consumed very little electricity.

The Impact of Technology on the Environment

The industrial revolution gave birth to new technologies with enormous power. From roughly 1760 to 1840, this was the transition to new manufacturing processes in Europe and the United States. This has been followed by increased industrialization and technological breakthroughs in industrialized countries around the world, with the environmental consequence of this technology including the exploitation and devastation of our natural planet.

These technologies have harmed our planet in two ways: pollution and natural resource depletion.

1. Pollution of the air and water

When dangerous or excessive amounts of gases such as carbon dioxide, carbon monoxide, sulfur dioxide, nitric oxide, and methane are injected into the earth's atmosphere, air pollution develops. The primary sources are all related to technology that emerged after the industrial revolution, such as the use of fossil fuels, industries, power plants, mass agriculture, and automobiles. Air pollution has a significant influence on human and animal health, as well as global warming because rising levels of greenhouse gases in the atmosphere trap thermal energy and cause the global temperature to rise.

Water pollution, on the other hand, is the contamination of bodies of water such as lakes, rivers, oceans, and groundwater, typically as a result of human activity. Domestic garbage, industrial effluents, insecticides, and pesticides are among the most frequent water contaminants. One specific example is the discharge of untreated wastewater into natural water bodies, which can degrade aquatic ecosystems. Other negative repercussions include infections like typhoid and cholera, eutrophication, and the loss of ecosystems, which hurts the food chain.

2. Natural resource depletion

Another detrimental consequence of technology on the environment is resource depletion. It refers to the use of a resource before it can be replaced. Natural resources are those that exist without being developed by humans, and they can be renewable or non-renewable. The most severe types of resource depletion are aquifer depletion, deforestation, mining for fossil fuels and minerals, resource contamination, soil erosion, and resource overconsumption. These are mostly caused by agriculture, mining, water use, and the use of fossil fuels, all of which have been made possible by technological improvements.

Natural resource deterioration is increasing in response to the growing global population. As a result, the world's eco-footprint is estimated to be one and a half times the earth's potential to sustainably provide each individual with enough resources to meet their consumption levels. Large-scale mineral and oil exploration has increased since the industrial revolution, creating natural oil and mineral depletion. With developments in technology, development, and research, mineral extraction has grown easier, and humans are consequently digging deeper to get more, causing many resources to start production fall. Furthermore, the consequences of deforestation have never been more severe, with the World Bank claiming a net loss of world forests of 1.3 million km2 between 1990 and 2015. This is mostly for agricultural purposes, but it also includes logging for fuel and clearing land for residential areas, which is supported by rising population pressure. This not only results in the loss of trees, which are vital because they remove carbon dioxide from the atmosphere, but it also causes thousands of plants and animals to lose their natural habitats and become extinct.

Environmental technology has the following advantages:

Despite the negative impact of technology on the environment, a recent increase in global concern about climate change has led to the development of new environmental technology aimed at assisting in the resolution of some of the most pressing environmental issues that we face as a society through a shift toward a more sustainable, low-carbon economy. Environmental technology, sometimes known as "green" or "clean" technology, refers to the creation of new technologies to conserve, monitor, or reduce the negative impact of technology on the environment and resource use.

The Paris Agreement, reached in 2016, required practically every government in the world to make ambitious measures to mitigate climate change by reducing the global average temperature rise to less than 2°C above pre-industrial levels.

This section will concentrate on the beneficial environmental impact of technology as a result of the advancement of environmental technology such as renewable energy, "smart technology," electric vehicles, and carbon dioxide removal.

- Renewable energy sources

Renewable energy, sometimes known as 'clean energy,' is energy derived from naturally replenished renewable resources such as sunshine, wind, rain, tides, waves, and geothermal heat. Modern environmental technology has enabled us to harness this naturally occurring energy and convert it into electricity or useful heat via devices such as solar panels, wind, and water turbines, demonstrating technology's highly positive impact on the environment.

Renewable sources already supply more than 20% of the UK's electricity, having surpassed coal as our second largest generator of electricity in 2015. EU targets indicate that this will likely climb to 30% by 2020. While many renewable energy projects are on a large scale, renewable technologies are also well-suited to isolated places and poor countries, where energy is frequently critical to human growth. Renewable energy technology, such as solar panels and wind turbines, are becoming more affordable, and government investment is increasing. Between 2007 and 2017, the number of rooftop solar installations in Australia increased from roughly 4,600 households to over 1.6 million.

- Smart technology

Internet of Things (IoT)

Smart home technology employs devices such as linking sensors and other appliances linked to the Internet of Things (IoT) that can be remotely monitored and controlled to be as energy efficient as possible while also responding to user needs. The Internet of Things (IoT) is a network of internet-connected items that use integrated sensor technology to collect and exchange data. This data enables network devices to make decisions independently based on real-time information. Intelligent lighting systems, for example, only illuminate areas that require it, and a smart thermostat keeps homes at specific temperatures at specific times of day, saving waste. This environmental technology has been made possible by improved internet connectivity due to the increased availability of WiFi, Bluetooth, and smart sensors in buildings and towns. Experts anticipate that future cities would be locations where every car, phone, air conditioner, lamp, and other device is networked, ushering in the concept of energy-efficient smart cities. 'The internet's technology also exhibits a positive impact on the environment because social media may raise awareness of global issues and worldwide virtual laboratories can be developed. Experts from various fields can collaborate remotely to share their knowledge, experience, and ideas to develop better solutions. Furthermore, travel is decreased because meetings and communication between friends and families may be done digitally, reducing pollution from transportation emissions.

- Vehicles powered by electricity

The electric vehicle's environmental technology is propelled by one or more electric motors, which use energy stored in rechargeable batteries. Since 2008, the production of electric vehicles has increased due to a desire to address environmental concerns such as air pollution and greenhouse gases in the atmosphere.

Electric vehicles have a beneficial environmental impact since they do not emit carbon emissions, which contribute to the 'greenhouse effect' and promote global warming. Furthermore, they do not contribute to air pollution, making them safer for human health, animals, plants, and water. Several environmental technology government incentives, including tax credits and subsidies, have lately been introduced to encourage the introduction and acceptance of electric vehicles. Electric vehicles may be the way forward for a greener society because firms like Bloomberg anticipate that they will be cheaper than gasoline cars by 2024, and Nissan claims that there are currently more electric vehicle charging points in the UK than fuel stations3.

- 'Direct Air Capture' (DAC) is an environmental technology that removes carbon dioxide from the atmosphere.

In conclusion, the notion of directly extracting carbon dioxide out of the atmosphere has been circulating in climate change mitigation research for years, but it has only just been applied and is still in the early phases of development. The method of capturing carbon dioxide directly from the ambient air and producing a concentrated stream of CO2 for sequestration or utilization is known as 'Direct Air Capture' (DAC). Many big fans then drive the air through a filter, removing CO2. This technique is considered to be capable of managing pollutants from scattered sources, such as automotive exhaust fumes. Full-scale DAC activities can absorb enough carbon to offset the annual emissions of 250,000 ordinary cars.

Many claims that DAC is critical for climate change mitigation and that it can assist achieve the Paris Climate Agreement goals, as carbon dioxide in the atmosphere has been identified as the primary cause of the problem. However, the high cost of DAC currently means that it is not a viable option on a broad scale, and some feel that reliance on this technology may pose a problem since people may believe that all of their emissions will simply be eliminated.

Although we cannot reverse the negative impact of technology on the environment caused by industrialization, many people believe that new environmental technology, such as renewable energy combined with smart logistics and electric transportation, has the potential to accelerate our economy's decarbonization and mitigate future harm.

8.5 Ecological Implications of Technology

We live in an age of rapid change and constant circulation of things, which continues to revolutionize our way of life with each new day, thanks to technological advancements over the last few decades. Despite the innumerable benefits of technology and the pragmatism it has brought to our daily lives, our planet appears to be suffering and fighting back more than ever. Experts have been warning for some time about the negative environmental effects of technology.

What happens to our old phones, computers, batteries, and plastic when we upgrade? How do huge enterprises' carbon footprints affect our climate? Let's look at some examples of how technology, no matter how good, has proven harmful to our environment.

- Air Pollution

Air pollution is mostly produced by the discharge of excessive amounts of various gases into the earth's atmosphere, such as carbon monoxide, nitric oxide, methane, carbon dioxide, and sulfur dioxide.

Unfortunately, all of the major polluters - industries, power plants, and mass agriculture - are guilty of exploiting various technologies - the combustion of fossil fuels, exhaust gas from automobiles, waste generation, and so on.

The consequences of air pollution are rather negative, particularly in terms of human and animal health and the growing threat of global warming. The more greenhouse gases that are released, the more thermal energy is trapped in the atmosphere, resulting in a rapid rise in temperatures.

- Water Pollution

Another pollution issue is the (most commonly) human-caused contamination of lakes, oceans, rivers, and groundwater. Domestic garbage, insecticides, pesticides, and industrial effluents are the most common water contaminants. Having said that, the worst contamination happens when improperly treated wastewater is dumped into natural bodies of water, causing deterioration or eutrophication of aquatic ecosystems that are crucial in the food chain. Water contamination is also a big health risk since it can transmit diseases like cholera and typhoid.

- Depletion of Resources

Nature is straining to keep up with all of our technological advancements. One of the most compelling pieces of evidence for this is the growing problem of resource depletion. The unequal link between resource consumption and replenishment potential is referred to as resource depletion. Natural resources are classified as either non-renewable or renewable, with the former having limited quantities and the latter replenishing naturally over time.

Resource Depletion Types

The most damaging types of resource depletion are deforestation, aquifer depletion, mining for minerals and fossil fuels, soil degradation, contamination, and resource overconsumption. All of this is owed, in large part, to technological improvements that have made resource exploitation more accessible and profitable. Deforestation, in particular, has had a devastating impact, with more than 1.3 million square kilometers of the global forest being cut down since 1990, largely for agricultural uses but also for developing residential areas and logging for fuel. Not only is this an ecological disaster because forests are critical for oxygen production and carbon dioxide reduction, but many animals and plants have lost and continue to lose their natural habitats.

- Trash Technology

The term 'techno trash' refers to many sorts of rubbish generated when we dispose of electronics such as phones, laptops, computers, and anything else that operates on a battery.

The main reason why techno garbage is harmful to the environment is that it contains significant levels of dangerous compounds, particularly heavy metals, which can wind up in groundwater.

Electronic gadgets, such as PCs and laptops, contain a mix of heavy metals and hazardous compounds, and if improperly deconstructed for disposal, they can hurt the environment and contaminate natural resources.

After considering these bleak examples, it is worth noting that, in recent years, research has been more focused on developing and promoting eco-friendly methods of harnessing technology and applying it for environmental protection. Nonetheless, some ecological disasters are irreversible, and those that are not will take decades to repair.

8.6 Sustainable development

The alarming extent of climate change has served as a wake-up call to better plan for the future. The twenty-first century necessitates an immediate and sensible discussion of what the future requires of us. The perspective can be in terms of changes in the global environment, development, and economics, as well as their cause-and-effect relationship. The growing impact of the global economy on the environment must be addressed. The development must be environmentally friendly and long-term, with a focus on people.

Sustainable human development, also known as people-centered development, has gained popularity in recent years due to its balanced approach to economic development and environmental sustainability. Because of rising urbanization and globalization, numerous unprecedented difficulties must be addressed. Cities, as focal places of big developments and colossal prospects, function as strong magnets drawing massive populations, which are further supplemented by tremendous obstacles such as growing pollution, lively use of natural resources, and mass exploitation of energy sources.

The term's emergence and necessity:

The United Nations Conference on the Human Environment was held in Stockholm in 1972, and it emphasized the importance of eliminating pollution and increasing biodiversity and the environment to protect human rights to a healthy and progressing environment. The Brundtland Report, issued by the United Nations World Commission on Environment and Development in 1987, stressed three key components of sustainable development: environmental protection, economic growth, and social fairness.

The phrase sustainable development was defined as a method of development in which the needs of the present are addressed without jeopardizing future generations' ability to meet their own needs. Doctor Gro Harlem coined the phrase in the Brundtland Report. The definition's concept of needs relates to the basic requirements of the world's impoverished, which should be given top attention. There should also be an awareness of limitations put on the environment's ability to meet current and future requirements.

When critical changes in the functioning and impacts of the environment were observed, the requirement of sustainable development and its implementation became clear. The changes that were followed by disasters served as a warning about what the future might contain, and comprehension of this led to the establishment of the concept of sustainable development and living. It was stated that if humans continue to act autonomously in pursuit of their individual goals, it will not be long before all resources are depleted due to over-exploitation. As a result, it was considered that humanity needed to adapt its ways and methods to embark on a path of sustainable development.

Goals for Sustainable Development:

Sustainable development goals were approved in 2015 by all United Nations member countries as a worldwide action to end poverty and pollution by 2030, thereby conserving the earth and giving peace and prosperity to all. They reflect the post-2015 development agenda, consisting of 17 objectives and 169 targets meant to be the blueprint for a better and more sustainable future for all.

The three basic goals of sustainable development are as follows:

1. Economic expansion.

2. Environmental safeguards.

3. Social integration

In terms of content and practicality, the sustainable development objectives have surpassed the millennial development goals. Previous goals were criticized for being too restricted in scope and too shallow in execution. The millennial development goals emphasized global development through bilateral relations and support for the development of other countries. The newly formulated sustainable development goals were far broader in scope and gave a much more inclusive vision and framework for development that was not dependent on country relationships. They were more globally applicable and were developed by the greatest United Nations organization, providing a solid foundation

The following are the sustainable development goals in a broader way:

1. No Poverty: By 2030, all people worldwide will be free of terrible poverty.
2. Zero Hunger: By 2030, end hunger, ensure food security, and improve nutrition.
3. Good Health and Well-Being: By 2030, ensure healthy lifestyles and promote well-being for all ages.
4. Quality Education: By 2030, ensure that all girls and boys have completed free, equitable, and high-quality primary and secondary education.
5. Gender Equality: The achievement of gender equality and the empowerment of all women and girls.
6. Clean Water and Sanitation: By 2030, ensure the availability and long-term management of water and sanitation for everybody.
7. Inexpensive and Clean Energy: By 2030, ensure that everyone has access to affordable, reliable, sustainable, and contemporary energy.
8. Economic Growth and Decent Work: Encourage long-term, inclusive, and sustainable economic growth.

9. Industry, Innovation, and Infrastructure: By 2030, we will have built robust infrastructure, promoted inclusive and sustainable industrialization, and fostered innovation.
10. Reduced Inequality: By 2030, reduce inequality within and between countries.
11. Cities and Communities that are Sustainable: Make cities and human settlements more inclusive, safe, resilient, and sustainable.
12. Responsible Consumption and Production: Ensure that consumption and production patterns are sustainable.
13. Climate Action: Take immediate action to combat climate change and its consequences.
14. Life Below Water: Conserve and utilize oceans, seas, and marine resources sustainably for long-term development.
15. Protect, repair, and promote sustainable use of terrestrial ecosystems to counteract desertification and biodiversity loss.
16. Peace, Justice, and Strong Institutions: Promote peaceful and inclusive societies for long-term development; ensure universal access to justice.
17. Partnerships for Goal Achievement: Strengthen implementation mechanisms and revive the global partnership for sustainable development.

Environmental Initiatives and Movements

UNECE: The United Nations Economic Commission for Europe (UNECE) was created in 1947 to foster integration among its member countries. It assists countries in achieving the Sustainable Development Goals by providing a platform for diverse governments to engage and collaborate with existing norms and treaties. It employs a multispectral strategy that allows it to address interconnected difficulties in a more integrated manner.

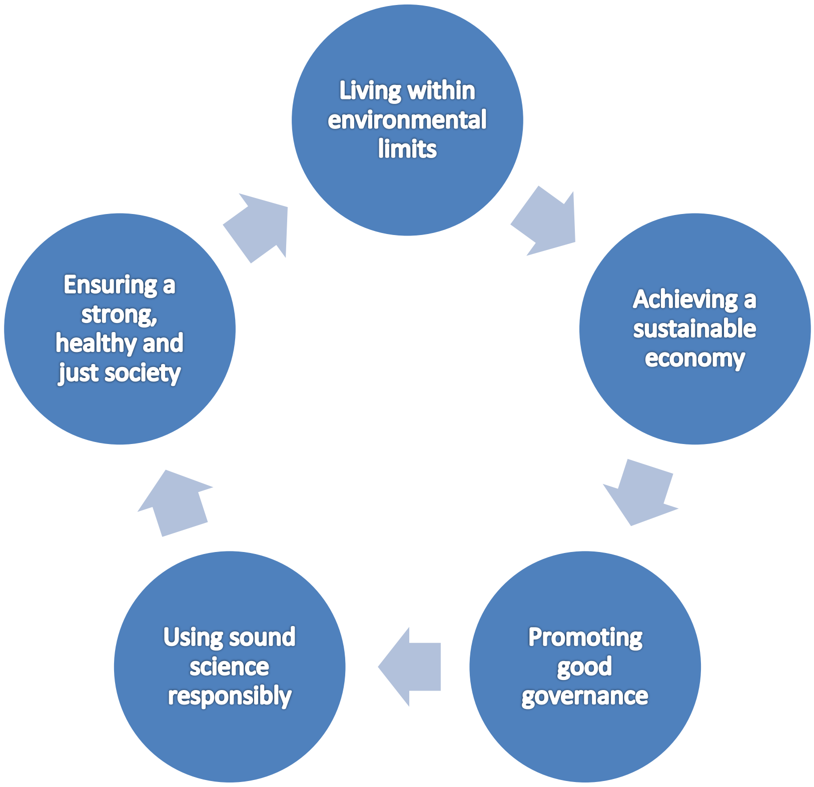
Human Development Index: Introduced in 1980, the Human Development Index is a statistical tool used to assess a country's economic and social progress and achievements. It encompasses dimensions such as health, education, sanitation, economy, security, and the environment. The Human Development Index also calculates one's ecological footprint. An ecological footprint is the maximum amount of consumption per person permitted by the Earth's ecological capacity. The minimum HDI ensures the satisfaction of human needs, while anything over it implies overconsumption of resources, allowing for compromise for future generations.

Millennium Ecosystem Assessment: The Millennium Ecosystem Assessment was a four-year study launched by the United Nations in 2001. Over 1200 academics were tasked with assessing the effects of environmental changes on human well-being. The study's major results stated that ecosystem evolution has resulted in massive and irreversible biodiversity loss, which has helped climate change and increased the possibility of nonlinear changes occurring as a result of the same.

Ellen MacArthur Foundation: The Ellen MacArthur Foundation is the UK registered charity that strives to inspire a generation to rethink, re-design, and construct a positive future within the framework of a circular economy. A circular economy is founded on the ideals of reusing products and materials, decreasing waste, and regenerating natural systems. They want to reduce waste and pollution by making improvements at the product's core, such as the production process and design elements. They argue that the materials and goods used by the economy should be reusable and repairable to avoid ending up in landfills. They believe that in addition to safeguarding the environment, we should actively improve and upgrade it. As a result, in its most recent report in 2016, the foundation strongly advised that the country create a circular economy.

International Panel on Climate Change: This is a United Nations intergovernmental group tasked with providing the world with an objective and linked scientific knowledge for a better understanding of human-induced climate change and all of its environmental, political, and economic risks and repercussions. Through regular, annual, and special reports, the agency has successfully delivered provided data and analysis. The most recent reports, published in 2018 and 2019, included analyses of temperature rise, land degradation, and changes in the cryosphere and seas. The analysis concluded that quick action is required to avoid the average temperature from going above two degrees Celsius and having disastrous consequences. It is necessary to accelerate the reduction of carbon dioxide emissions.

8.6.1 Principles of Sustainable Development



All nations largely accepted the notion of sustainable development. It gained international recognition as a result of the Brundtland Commission Report (1987). The Rio Declaration of 1992 and Agenda 21 outlined some of the key ideas that underpin the concept of sustainable development. As a result, to attain the goal of sustainable development, these principles must be strictly adhered to. These are the guiding principles on an elaborate note:

(1) Inter-generational Equity

The notion of intergenerational equity assumes that each generation of humans has the right to profit from the prior generation's cultural and natural resources, as well as the "responsibility" to maintain such heritage for future generations. The principle emphasizes the preservation of biological resources and renewable resources such as forests, water, and soil. The idea of intergenerational justice derives from Principles 1 and 2 of the Stockholm Declaration of 1972, which considers the environment to be a resource base for the survival of the current generation as well as a right to be beneficially exploited by future generations. Both of these principles are reproduced below:

Principle 1.- Man has a fundamental right to freedom, equality, and appropriate living conditions in a quality environment that allows for a life of dignity and well-being, and he carries a grave responsibility to maintain and improve the environment for present and future generations.

Principle 2.- The earth's natural resources, including air, water, lands, flora, and fauna, and particularly representative sampling of natural ecosystems, must be preserved for the benefit of current and future generations via careful planning and management, as necessary.

(2) Use and Conservation of Natural Resources

This concept mandates that the earth's natural resources be used with care so that they can be conserved and improved for future generations. It should be noted that natural resources are already disappearing as a result of poverty, overpopulation, urbanization, industrialization, and other factors, and an acute shortage of these resources is likely in the future. As a result, there is an urgent need to develop processes and technologies that require little use of natural resources.

The principle of resource use and conservation is based on the idea that the current generation should be conservative in their use of natural resources for the benefit of future generations. This will ensure future generations' survival conditions. The international community has recognized this idea in the form of Principles 8 and 23 of the Rio Earth Summit Declaration of 1992.

According to Principle 8, states should minimize and eliminate unsustainable patterns of production and consumption to promote sustainable development and good quality of life for all people. As a result, using and conserving natural resources should be a fundamental element of sustainable development.

Similarly, Principle 23 of the Rio Declaration (1992) emphasizes explicitly that the environment and natural resources of people subjected to oppression, dominance, and occupation must be protected by all means.

(3) Environmental Protection:

Environmental protection is an essential component of long-term development. To promote sustainable growth within their borders, the majority of nations have implemented environmental protection legislation. An effective environmental protection framework is required to strengthen sustainable development. It is commonly observed that inadequate environmental protection or deterioration disproportionately impacts the poorest sectors of society, as they rely heavily on unmarked environmental resources such as woods, water from hand pumps, air pollution and noisy slum houses, and so on.

The problem of environmental protection often stems from water resources, forestry, agriculture, industry, energy and power, and so on; consequently, policy actions in these areas should be environmentally oriented and well planned to ensure that the natural environment is not degraded.

(4) In India, the Environment (Protection) Act of 1986 is the primary piece of legislation.

There are also some other pollution control and prevention laws, and states have enacted their anti-pollution legislation based on local needs. The ultimate goal is to achieve sustainable development to protect the environment from degradation or pollution.

(5) The Precautionary Principle

The precautionary principle tries to ensure that a chemical or human activity that may pose a hazard to the environment is not allowed to harm the environment, even if there is no definitive scientific evidence linking that substance or human activity to environmental damage. Thus, the precautionary principle assumes that the onus is on the industrialist to demonstrate that his behavior is not damaging to the environment.

In the context of environmental protection, the precautionary principle is primarily concerned with the management of scientific risk. It is defined in Principle 15 of the Rio Declaration of

1992 as a component of the concept of ecologically sustainable development. ” According to this principle, "when there is a substantial or irreversible threat of environmental damage, a lack of full scientific knowledge should not be used as an excuse for delaying efforts to avert environmental degradation." In other words, any human activity or behavior that hurts the environment must be avoided at all costs.

The assimilative capacity principle assumed that science could provide policymakers with the information and means necessary to avoid encroaching on the environment's capacity to assimilate impacts, and it is assumed that relevant technical expertise would be available when environmental harm was predicted and that there would be enough time to act to avoid such harm.

The precautionary principle has been legally recognized in practically all international treaties and is now a fundamental feature of the United Nations Environmental Programme. In the Bergen Declaration on Sustainable Development, 1990, the European Community embraced the notion and emphasized that environmental activities should forecast, prevent and suppress ecologically detrimental elements.'

(6) The principle of "**polluter pays**"

All member countries of the Organization for Economic Cooperation and Development (OECD) decided to adopt the notion of 'polluter pays' into their environmental policy to deter trade-damaging subsidies. They saw this as important for environmental protection and to safeguard the country from the threats posed by environmental degradation in modernized industrial society. The "Polluter Pays" approach was regarded as one of the most effective methods for preventing environmental pollution. However, there were practical challenges in determining an accurate definition of the principle because there could be disagreements about the limits on payment for damages caused and the actual scope of the principle's applicability.

Despite these problems, the European Community recognized the 'polluter pays' premise as part of its environmental strategy in its Action Programme on Environment. The notion was integrated into the action program's Article 130 R (2), which reads as follows: -

(i) Preventive action is always preferable to corrective action; and
(ii) environmental damage should be corrected at the source.
(iii) The polluter should bear the costs of environmental protection and preservation actions.
(iv) Environmental policies should be integrated into other European Community programs.

Finally, the international community recognized the "polluter pays" notion as an inherent aspect of sustainable development and adopted it as Principle 16 of the Rio Declaration of Earth Summit, 1992. The following is the principle: - "Principle 16 National authorities should make efforts to promote the internationalization of environmental costs and the use of economic instruments, keeping in mind the approach that the polluter should bear the cost of pollution in principle, with due regard for the public interest and without distorting international trade and investment."

(7) The principle of obligation to assist and cooperate

This principle was specifically incorporated as Principle 9 in the Rio Declaration (1992), which mentions that states should cooperate to enhance capacity building for sustainable development by improving scientific understanding through exchanges of scientific and technological knowledge and by enhancing the development, adaptation, diffusion, and transfer of technologies, including new and innovative technologies.

The Rio Declaration's Principle 10 further mentions that environmental issues are best managed with the cooperation of all interested persons at the relevant level. Principle 12 stresses on the importance of cooperation in environmental matters, requiring states to work together to promote a supportive and open international economic system that leads to economic growth and sustainable development in all countries to address the problem of environmental degradation more effectively. Finally, Principle 27 of the Rio Declaration expects individuals and states to work together in good faith and in a spirit of cooperation to build international law in the future sustainable development field.

(8) Eradication of Poverty

Poverty is one of the most significant contributors to environmental pollution and degradation. Smt. Indira Gandhi, India's late former Prime Minister, stated during the Stockholm Conference on Human Environment in 1972, "of all pollution we encounter, poverty is the deadliest." Poverty, according to the Brundtland Report (1987, causes of environmental degradation. It diminishes people's ability to use resources sustainably, putting additional strain on the environment and causing it to deteriorate.

The Earth Summit of 1992 also said that eradicating poverty was critical to accomplishing the aim of sustainable development, particularly in developing countries.

As a developing country, India has more than 30% of its population living below the poverty line. The pitiful living conditions of slum inhabitants, scarcity of food, fuel, kerosene oil, and so on pose major environmental hazards. Due to a lack of housing, millions of poor men, women, and children are forced to live in slums and even on makeshift roadside hutments in filthy circumstances with little food and water. As a result, they must live in unsanitary conditions. As a result, India requires collaboration and aid from developed countries to help and support the poverty reduction program and the preservation of healthy environmental conditions.

India's participation

India has made significant contributions to the formulation of the Sustainable Development Goals. It was the only country to advocate for establishing and implementing nationally specified contributions to track the progress of sustainable development goals. India has also made a bold promise to fund the United Nations Trust Fund for the implementation of the SDGs. India participated in Voluntary National Reviews (VNRs), in which various surveys are used to assess and graph the progress of established targets, thereby encouraging the adoption of sustainable development goals.

The role of India has a long history based on three parameters: ideation, diplomacy, and institutional. The country has been heavily involved in forming and implementing international rules, which all member nations have unanimously adopted. In diplomacy, India has functioned with the G77 nations to assist them in collaborating better with the rules put forward and bring the nations to consensual accords that benefit everyone. Institutionally, India has always worked to expand the United Nations' mandate and goals in economic, political, and environmental problems. Even non-UN accords have been convinced to follow similar ideas and rules as a result of India's active engagement and advocacy.

India's related legislation and implementations

Various laws have been passed, including

1. The Water (Prevention and Control of Pollution) Act of 1974

2. The Forest (Conservation) Act of 1980

3. The Air (Prevention and Control of Pollution) Act of 1981

4. The Environment (Protection) Act of 1986

8.8 Conclusion

Adhering to the Sustainable Development Goals is undeniably the need of the hour. It is time for each of us to adopt an 'energy-efficient and green' mindset and use the natural resources available equitably and prudently, saving them for future generations because the greatest way to forecast the future is to form it.

As a result, India must work hard to achieve its sustainable development goals by appropriate planning, coordination, and execution of practices and policies that aid in the establishment and maintenance of a self-sustaining and developed country.

8.9 Summary:

- The concept of the interrelationship between the economy and law is regarded as critical in light of standard-of-law guidelines, which are specially implemented in the work of national and global legal bodies.
- It is argued that, in states of general globalization, the connection between financial and legal fundamentals is significantly related because successful market relations exist only in a legal structure.
- To improve and safeguard the environment from pollution, there must be a balance between environment and growth.
- Sustainable development is founded on the idea that natural resources should be used for the benefit of both current and future generations.

- As we all know, rising industrial activity demands the utilization of natural resources, which are rapidly dwindling. It is also true that the necessity for resource conservation, efficient resource use, and environmentally friendly corporate policies and behavior is now widely recognized worldwide.
- While being globally conscious, the country requires an environmental policy and planning that is based on local needs.
- Finally, suppose sustainable development is to move beyond wishful thinking and sloganeering. In that case, the world (developed and developing) must move toward a new world order in which new economic and technological orders are intertwined. Such an order must benefit the poor because poverty and inequality are the weakest links in the chain of sustainable development. If the principles of sustainable development are followed, a country's economic growth and industrial development can be balanced with environmental conservation.

8.10 MCQ

1. Green marketing is a term that refers to

a) purchasing products from suppliers whose farming techniques have been certified as Fair Trade.

b) the marketing efforts of newer and smaller businesses that lack the experience and resources of their larger competitors.

c) marketing initiatives to develop, promote, and reclaim ecologically friendly products.

d) the sale of products that have not been altered or reprocessed artificially.

e) the promotion of items made entirely of recycled materials.

2. Green marketing is a subset of

a) social media marketing

b) Marketing of services

c) Relationship marketing

d) Marketing in rural areas

3. Any contaminated elements that leak into the ground, filter, and are carried into a groundwater reservoir are referred to be.

a) Land pollution

b) Noise pollution

c) Water pollution

d) Air pollution

4. What exactly is sustainable development?

a) Development that meets the needs of the present without jeopardizing future generations' ability to meet their own needs.

b) To conserve natural resources and create alternative energy sources while reducing pollution and environmental impact.

c) It is the process of developing land and construction projects in a way that decreases their environmental impact by allowing them to generate energy-efficient self-sufficiency models.

d) All of the preceding

5. Which of the following is/are not a sustainable development goal?

a) Continue with the family planning program.

b) Maintain a dynamic balance of arable land (no less than 123 million hectares) and put an agricultural development strategy in place.

c) Maintain a dynamic balance of water resources by lowering water usage for each unit of GDP growth and agricultural value-added.

d) To cause a gradual and sometimes catastrophic transformation of the environment

6. What are the main objectives of sustainability?

i) The abolition of poverty and hunger

ii) Higher education and healthcare standards, notably in terms of water quality and sanitation.

iii) Achieving gender equality

iv) Long-term economic growth while creating jobs and strengthening economies

Code:
A. I, II & III
B. I, III & IV
C. I & III
D. I, II, III & IV

7. Which of the following statement is true about low-income countries?

a) Less than 10% of the labor force is in agriculture.
b) The average agriculture family produces a surplus large enough only to supply a small non-agriculture population.
c) One-third of the labor force produces food.
d) Share of labor force is about 30%.

8. According to Lewis's model, the dual economy grows only when

a) the modern sector increases its output share relative to the traditional sector.

b) agricultural sector uses modern equipment.

c) agricultural sector hires labor economically.

d) modern manufacturing sector is labor-intensive.

Ans:

1	2	3	4	5	6	7	8
c	b	c	a	d	d	b	a

8.11 Short questions

1. Define economic development.
2. State the importance of Green marketing methodology.
3. State two major roles of Green marketing in business.
4. Write two differences between Green marketing and traditional marketing.
5. State two impacts of technology on environment.
6. What is trash technology?
7. Write the 3 basic goals of sustainable development.
8. Mention one principle of sustainable development.

8.12 Long questions

1. What is Green marketing, and how does it affect the ecology as well as the economy?
2. Define Environmental technologies.
3. What do you mean by sustainable development, and what are the initiative and movements done for that?
4. Define the principles of sustainable development.
5. Write the difference between Traditional marketing and Green marketing.

6. Why is sustainable development important for a country and how does it affect the ecology?

Key terms:

- PESTLE
- Inflation
- GDP
- Economy
- LAF
- MSF
- CRR
- Repo Rate
- Budget
- Socialist
- Totalitarianism
- Environment Protection
- Consumer Protection
- FDI
- WTO
- MNC
- IMF

Glossary:

Badla system: Badla was an indigenous carry-forward method developed on the Bombay Stock Exchange as a remedy to the secondary market's chronic lack of liquidity.

Bonds: Companies and governments issue bonds to borrow money from investors for significant projects and other purposes.

Capitalism economy: A common conception of capitalism is as an economic system where individual actors own and control property according to their interests and where supply and demand freely determine market prices in a way that can best serve society. The desire to turn a profit is capitalism's fundamental characteristic.

Commodities: A commodity is an economic good, usually a resource, with full or substantial fungibility: the market accepts instances of the product as comparable or nearly so regardless of who produced them.

Competition law: The corpus of regulations known as competition law is designed to eliminate market distortion brought on by corporations' anti-competitive behavior.

Economic environment: The phrase "economic environment" refers to all the external economic elements that have an impact on how customers and businesses make purchases and, consequently, how well a company performs. These elements, which can be either large-scale (macro) or small-scale, are frequently outside of a company's control (micro).

Economic policy: Governments utilize a variety of strategies to manage their economies, which are referred to as economic policies. These include fiscal policy, budgeting, taxation, and monetary policy (money supply and demand).

FDIC: It is a federal organization that insures deposits in US banks and thrifts in the incident of bank failure. The FDIC was established in 1933 to promote sound banking practices to maintain public trust and stability in the financial system.

FINRA: the Financial Industry Regulatory Authority—is a government-authorized not-for-profit organization that oversees U.S. broker-dealers to protect investors and preserve market integrity**.**

Fiscal policy: The use of taxation and expenditure by the government to affect the economy is known as fiscal policy. Fiscal policy is often used by governments to encourage robust, long-term growth and to lower poverty.

Forex market: Foreign exchange market (forex, or FX, market), an institution for exchanging one country's currency for another. Because the trading between specific currencies—say, the euro and the US dollar—each represents a market; foreign exchange markets are made up of many separate markets.

IMFS: An IT-based budgeting and accounting system called an integrated financial management system (IFMS) oversees expenditures, processing payments, planning, and reporting for governments and other institutions.

Monetary policy: A country's central bank can use a variety of measures known as monetary policy to encourage stable economic growth by regulating the overall amount of money that is accessible to the country's banks, consumers, and enterprises.

MRTP: Monopolistic trading practices refer to market-dominating trade tactics where a company or an oligopolistic corporation made up of three companies achieves a dominant position. The next step is to exert control over the market by stifling rivalry or setting limits on prices and production.

NAV: An investing company's "net asset value," or "NAV," is the sum of its total assets minus its total liabilities.

NEFT: It is a safe, affordable, dependable, and effective method of transferring money between banks. The remitter must provide the appropriate information, including the beneficiary's name and account number, the bank's name and branch information, and the beneficiary branch's IFSC code, at the time of the transfer of funds.

PESTLE: The full form of Political, Economic, Social, Technological, Legal, and Environmental factors.

Political environment: Political situations such as the nation's overall stability and peace, as well as the approach taken by the elected government toward business, are all included in the political environment. The decisions made by a stable political system can support local firms and draw in foreign investors**.**

RTP: By limiting or restricting it, restrictive trade practices (RTP) have the effect of distorting market competition. Refusal to deal, tie-up sales, exclusive dealing, price discrimination, resale price maintenance, etc., are a few of the RTPs. These RTPs were all determined to be against the public interest.

RTGS: Real-time gross settlement systems are specialized funds transfer methods that allow for the "real-time" and "gross" movement of monies and securities from one bank to any other bank.

SEC: It isthe federal government agency in charge of the securities industry in the United States. It keeps track of transactions and the activities of financial professionals.

Socialism economy: In contrast to a capitalist economic system, which produces products and services to create profit, a socialist economy produces things and services directly for use (and therefore indirectly for use). "Under socialism, production would be used only and exclusively for use.

Rio declaration: It refers to a document that establishes principles for state-to-state relationships as well as state-to-citizen relationships in the sphere of environment and development.

UTP: Businesses that use dishonest, dishonest, or otherwise unethical means to obtain an edge or make a profit are said to be engaging in unfair trade practices.

Suggested Reading

1. sPatrick J. Cihon and James O. Castagnera, Employment and Labor Law, South-Western College.

2. Law, Business, and Society, 13^{th} Edition, By Tony McAdams and Kiren Dosanjh Zucker and Nancy Neslund and Kari Smoker

3. Richard Schaffer, Beverley Earle and Filiberto Agusti, International Business Law and Its Environment, South-Western College, 2005.