

The economic environment in which a business operates has a great influence upon it. In this lesson, you'll learn about the economic environment in business, including its various factors and.

The Economic factors affecting business environment Article shared by Business, now-a-days is vitally affected by the economic, social, legal, technological and political factors. These factors collectively form business environment. Business environment, as such, is the total of all external forces, which affect the organisation and operations of business. The environment of an organisation has got internal, operational and general lives managers must be aware of these three environmental levels and their relationship and importance. It implies all external forces within which a business enterprise operates. Business environment influence the functioning of the business system. Thus, business environment may be defined as all those conditions and forces which are external to the business and are beyond the individual business unit, but it operates within it. These forces are customer, creditors, competitors, government, socio-cultural organisations, political parties national and international organisations etc. Business environment as such are classified into the following three major categories, they are: Both internal and operational environment are the creation of the enterprise itself. The factors of external or general environment are broad in scope and least controlled and influenced by the management of the enterprises. Now we discuss those factors in details as below: Economic dimensions of environment Economic environment refers to the aggregate of the nature of economic system of the country, the structural anatomy of the economy to economic policies of the government the organisation of the capital market, the nature of factor endowment, business cycles, the socio-economic infrastructure etc. The successful businessman visualizes the external factors affecting the business, anticipating the prospective market situations and makes suitable to get the maximum with minimize cost. Social dimensions or environment The social dimension or environment of a nation determines the value system of the society which, in turn affects the functioning of the business. Sociological factors such as costs structure, customs and conventions, cultural heritage, view toward wealth and income and scientific methods, respect for seniority, mobility of labour etc. These factors determines the work culture and mobility of labour, work groups etc. For instance, the nature of goods and services to be produced depends upon the demand of the people which in turn is affected by their attitudes, customs, so as cultural values fashion etc. Socio-cultural environment determines the code of conduct the business should follow. The social groups such as trade unions or consumer forum will intervene if the business follows the unethical practices. For instance, if the firm is not paying fair wages to its business in indulging in black marketing or adulteration, consumers forums and various government agencies will take action against the business. Political environment The political environment of a country is influenced by the political organisations such as philosophy of political parties, ideology of government or party in power, nature and extent of bureaucracy influence of primary groups etc. The political environment of the country influences the business to a great extent. For instance, the Government of India, bottling and sale of cocoa-cola was discontinued in India in the late seventies following policy of restricting the growth of multinationals in Indian markets. But, its entry was allowed under the New Industrial policy of Under this new policy, government allowed liberalized licensing, imports and exports, inflow of foreign capital and technology on more liberal terms. The trend towards globalization and signing of GATT in have posed new challenges before Indian business. Legal regulatory environment Legal environment includes flexibility and adaptability of law and other legal rules governing the business. It may include the exact rulings and decision of the courts. These affect the business and its managers to a great extent. For instance, in , the Supreme Court ordered the closure of a number of tanneries in Kanpur as they were polluting Holi Ganga. In August several foundries around the famous Taj Mahal were ordered to be closed down because of air-pollution caused by them had adverse impact on the whiteness of Taj Mahal. Technical environment The business in a country is greatly influenced by the technological development. The technology adopted by the industries determines the type and quality of goods and services to be produced and the type and quality of plant and equipment to be used. Technological environment influences the business in

terms of investment in technology, consistent application of technology and the effects of technology on markets. In India, advancements in automation and information technology have posed the challenging situation for the organisation in future.

Chapter 2 : Economic Factors Affecting Businesses | Your Business

The economic environment of business is affected by internal and external factors. An internal factor that affects the business environment is the cost of labor, materials, processes and procedures. Internal factors can be improved through company projects.

Factors Affecting the Economic Environment of Business by Hunter Taylor - Updated June 25, The economic environment of business is affected by internal and external factors. An internal factor that affects the business environment is the cost of labor, materials, processes and procedures. Internal factors can be improved through company projects. The primary influences on a business are: Political Factors The political environment affects the economic environment of businesses. Legislators at the local, state and federal levels may provide incentives or tax breaks to companies or they can impose regulations that restrict business transactions. In the latter case, for example, if a political body states that a company must include a certain chemical in its product, the cost of the product differs. The company passes those costs on to the customer in the form of higher prices. The customer must determine whether he wants to purchase that product. If he does not purchase the product, then the company does not receive the revenue. If a large number of customers decide not to purchase the product, the company may need to layoff employees. During a recession, consumers spend less on optional items such as cars and appliances. As a result, the business environment suffers. On the other hand, if the economic environment is one of prosperity, consumers are more likely to spend money, not just on necessities, but larger items as well. Video of the Day Brought to you by Techwalla Brought to you by Techwalla Social Factors Social factors that affect the economic environment of a business are the cultural influences of the time. For example, a fashion designer that creates bell bottom, striped pants will not succeed in an environment where straight-leg, solid colored pants are desired. A social environment that tends to be more conservative will not support styles that appear to be trendy. The same would apply to the manufacturers that produce and stores that sell these wares. Legal Factors Often, a business will need to change how it operates for legal reasons. For example, if a part in a machine is found to be defective, the company may need to issue a recall. If other companies in the same industry are being sued over something like a data breach of confidential information, a business may need to change how information is collected and stored. Technological Factors Innovation and technology affect business environments. As technology advances, a business is forced to keep pace. For example, when computers were first invented, they were the size of a room. Users were forced to employ punch cards to perform basic functions. Today, computers that are much more powerful can fit into the palm of a hand. Businesses that do not keep up with technology risk increased costs of production and higher prices. Environmental Factors The environment can have a direct and indirect affect on how a business operates. Businesses in the food industry are routinely affected by the environment. Droughts or disease can affect pricing models and even the ability of food processors, grocery stores and restaurants in obtaining sufficient supplies to meet consumer demands. Indirect environmental factors can affect any business by creating changes in societal expectations and government laws and regulations in efforts to protect the environment. For example, in , California citizens voted for a law to ban the use of single-use plastic bags, affecting the majority of retailers in that state.

Chapter 3 : The Economic Environment of Business: John Sloman: blog.quintoapp.com: Books

Definition of economic environment: The totality of economic factors, such as employment, income, inflation, interest rates, productivity, and wealth, that influence the buying behavior of consumers and institutions.

Classification of Business Environment: Internal and External Article shared by: After reading this article you will learn about the internal and external business environment. Survival of a business depends upon its strengths and adaptability to the environment. The internal strengths represent its internal environment. It consists of financial, physical, human and technological resources. Financial resources represent financial strength of the company. Funds are allocated over activities that maximise output at minimum cost, that is, optimum allocation of financial resources. Physical resources represent physical assets such as plant, machinery, building etc. Human resources represent the manpower with specialised knowledge that performs the business activities. The operative and managerial decisions are taken by the human resources. Technological resources represent the technical know-how used to manufacture goods and services. Internal environment consists of controllable factors that can be modified according to needs of the external environment. The external environment consists of legal, political, socio-cultural, demographic factors etc. These are uncontrollable factors and firms adapt to this environment. They adjust internal environment with the external environment to take advantage of the environmental opportunities and strive against environmental threats. Business decisions are affected by both internal and external environment. The external environment consists of the micro environment and macro environment 1. These factors affect the performance of a company and its ability to serve the customers. Micro environment consists of customers, suppliers, competitors, public and market intermediaries. Customers constitute important segment of the micro environment. Business exists to serve its customers. Unless there are customers, business has no meaning. A company can have different types of customers like, households, producers, retailers, Government and foreign buyers. They supply inputs money, raw material, fuel, power and other factors of production and help in smooth conduct of the business. Firms should remain aware of the policies of suppliers as increase in prices of inputs will affect their sales and profits. Shortage of supplies also affects the production schedules. Firms should have more than one supplier so that change in policies of one supplier does not affect their production schedules. Competitors form important part of the micro environment. Firms compete to capture big share of the market. Companies observe the behaviour of these groups to make functional policies. They are the links that help to promote, sell and distribute the products to final consumers. They are the physical distribution firms transport firm , service agencies media firms , financial intermediaries banks, insurance companies etc. Firms maintain good relations with them to carry their activities smoothly. All these factors are largely controllable by the firms but they operate in the larger macro environment beyond their control. The macro environment consists of the economic and non- economic variables that provide opportunities and threats to firms. This is largely uncontrollable and, therefore, firms adjust their operations to these environmental factors. The macro-environment consists of the following: The economic environment consists of economic forces that affect business activities. Industrial production, agriculture, infrastructure, national income, per capita income, money supply, price level, monetary and fiscal policies, population, business cycles, economic policies, infrastructural facilities, financial facilities etc. The economic environment influences the activities of business enterprises. In the capitalist economies, firms have the freedom to choose the occupation. The economic decisions to invest, produce and sell are guided by profit motives. The factors of production are privately owned and production activities are initiated by the private entrepreneurs. In socialist economies, these decisions are taken by the public sector which is guided more by social welfare than profit maximisation. The economy is controlled by the central master plan prepared by the State. In a mixed economy, public and private sectors co-exist and singly or jointly own the factors of production. Scarce economic resources are allocated over various business activities. Decisions regarding allocation of resources which respect to what to produce, how to produce and for whom to produce; nature of technology and the techniques of production, timing of production etc. This constitutes economic environment of the economy. The economic environment

affects business in the following ways: Free market economy and centralised planning exist together, though in varying degrees. In the world of liberalisation and globalisation, state planning is combined with free pricing to make macro-economic decisions for business entrepreneurs and welfare of society. It enforces upon business enterprises the responsibility of social responsiveness towards society by welfare-state principles enacted through legislation that enforce minimum wages, commodity control, fair trade practices etc. Legislative machinery promotes economic growth, efficiency and equity. Social responsibility is the outcome of business interaction with economic environment. A restrictive import policy, for example, protects home industries but liberal import policy can harm the domestic industries. To enjoy the economies of scale, firms establish the business in large cities but the Government promotes them to establish their units in backward areas by providing various tax incentives. The economic environment of a country, thus, removes regional disparities and promotes equitable growth of the economy. The economic environment of one country affects the economic environment of another country. Multinational corporations operate world-wide and provide a number of benefits to host countries and home countries. This has developed science and technology and unified the world economy. The economic system helps in answering questions like: Is it the right time to set up the business? Can new products be added to the product line? Is the market size large enough to provide desired rate of returns? Is the environment conducive in terms of availability of manpower, infrastructure, raw material, finance, building, plant and machinery etc.? The economic environment, thus, plays vital role in shaping the culture of the economy. Market forces and State planning provide the constraints within which business enterprises carry out their functions. It consists of socio-cultural, demographic, natural, physical, technological, political and legal environment that influence and are influenced by the economic environment. A large number of variables affect the non-economic environment. Some of the important areas of non-economic environment are discussed below: It is the legislative, executive and judicial environment of the country that shapes and controls business activities. The legislature describes the laws and courses of action to be followed by firms, the executive implements the decisions taken by the legislature Parliament and the judiciary ensures that legislature and executive function in the interest of the society. A stable political environment is conducive to business growth. A business operates in the environment of Government regulations. Various laws are made to regulate the functions of business enterprises. They relate to standards of product, packaging of products, protection of environmental and ecological balance, ban on advertisement of certain products liquor, advertisement of certain products with statutory warning cigarette etc. There are laws to prevent restrictive trade practices and concentration of economic power in few hands. Regulations promote entry of firms in backward areas and products are reserved for small-scale sector. Liberalisation policies have allowed the Indian industries to operate in international markets and foreign companies to operate in Indian markets. This allows growth and diversification of markets and access to advanced science and technology for Indian entrepreneurs. At the same time, it threatens the small Indian companies that cannot compete with large foreign companies. The political-legal environment provides a host of laws and regulations that affect the business affairs. It provides opportunities, threats and challenges for the business enterprises. The Government interacts with business enterprises at the local level, State level and the Central level and regulates their functions through various rulings. Government interacts with the business in the following ways: It regulates the affairs of the business by promoting activities in certain areas and restricting in others. The political and legal environment, thus, performs two important roles: It stimulates business enterprises by providing incentives either to small-scale sector in terms of reserving goods for them which cannot be produced by large-scale business houses, big industrial houses to set up in backward areas, providing development facilities to industries industrial estates, financing facility etc. Business organisations have to work within the legal framework of the country. Laws have to be obeyed and judicial interpretations have to be followed. It supplies resources to business concerns. It competes with private entrepreneurs in areas like telecommunication, electricity, construction etc. It supports business houses by buying their products. Firms should have healthy interaction with the Government. They should indulge in activities that promote economic growth and know the legal system. Some of the laws that exist in the country for smooth operation of business enterprises are as follows: It represents the values, culture, beliefs, norms and ethics of the society in which

business enterprises operate.

Chapter 4 : Factors Affecting the Economic Environment of Business | Bizfluent

As a business needs to cater for the demands of an economic environment potent blog.quintoapp.com, The luxury brands perform hearty during an economic upswing, much more than the organizations which their outcome is essential offerings.

Macro Environment of Business: Read this article to know about classifications of Macro Environment, they are: Economic Environment and Non-Economic Environment! These factors are uncontrollable and the company is powerless and incapable of exercising any control over them. Macro environment can be classified into economic environment and non-economic environment. Since the business is basically an economic activity, economic environment of business both national and international gets importance. The economic environment of the country includes economic system, macroeconomic parameters, and stages of business cycle, financial system and economic policies of the government. Non-economic environment includes political system, government policies, legal framework social system, cultural values, demographic factors, technological development and natural environment of the country. Intact, all these factors are very relevant to the present business. A Economic Environment of Business: Economic environment of business has reference to the broad characteristics of the economic system in which the business firm operates. The present day economic environment of business is a mixture of national and international environments. The existing economic environment of business is highly complex and it is not easy to comprehend it. It is the reason the firms operating in the same economic environment often take different decisions. The business sector has economic relations with the government, capital market, and household sector. These different sectors together influence the trends and structure of the economy. Individually business firms can do little to change their economic environment. But collectively business firms can do a lot to make economic environment conducive to their activities. Now business firms organise the associations to influence the policies of the government. They exercise considerable influence on the government and thereby attempt to mould economic environment in their favour. The economic condition of a country, for example level of income, distribution of income and assets, economic resources, and stages of development are among the very important determinants of business strategies. Economic conditions are those forces in the economy, such as consumer buying power, consumer spending behaviour and the business cycle, that influence organisations abilities to compete and consumers willingness and ability to purchase goods and services. In countries, where investment and income are steadily and rapidly rising, business prospects are generally bright and further investments are encouraged. There are a number of economists and businessman who feel that the developed countries are no longer worthwhile propositions for investment because there economics have reached more or less saturation levels in certain respects. The low income may be the reason for very low demand for a product in a country. The sale of a product for which the demand is income elastic naturally increases with an increase in income. But the firm is unable to increase the purchasing power of the people to generate a higher demand for its product. Hence it may have to reduce the price of the product to increase the sales. The reduction in the cost of production may have to be effected to facilitate price reduction. It may even be necessary to invent or develop a new low-cost product to suit the low income market. To study the national environment, under the economic environment, a business firm generally studies the following factors and trends: These factors determine the purchasing power, along with savings and credit availability. Study and knowledge of economic forces is essential for preparing effective business plans. No firm is immune to economic forces although some are less vulnerable than others. Anticipation of future economic conditions will enable the firm to devise appropriate strategies. The economic policy of the government has a very great impact on business. Some categories of business are favourably affected by government policy, while some adversely affected. Any way the government concern over the economic power should spread all around the nation. The environment consists of those factors which have an impact on foreign trade of a country. Those factors may be foreign policy, international treaties and foreign investment policy and various acts which are concerned with the dealings with other countries in trade matters. With the charges in government and their policies, there will be change in international environment.

With the introduction of economic reforms and the policy of liberalisation in our country, our exports have increased considerably and many foreign companies started to trade with our country. With the formation of World Trade Organisation WTO , there is a tremendous change in the international trading environment. The new economic policy of India is expected to encourage the internationalisation of Indian business with removing all international environmental obstacles. The increasing domestic competition is compelling many companies to pursue International Trade. The foreign collaborations is enabling Indian companies to upgrade their production methods.

B Non-Economic Environment of Business: The non-economic environment exercises a strong influence on the business. We will now discuss them one by one. In India, the social environment of a business consists of the class structure and mobility, social roles, nature of the social organisation and development of social institution. Basically the class structure in the society depends upon the occupation of people and their income levels. In rural areas, the occupational groups consist of farmers, artisans and traditional craft workers. There is little scope of mobility among the social classes in such a society. The urban areas are comprises of doctors, engineers, lawyers, software professionals, industrial workers, government servants as well as business people. The mobility among such people is compared to be high. In an urban social setting, business growth and development is based on modern social groups, and social institutions. But on the other hand, the rural society is also more demanding as regards the social responsibilities of business. Every Society in India develops it s own culture over a time and this culture determines, how its members behave and interact with each other. Since the society is a collection of the organisations and social institutions, it is evident that they are affected to a considerable degree by cultural forces in the environment. The social norms are those standards that mould behaviour, attitudes, and values of those members who constitute a society. They are standards, because members take them into account in their decisions and behaviour. In other words, one can say that behaviour and attitude actually reflect the prevailing norms within a society or an organisation. Every organisation develops its own internal culture. The management or managers generally to create, that will help to maintain a common behaviour. The organisations are supported by three legs: Each of these legs plays an important part in the life of an organisation. In a modern business, social and cultural forces usually influence the welfare of a business concern in the long run. The nature of goods and services in demand depends upon the changes in habits and customs of people in the society. With rise in population the demand for household as well as other goods has increased. The nature of food and clothing pattern has also changed to a great extent. Demand for packaged food and readymade garments have increased in recent times. All these force the business to produce goods accordingly. So the social and cultural factors have affected the production pattern of business. The natural environment consists of Geographical environment and ecological environment. Geographical considerations influence and determine the number of business decisions. Tea and coffee cultivators are preferred to be located in hill regions, where the climate is suitable for cultivating the crops. The people tend to have similar tastes in a particular geographical region. Thus, the product very much consumed by South Indian people, may not find buyers in northern India, because of regional differences. Also, the availability of raw materials like minerals and other products in a particular geographical region affects locational decisions of a business. Because it is always cheaper to transport finished product as compared to raw material. For example, the steel plants are invariably located near the iron ore mines. The natural structure of the area, i. The manufacturing units and factories, for instance, will not be suitably located in the hilly regions for difficulties in transport, unless raw materials availability or suitable climatic conditions justify its location in that region. Similarly, what should be produced Or traded to a great extent depends upon the geographical environment. To preserve the society, it is important to protect the environment. Therefore, every business must take measures to protect the environment rather than damaging it. Nature has given us: It will create an environment to live. Our health is largely dependent on the quality of such environment. However, it is observed that the quality of this environment is deteriorating day by day. We are getting neither pure water to drink nor clean air to breathe. We are also suffering from various diseases because of such lower quality of environment. When the quality of environment deteriorates, it is said that the environment is getting polluted. Thus, environmental pollution refers to contamination of environment by various substances that have adverse effects on living and

non-living matters. Air pollution refers to the presence of any unwanted gases, dust particles etc. Some of the common causes of air pollution are: Emission of fumes from vehicles. Emission of smoke dust and chemicals from manufacturing plants. Emission of gases and dust arising from atomic plants.

Chapter 5 : Chapter 2: The Economic Environment

Since business is an economic activity, the business firm is an economic unit and the business decision making is an economic process, it is the economic environment of business which is a relevant consideration in evaluating business policy-business strategy and business tactics - of any corporate entity in any economy.

This pattern is repeated throughout Africa and Asia in general. Comparative costs - comparative advantage As discussed in chapter one, price has been called the immediate basis for international trade - cheaper prices based on different cost structures, especially labour. Countries trade because they produce and export goods in which they enjoy a greater comparative advantage and import goods in which they have a least comparative advantage. A further refinement of this is the international product cycle discussed fully in chapter one.

Balance of payments This is the measure of all economic transactions between one nation and another. The balance of payments is made up of the current account, showing trade in goods and services; and the capital account, which shows financial transactions. The balance of payments account helps marketers select the location of supply for foreign markets and the selection of markets. The capital account may show the nations which have control restrictions and hence be difficult to deal with. In this regard, African nations are generally disadvantaged.

Government policy This refers to the government measures and regulations which have a bearing on trade - tariffs, quotas, exchange controls and invisible tariffs. These can cause formidable barriers to marketers and will be dealt with at length later. The Kennedy Round of the s was superseded by the Tokyo round of the s and that by the current Uruguay round signed in It seeks to improve the prices of primary goods exports through commodity agreements. It also established a tariff preference system favouring developing nations.

Regionalism Regionalism is a major and important trade development. With these developments, free trade zones have occurred all internal barriers abolished economic unions the EU , export pricing zones Mauritius and other schemes. The major regional economic organisations are: These blocs are of various form, power, influence and success. Many developing countries have entered into trading blocks as a reaction against loss of developed country markets or as a base to build economic integration and markets. The development of trading blocs can bring headaches and advantages to trade. The system fell down because large corporations were holding more funds than banks and so a "float" set in. IMF began to fade somewhat. However it still lends, on a short term basis, to countries with payment problems to help them continue trading. It provides long term capital to aid economic development. The role of the World Bank has often been criticised especially on its conditionalities for loans to Africa in funding structural adjustment and trade liberalisation programmes. However many developing countries require institutional funding to help them with trade and balance payment problems. Other major lenders include the EU and bilateral donors and agencies who have provided money for developmental projects. However, the balance of economic power in recent years, has shifted towards the Pacific rim, especially Japan and the Asian Tigers. Individual economies Whilst the global factors listed above have aided the development of a world economy, marketers must consider carefully individual economies. A study of these helps answer the questions - how big is the market and what is it like? Currently there are over individual countries in the world. Size of market General indications of market size include population growth rates and distribution and income distribution, per capita, GNP. In general, the larger the population, the bigger the market. However there is no correlation between income level and population. China has 2 billion plus people, India 1 billion, Zimbabwe 8 million. In the USA population of Different countries experience different population growth rates. In the early 90s, the UK had an annual growth rate of 0. Low income countries and oil rich countries have the largest growth rates. Growth rates have a dual edge - they are good for sales but bad for world resources. The world population, currently standing at 5 billion is experiencing a rapid growth rate. It is expected to reach 7 billion by the end of the century. The strain on world resources is likely to be very large. The distribution of the population is also important. Different age groups have different needs and population density should mean good market potential, the higher the better. The Netherlands have persons per square mile, Bangladesh 1, but the USA only 65 persons per square mile. No one has yet been able to assess accurately the impact of the AIDS

pandemic on world population and economic activity. Markets are not markets without money to spend. Interestingly, there is an inverse correlation between GNP per capita and income elasticity of demand for food. Asia has a 0. The distribution of income is very uneven. This bimodal distribution of income means marketers must analyse two economies in a country. Per capita measures have therefore, many limitations. Per capita is usually reflected in US dollars and is only valid for comparison if exchange rates are equal. Exchange rates reflect international goods and services in a country but not domestic consumption. Another limitation of per capita measures is the lack of comparability with the figures themselves. The US budget contains food, clothing and shelter. In many of the less developed nations these items may be largely self provided and therefore not reflected in national income tables. Also in the UK, snow equipment is included, and this is not, obviously, in Africa and parts of Asia. Other limitations are that sales of goods are not well correlated with per capita income and if there is great unevenness in income distribution, per capita figures are less meaningful. Product saturation can be equally troublesome in affecting market potential. Africa trails far behind see table 2. However, when evaluating markets it is wise to consider individual product areas.

Chapter 6 : Impact of Economic Environment on Business

Economic environment of business has reference to the broad characteristics of the economic system in which the business firm operates. The present day economic environment of business is a mixture of national and international environments.

Impact of Economic Environment on Business Article shared by: The economic environment can have a major impact on businesses by affecting patterns of demand and supply! Companies need to keep a track of relevant economic indicators and monitor them over time. One of the most important factors in the economic environment is the income of customers. This indicates their ability to spend on the products sold by the marketer. The marketer not only needs to estimate the income of customers, but he also has to decipher the products on which the customer would be willing to spend his money. The rise in the number of dual income families in several parts of the world, including urban India has led to a rise in the incomes for such families. This has resulted in a higher demand for lifestyle and luxury products. The proportion of money spent by a customer on various products varies across cultures. Some products, for instance, dishwashers, which are considered to be necessities in western markets, do not even fall into the consideration set of consumers in the Indian market. Therefore, despite having a higher income, customers will not spend on products that are not considered to be desirable. Inflation is an important economic indicator of an economy. Inflation refers to an increase in prices without a corresponding increase in wages, resulting in lower purchasing power of consumers. An economy should try to achieve low rate of inflation. The best way to achieve a low rate of inflation is to ensure that products and services are produced efficiently. When cost of production of products and services are low, they will be sold at lower prices and hence inflation will be low. An artificial way to reduce inflation is by restricting supply of money in the economy by raising the interest rates at which consumers and businesses can borrow money. There will be less demand and supply will be higher, forcing suppliers to reduce their prices. But this can only be a short-term approach because restricting the supply of money will reduce the output of businesses, and lower the level of economic activities. This will be dangerous to the economy. The effort should be to increase productivity and efficiency of all economic activities. Inflation rate is higher when costs of producing products or services go up, or when there is too much money chasing too few supplies, prompting suppliers to raise prices and earn higher profits. High inflation rate decreases real wages, i. Inflation will reduce the demand for several products because the customer will ration his income on goods. In inflationary times, customers stock items to save themselves from further increase in prices and abandon their favourite brands to buy more economical brands. When costs of production go up, companies should try to withhold increasing prices for as long as possible, because customers do not start valuing the product more because it is more costly. In the long run, companies will have to look for better methods of production and cheaper inputs so that the cost of production can be brought down. If inflation exists because the supplies are less than the demand, the money supply can be restricted in the short run, but in the long run, companies will have to expand capacities and increase their supplies. Recession is a period of economic activity when income, production and employment tend to fall. Demand for products and services are reduced. Specific activities cause recession. The slowdown in the high-tech sector, rising fuel prices, excessive consumer credit and terror attacks resulted in recession in America in Marketing strategies to counter recession are: Companies should improve existing products and introduce new ones. The idea is to reduce production hours, waste and the cost of materials so that companies can offer products at lower prices. Recession increases the demand for products and services that offer good value at lower prices. Business buyers buy products that are economical and efficient, offer value, help them to streamline practices and procedures, and improve their services to their customers. The idea should be to prompt consumers and business customers to buy more. The most potent way to end a recession cycle is to make it attractive for customers to buy more. Sellers should be willing to extend credit to buyers to get over their reluctance to purchase. In recession, sales of replacement parts and other services may become an important source of income. Companies should emphasize their top-of-the-line products and should promote product value.

Customers with less to spend will look for demonstrated quality, durability and capability to save time and money. High priced, high value items do well during recession. Companies should understand that though there are specific causes that trigger recession, it is perpetuated because consumers and businesses become uncertain about the future and are reluctant and scared to buy. They want to save for the worst time that will descend on them. Companies selling to consumers have special responsibility during recession. Once consumers start buying, businesses will start buying automatically. Therefore companies selling to consumers should generate confidence among them by offering them high quality products and services at reasonable prices and also extend credit to them. Companies should be prepared to do whatever it takes to make the consumers buy from them. If interest rate in an economy is high, businesses will borrow capital at a higher rate and they will set up new businesses only when they are convinced that they can earn at a rate higher than the interest rate they are paying on the capital. Therefore if the interest rates are high, new businesses will not come. Even among existing businesses, operating costs would go up as their working capital requirements will attract higher interest rates. Therefore, companies will be able to produce products and services at higher costs and will perforce sell them at higher prices. Therefore, there will be inflationary tendencies if interest rates are higher for long periods. Further, consumers will have strong tendencies to save because of the prospect of earning higher interest rates from their deposits. High interest rates have detrimental effects on the economy. When the interest rate is lower, companies can get cheap capital, and the pressure to earn at a higher rate from their new business is less. Therefore new businesses are likely to be set up in the low interest regime. Further, companies are able to get their working capital at lower interest rate, and are able to produce products and services at lower costs. Companies are able to sell at lower prices and hence are able to attract larger number of customers. Customers are also able to get loans at lower interest rates and are hence able to buy products and services which they would not have been able to buy otherwise. When customers are able to avail of loans at low interest rates, sale of expensive items like houses and cars go up. Customers do not have to save and accumulate to buy these products. They take loans, buy the products, and keep paying back the loans in small installments. Lower interest rate is one sure way to spur consumer purchases. Also, consumers are not too keen to save because their money will not grow rapidly due to lower interest rate. They would be keener to spend their money. And when they invest, they are more likely to do so in equity markets because they are more likely to get higher returns there. Therefore business will get impetus because finance in the form of equity capital will be available to them. Exchange rate becomes a very important driver of performance when a company exports its products, and when it imports materials and components for making its products. It is more profitable to export when the currency of the exporting country is weaker than the currency of the importing country. But this advantage is nullified if materials and components are imported from a country whose currency is stronger. A company will run its most profitable operations when it exports its product to a country whose currency is stronger, and imports material and components from a country whose currency is weaker. Exchange rate has become more important, as supply chains of most companies are becoming global in scope, i. A company may have located its manufacturing facility in a country, say India, because of advantages of lower labour cost. But if the Indian currency appreciates, this decision will not fare well, because exports from India will become costlier for the importer. To minimize the adverse effects of exchange rate, a company will locate its manufacturing facilities in multiple locations throughout the world and have some extra capacity at each of the manufacturing locations. The company will export from manufacturing locations in those countries whose currencies are weaker than the currencies of countries to where they are being exported.

Chapter 7 : Meaning and Definition of Economic Environment

Economic factors that influence the business are the collective of the nature of the country's economic system, its structures, and economic policies, how the capital market is organized, and nature of factors of production, business cycles, and socio-economic infrastructure. Any successful organization pictures out the external factors that.

Chapter 8 : What is Economic Environment? definition and meaning

The Economics of Mobile Ad Spend Market - Business Operations - Big Market Research, The Economics of Mobile Ad Spend Market Size, Share, Forecast, Trends, Analysis, Growth, Segment, Global

Chapter 9 : The Economic factors affecting business environment

Definition of economic environment: A qualitative evaluation of several key economic factors, undertaken in order to predict the success of a business.