BIMTECH
BIRLA INSTITUTE
OF MANAGEMENT TECHNOLOGY

PGDM (Insurance Business) - 2018-20

Sub: Business Environment

(INS-101)

Trimester – 1, End – Term Examination: September, 2018

[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] Discuss the role of technology in alleviating external environmental threats for business like floods, forest fires, landslides etc. [3]
[b] What were the drawbacks in the application of technology in the prediction and management of recent floods and landslides in Kerala? [2]

[A2]
[a] Identify and examine the factors affecting the supply of insurance in an economy. [5]

[A3]
[a] In the context of the Indian economy, discuss the final 3 stages of Walt Rostow's "Stages of Growth". [3.5]

[b] Can you indicate the shape of the possible 6^{th} stage of growth which would happen in the current era? [1.5]

A[4]
[a] How should inflation be looked upon in the long and short term? [2.5]

[b] Distinguish between the Wholesale Price Index and the Consumer Price Index In India and commend on their respective roles? [2.5]

[A5]
[a] Discuss the 3 important characteristics of modern businesses citing appropriate examples drawn from the insurance industry for each characteristic. [3]

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[b] Cite examples of M&A activity and their significance in the insurance sector in India in recent times. **[2]**

Section-B

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

[2x10=20 Marks]

[B1]
[a] In an economy like India where the insurance penetration is very low, suggest and discuss 4 important measures that you would initiate to increase penetration based on the factors that affect the demand for insurance. **[10]**

[B2]
[a] Explain why business ethics is vital for the survival and growth of business and industry. **[6]**
[b] What is the role of social media in business ethics? **[2]**
[c] Cite a recent instance of unethical behaviour by an MNC towards its Indian customers and connected developments. **[2]**

[B3]
[a] Discuss the phenomenon of business cycle and the role of indicators in the forecasting of business cycles. **[10]**

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 Study

The 2008 Credit Crunch and the 'Future of Capitalism

From the mid-1990s up until the publication of the first edition of this book (January 2008) the economic environment across much of the world had appeared to be stable and there was every hope that prosperity and growth would continue. While acknowledging this, we wrote in the 'Looking Ahead' chapter.

The one certain thing that we *can say about the economic environment is* to *prepare for the unexpected.* (Weatherly and Otter 2008)

We discussed the on-going battles between those who favoured a broadly free market approach and those who were becoming increasingly concerned about growing inequality, the power of big business and the need to improve global governance. We argued.

The issue of how best to *ensure that businesses do not abuse their global market positions and operate in a globally responsible way will be .very important* and *the distribution of income and rewards is skewed in a very particular way. There is a very small group of very rich people: and particular concern is expressed about the gap between executive pay and the rest of the working population. The British newspapers are full of the stories of how the large annual bonuses earned by city brokers are spent.*

The financial services sector occupies a vital intermediary position in the business environment. The function of financial institutions is to act as a way of channelling the individual savings of businesses and/or households, enabling businesses to invest and households to borrow to buy long terms assets such as housing and consumer durable goods. Banks make money through the ability to issue credit on the basis of the assets they accumulate from the deposits they receive. This primary retailing function of banks is supplemented by their ability to use some of their assets to engage in more speculative activities in the wholesale or investment banking sector.

At the heart of the banking sector lies the need for savers and depositors to have confidence in their ability to withdraw their money should they wish to do so. Banks have the ability to issue credit based on their initial deposits to many times the value of the original deposits. There is nothing wrong in their doing this as on a day-to-day to basis only a fraction of the deposits they receive will ever be withdrawn and their ability to issue credit is vital if modern economies are to function.

However, the potential risk of a loss of confidence in a bank and an ensuing rush on that bank causing a more general banking crisis has meant that countries have developed a whole host of rules and regulations, as well as state intervention in the form of strong central banks that can act as 'lenders of last resort' to prevent banking collapses. As the global economy has expanded, this need for regulation has led to the development of global financial institutions, such as the IMF, to coordinate international financial flows.

During the 1970s and 1980s it was felt that these regulations had become far too constrictive and that if the financial system was to flourish then many of them needed to be relaxed. This would allow much more credit to flow, releasing the funds vital for investment and allowing banks to both compete globally and fuel economic expansion. In 2008 the world economic environment was thrown into turmoil by the crisis that first started in the banking sectors of the US and UK as a result of a growing realization that many loans that had been made were not going to be paid back. It became clear that the root cause of the 'credit crunch' was that bankers, in their desire to earn ever higher annual bonuses, were doing all they could to lend more and more money and were not paying due care and attention to the risk of these loans not being repaid. This was part of a wider risk culture that involved individual brokers in a range of financial markets effectively gambling with the assets of their institutions in order to try to make speculative profits in the knowledge that if their institutions were to get into trouble, the government in order to retain the stability of the economy, would have to step in and save them. In other words, 'banks were too big to fail'.

Alan Greenspan, who as the former US Federal Reserve Chairman had resisted calls for regulation in financial markets, in a Congressional Hearing in 2008 to explore the reasons for the crisis admitted that he had 'found a flaw' in the free market ideology he had adhered to all his life and had outlined in the annual Adam Smith lecture in 2005 (see Mini-Case 2.2). He explained. 'I made a mistake in presuming that the self-interests of organizations. Specifically banks and others were such that they were best capable of protecting their own shareholders and their equity in the firms'

Across the globe, other banks found themselves embroiled in this general panic and they themselves were soon found to have been dealing in highly risky operations. The world financial system was thrown into turmoil and governments found themselves having to 'bailout' or, in other words. Take direct or part ownership of many prestigious financial institutions. This global financial crisis meant that credit all but dried up, businesses found themselves suffering large reductions in demand for their goods, and the world was engulfed in recession.

At domestic levels there has been huge short-term intervention by governments in the financial systems. But while there is a widespread recognition that more controls over the financial sector need to be considered, fault lines have appeared regarding both the extent of and the urgency with which these changes can be effected. In the US and Britain the strength and influence of finance is strong and politicians are more reluctant to frame rules to constrain the power of banks (HM Treasury 2013). In the European Union there has been recognition that in order to keep the economic union together there needs to be a strengthening of economic co-operation but Britain has been reluctant to gree to certain aspects of this. The BRICS countries have suffered from the drop in exports and have drawn the lesson that it is dangerous simply to rely on exports to developed countries as the base of their growth. They are seeking to rebalance their economies to build up domestic demand and find ways of working together to form their own trading network. What has emerged from this crisis is the recognition that the global nature of the crisis requires a globally coordinated policy response involving a greater role for the state at the domestic, regional, and global levels (IMF 2013).

Questions

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

1. Why do some people argue that individuals should be free to earn whatever the market pays them? What are the economic arguments for big differences in earning? [5]
2. Why was it argued that the pursuit of individual remuneration by many people in the investment banking sector created the economic conditions that caused the global recession from 2008 onwards? [5]
3. How might government intervene in financial markets to make them more efficient? [5]

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