

# **SUBJECT— BUSINESS ORGANISATION**

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## **Lecture 8**

**BY::**

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† **Fiscal Policy** - Fiscal Policy includes the **government's tactics on public expenditure and revenue**. When the government decides on the goods and services it purchases, the transfer payments it distributes, or the taxes it collects,

it is engaging in fiscal policy. Implementation of **Goods and Services Tax (GST)** is an example of **Fiscal Policy of the government**.

Fiscal Policy is sometimes also referred to as the **budgetary policy** of the government, which involves the government manipulating its level of spending and tax rates within the economy.

† **Monetary Policy** - Monetary policy refers to the policy of the central bank – i.e. Reserve Bank of India – in matters of interest rates, money supply and availability of credit. It is through the monetary policy, RBI controls inflation in the country. **RBI increasing the interest rates to check inflation is an example of monetary policy.**

† **Corporate social responsibility (CSR)** - CSR is how companies manage their business processes to **produce an overall positive impact on society**. Companies can showcase this through their waste and pollution reduction processes, contributing towards educational and social programs and by earning adequate returns on the employed

resources. The Ministry of Corporate Affairs has notified **Section 135 and Schedule VII of the Companies Act 2013** as well as the provisions of the Companies (Corporate Social Responsibility Policy) Rules, 2014 to come into effect from April 1, 2014. **Example** - Mahindra & Mahindra runs programs such as Nanhi Kali focusing on girl education as part of its CSR.

† **Economic environment** - Economic environment includes broad factors like **structure and nature** of the economy, the **stage of development** of the economy, **economic resources**, the **level of income** of the economy, the **distribution of income and assets** among citizens, linkages with global economy, **economic policies** etc.

† **Economic Structure** - Economic Structure encompasses **factors such as contribution of different sectors like primary (agricultural), secondary (industrial) and tertiary (service) sectors**. The character of each sector and its various components has bearing on the business.

† **Economic policy** - Economic policy is the term used to **describe government actions that**

**are intended to influence the economy.** Some examples of these actions include **setting tax rates, setting interest rates, and government expenditures.** Economic policies like **industrial policy, trade policy, foreign exchange policy, monetary policy, fiscal policy, and foreign investment and technology policy** etc can exert high influence on business operations.

‡ **Economic systems** - Economic systems are the means by which **countries and governments distribute resources and trade goods and services.** There are **three main types** of economic systems - planned economy, market economy and mixed economy.

‡ **Market Economy** - In a Market Economy, prices are determined by levels of supply and demand, instead of central and or local government. **Market forces determine what is produced, how much is produced, how it is distributed,** plus the prices of goods and services. It is also referred to as **Free Economy or Capitalism.** Under this system, Government interferences will be minimum and can be termed as Laisses Faire system, ie.; lack of external force. USA and Japan are examples for free economy.

‡ **Planned Economy** - In a planned economy, all **decisions regarding production, distribution, salaries, investment and prices are made by a central authority** – usually the government. Government owns means of production. The closest examples to this type of economy are China, North Korea and Cuba (to a lesser extent). It is also equated with the concept of socialism.

‡ **Mixed Economy** - Mixed Economy envisages the **co-existence of public sector units and private sector undertakings.** Key establishments are owned and run by Government and the Government itself set norms and regulations for private establishments. All western European countries are in this style. **After independence Indian economy accepted a mixed system** where, Government decide and handle key and heavy manufacturing sectors, whereas the rest will be handled by private sector.

‡ **Economic Planning in India** - Economic Planning is a term used to describe **the long term plans of government to co-ordinate and develop the economy with efficient use of resources.** Economic planning in India was started in 1950

after independence, it was deemed necessary for economic development and growth of the nation. The **idea of Five year planning was taken from the erstwhile Soviet Union under socialist influence of first Prime Minister Jawahar Lal Nehru.**

† **Planning Commission:** Planning Commission was **set up by the Government of India in 1950** with the objective of promoting the rapid rise in standard of living of people of India using the available resources in efficient manner. **Jawaharlal Nehru was the first chairman of Planning Commission.** First Five Year Plan started in 1951. **NDA Government, in 2014, decided to set up NITI Aayog** (National Institution for Transforming India), in place of the Planning Commission as a way to serve the developmental aspirations of the people of India.

† **NITI Aayog** - National Institution for Transforming India, also called NITI Aayog, was **formed via a resolution of the Union Cabinet on January 1, 2015.** NITI Aayog is the **premier policy 'Think Tank' of the Government of India,** providing both directional and policy inputs. Prime Minister is the Ex-officio chairman. At the core of NITI Aayog's creation are **two hubs – Team India Hub and the Knowledge and Innovation Hub.** The Team India Hub leads the engagement of states with the Central government, while the Knowledge and Innovation Hub builds NITI's think-tank capabilities.

† **Public Sector Undertakings (PSUs)** - The Government owned corporations are termed as Public Sector Undertakings in India. In a **PSU majority (51% or more) of the paid up capital is held by Central government or by any State government or partly** by the Central governments and partly by one or more state governments. The Public Sector Enterprises are run by the Government under the Department of Public Enterprises of Ministry of Heavy Industries and Public Enterprises.