

Sub: Business Environment

(INS-101)

Trimester – 1, End – Term Examination: September, 2017

[Time Allowed: 2.30 Hours]

[Max Marks: 50]

Roll No: _____

Instruction: Students are required to write their Roll No. on the question paper. Writing anything other than the Roll No. will be treated as **unfair means**. For rough work, please use answer sheet.

Note: - Please be brief and relevant in your answers.
- Section C is compulsory.
- Also be aware of time constraints

Section-A

[There are 5 Questions in this section. Attempt any 3 Questions. Each Question carries 5 marks.]

[3x5=15 Marks]

[A1]

- (a) Beyond profit motive, discuss briefly three generally accepted important elements or characteristics of modern business, citing examples, local or global. [3]
- (b) "Sustainability is an unrealistic objective for businesses in developing countries." Comment. [2]

[A2]

- (a) Enumerate the elements of inclusion - oriented growth? [3]
- (b) How does income inequality affect the demand for insurance? [2]

[A3]

- (a) "Product innovation and price competitiveness are crucial determinants success, especially, for new entrants in any industry." Discuss this in relation to the insurance industry, either in India or globally, citing examples. [3]
- (b) What do you understand by the term "underwriting profit-vis a vis-investment profit" in the context of India's non-life industry? [2]

[A4]

- (a) Elaborate on the role of the "determinants" of productivity in an economy with special reference to the insurance industry, local or global. [3]
- (b) Are there any negative effects of economic growth on society, according to you and if so what are they? [2]

[A5]

- (a) "Telematics, bots and drone can solve some of the major problems for an insurance company." Substantiate with examples. [5]

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Section-B

[Note: Answer any 2 out of the 3 Questions given below. Each Question carries 10 marks]

[2x10=20 Marks]

[B1]

- (a) Bring out the relationship between income, savings and interest vis-a-vis the demand for life insurance in the Indian market. [8]
(b) Distinguish between a "hard" insurance market and "soft" insurance market. [2]

[B2]

- (a) In the months of August 2017 the government took a review of economic progress (Economic Survey Vol 2). What according to you are the prospects of the economy in the fields of fiscal development, external sector and agriculture and food management? [8]
(b) Is economic development in India taking place with jobless growth? [2]

[B3]

- (a) "Economic factors exert huge impacts on firms working in an international business environment". Elucidate. [8]
(b) Discuss the relationship between 'purchasing' power parity and a country's 'exchange' rate. [2]

Section-C

Case Study

[Marks - 15]

- ❖ This section is compulsory.
- ❖ Read the annexed case study and answer the questions given at the end.
- ❖ Be careful about the time needed to do the case study.

[See Annexure]

Case StudyThe Political Influence of the Car Industry

It is difficult to overstate the importance of the car industry in modern societies and economies. Its development in the last century was at the heart of the economic growth of the leading industrial capitalist economies, notably the United States, Western Europe, and, in the latter part of the century, rapidly developing countries such as Japan.

One? Luger's study shows that industry influence has varied over time. Up to the late 1980s three periods are identified: the first, up to the late 1960s, is one of business dominance over

government policy; the second period, until the late 1970s, involved 'bargaining and compromise' between business and government and resulted in the expansion of regulation; and, the final period to 1988 'was a time of resurgence and triumph of industry over government' (Luger 2000, p. 14). However, Luger's overall finding is that the US car industry's political influence is evident in each period and, overall, gives it an 'inordinate impact on public policy' (Luger 2000, p. 1). In other words, the car industry does not always get its own way in relation to government, and there are periods when government has introduced regulations opposed by the industry. Yet, over the long term, the industry has been very effective in getting its own way and its power has exceeded that of any other group in society. How has this influence been exerted?

In general terms the answer is that business has control over resources that is unrivalled by any other group, and it is able to convert this control into political influence. As Luger states, 'the resources available to the large corporation give it leverage over government that is often unmatched' (Luger 2000, p. 3). Put simply: money equals power. This means that individuals and organizations, like businesses, that control large amounts of wealth tend to have more political influence than the rest. As an example of this Luger states that 'in 1997 [it was] estimated that the industry spent over \$100 million a year to influence government. In contrast, the entire 1996 budget of the main public interest group devoted to auto safety, the Center for Auto Safety, was approximately \$600,000' (Luger 2000, p. 184). But this answer is too simple, for in democracies the basic form of political influence is through the vote, and all democracies have rules designed to limit the influence of money in politics. The mechanisms of influence identified by Luger are more complex and subtle, including the following:

Lobbying-through in-house lobbyists based at the heart of government in Washington, contact between top managers and senior officials in government, and the hiring of specialist lobbyists and PR firms (Luger 2000, p. 183)

As well as acting on their own behalf firms also rely on business groups and associations to represent their (shared) interests. These associations operate at industry level (e.g. trade associations) and in relation to the business community as a whole (e.g. Chambers of Commerce) (Luger 2000, p. 183).

Industry is able to finance technical research to back up its political positions and arguments (Luger 2000, p. 183), e.g. through sympathetic foundations and 'think tanks'. Businesses make donations to political parties, particularly in the form of election campaign contributions (Luger 2000,

Luger has studied the long-term political influence of the US car industry between 1916 and 1996. The importance of this approach is that, while business influence is likely to vary from time to time and issue to issue, a long-term study reveals the overall pattern. Is business revealed, on the whole, to be a dominant influence on government or a rather weak.

The point is to help parties and/or candidates that are perceived to be sympathetic to business interests to get elected.

- Businesses hire former politicians or government officials to gain inside knowledge of the political process and access to decision-makers (Luger 2000, p. 184). There is also movement in the other direction-from industry into government.

- In addition to these efforts by business to influence politics, Luger also refers to 'the industry's privileged economic position'. This means that business may not have to do anything to get government to take heed of its interests 'because economic growth and political stability can hinge on a healthy auto industry' (Luger 2000, pp. 184-5). (The idea of a 'privileged position' was examined in more detail earlier in this chapter.)
- Large corporations and industries may also derive political influence from activities that are ostensibly non-political and commercial, notably advertising. The marketing of cars in ways that connect with core cultural values-as essential to personal freedom and as expressions of identity and status- has, as well as selling cars, 'provided the auto

Section C

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makers with a reservoir of latent public support' (Luger 2000, p. 182).

These mechanisms have afforded the car industry in America a degree of political influence unrivalled by other groups. This does not mean that other groups can never win political battles with the car industry. As we have seen, Luger identifies the 1970s as a period in which the industry was forced to make compromises over issues such as pollution and fuel economy. Nor does it mean that all industries exercise comparable influence. There may be characteristics of the car industry that boost its political influence particularly its size and economic importance. Finally, there may be some special features of the US political system that facilitate business influence. In other national contexts there may be a different balance between business and other interests in the political process. However, Luger's study of the US car industry provides an interesting and important case of business political influence.

A second chance for General Motors

GM seemed to exemplify the power of the car industry as the biggest company in America, and the assertion that what is good for GM is also good for the country. This proposition was tested in 2009 when the company, along with Chrysler, went into bankruptcy. This was not a sudden event but the culmination of a long process of the company, along with the other giant US car makers, failing to keep up with international competitors. In this sense the companies making decisions that they thought were best for them turned out not to be good for America, and especially not good for Detroit, because they resulted in industrial decline. : When faced with stiff competition from imports from Germany, Japan and then Korea from the 1960s, GM did not respond in the most natural, if difficult, way it should have-producing better cars than those of its competitors. Instead it tried to take the easy way out' (Chang 2011, p. 194). One of things it did was to use its political clout by lobbying the US government 'to impose import quotas on foreign, especially Japanese, cars and force open competitors' home markets' (Chang 2011, p. 194). In June 2009 GM became the biggest bankruptcy in US manufacturing history. Bankruptcy is a normal part of the operation of a market, and is consistent with a healthy performance of the economy as a whole. In the US there is a strong commitment to free markets and minimal government. However, the collapse of GM, because of its size and interconnections with other firms and industries, would have had catastrophic economic consequences spreading far beyond the direct job losses in the company. In effect, and like the banks which had to be rescued in the financial crisis, GM was 'too big to fail'. Thus 'the US government took over the company and, after an extensive restructuring, launched it as a new entity. In the process it spent a staggering \$57.6 billion of taxpayers' money' (Chang 2011, p. 194). The GM case illustrates the two forms of business political influence identified by Lindblom: business as a political actor (lobbying government for protection against imports) and control without trying (the rescue of the company as it was too big to fail).

Questions

Answer the following queries after studying the case given above. Please be brief and to the point in your answers:

1. Review your understanding of how the automobile industry is able to exercise political influence. [4]
2. Are there any specific characteristics of the car industry that help to enhance its political influence? [5]
3. What other groups or interests in society might oppose the car industry and counteract its influence? [4]
4. How does the rescue of GM by the US government illustrate the privileged position of business? [2]