

Introduction to Economic Environment & Interaction between different macro-economic variables



COURSE OUTCOMES FOR BUSINESS ENVIRONMENT

CO1 - Explain and illustrate different types of business environments & identify interconnectivity between those

CO2 - Identify impact of different macroeconomic variables on Business

CO3 - Assess and Analyze changes in business environment & its impact on business.

INFLATION

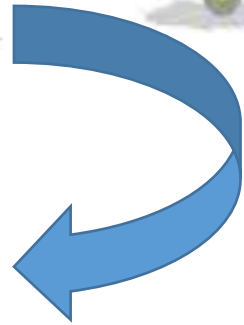
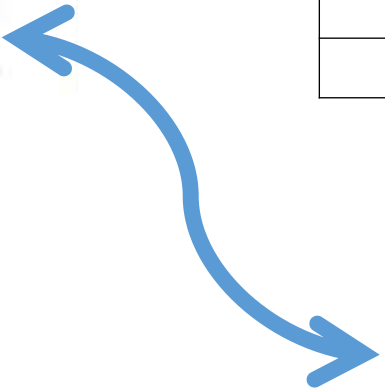
***CONTINUOUS RISE IN
GENERAL PRICE LEVEL***



consumer-producer

No	Items	Cost (Rs.)
1	<i>Food grains</i>	2000
2	<i>milk</i>	500
3	<i>veg/fruits</i>	1500
4	<i>medicines</i>	1000
5	<i>cosmetics</i>	1000
6	<i>dresses</i>	1000
7	<i>shoes</i>	500
8	<i>bags</i>	1500
	Total Expenditure	9000
	Total Savings	1000

Income
10,000/-



Inflation -consumer-producer



No	Items	Cost (Rs.)	3%	5%
1	<i>Foodgrains</i>	2000	2060	2100
2	<i>milk</i>	500	515	525
3	<i>veg/fruits</i>	1500	1545	1575
4	<i>medicines</i>	1000	1030	1050
5	<i>cosmetics</i>	1000	1030	1050
6	<i>dressses</i>	1000	1030	1050
7	<i>shoes</i>	500	515	525
8	<i>bags</i>	1500	1545	1575
	Total Expenditure	9000	9270	9450
	Total Savings	1000	730	550

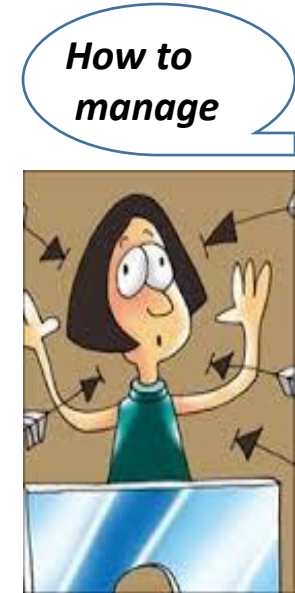
**Income
10,000/-**



Double digit Inflation – Consumer - Producer



			<i>Increase in Cost of Living with growing inflation</i>					
No	Items	Cost (Rs.)	3%	5%	6%	8%	10%	12%
1	<i>Foodgrains</i>	2000	2060	2100	2120	2160	2200	2240
2	<i>milk</i>	500	515	525	530	540	550	560
3	<i>veg/fruits</i>	1500	1545	1575	1590	1620	1650	1680
4	<i>medicines</i>	1000	1030	1050	1060	1080	1100	1120
5	<i>cosmetics</i>	1000	1030	1050	1060	1080	1100	1120
6	<i>dresses</i>	1000	1030	1050	1060	1080	1100	1120
7	<i>shoes</i>	500	515	525	530	540	550	560
8	<i>bags</i>	1500	1545	1575	1590	1620	1650	1680
	Total Expenditure	9000	9270	9450	9540	9720	9900	10080
	Total Savings	1000	730	550	460	280	100	-80



family will not buy shoes - purchasing power of 10,000/- has fallen from buying 8 goods to buying 7 goods

WHAT NEXT???????

ALL JACKS OF THE COUNTRY ARE DISTRESSED....

Have to buy less



poorer

Money has less purchasing power



Cost of living increased
Standard of living has fallen



Fall in Aggregate Demand

ALL HARRYs TOO ARE IN DISTRESS.....



Fall in Sales

Less Profitability

No need to Produce more

Aggregate private Investment falls

Aggregate Private Investments of the country fall.....

SO??????

Is it a problem?????



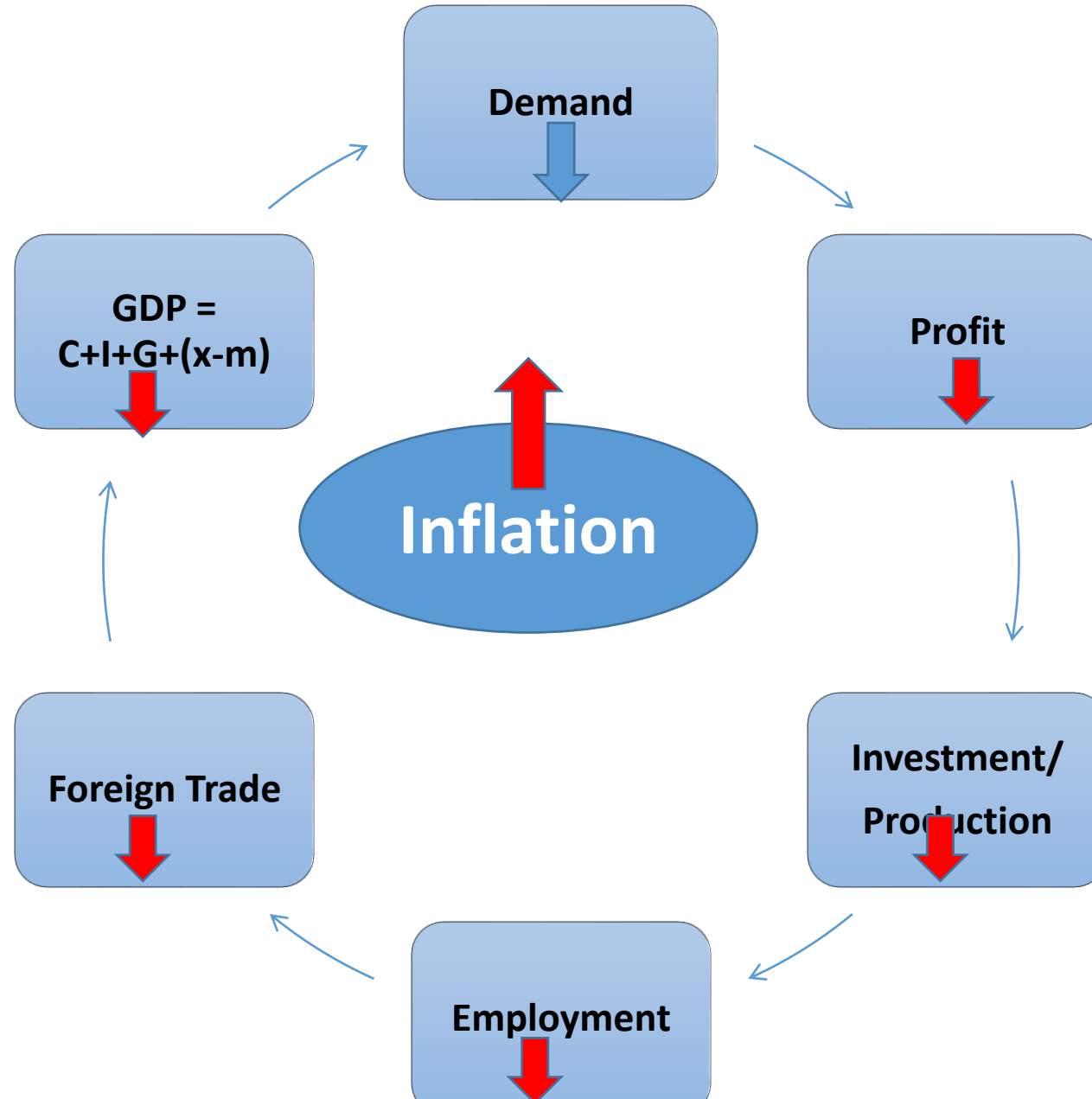
Less Production/less GDP

Less Employment

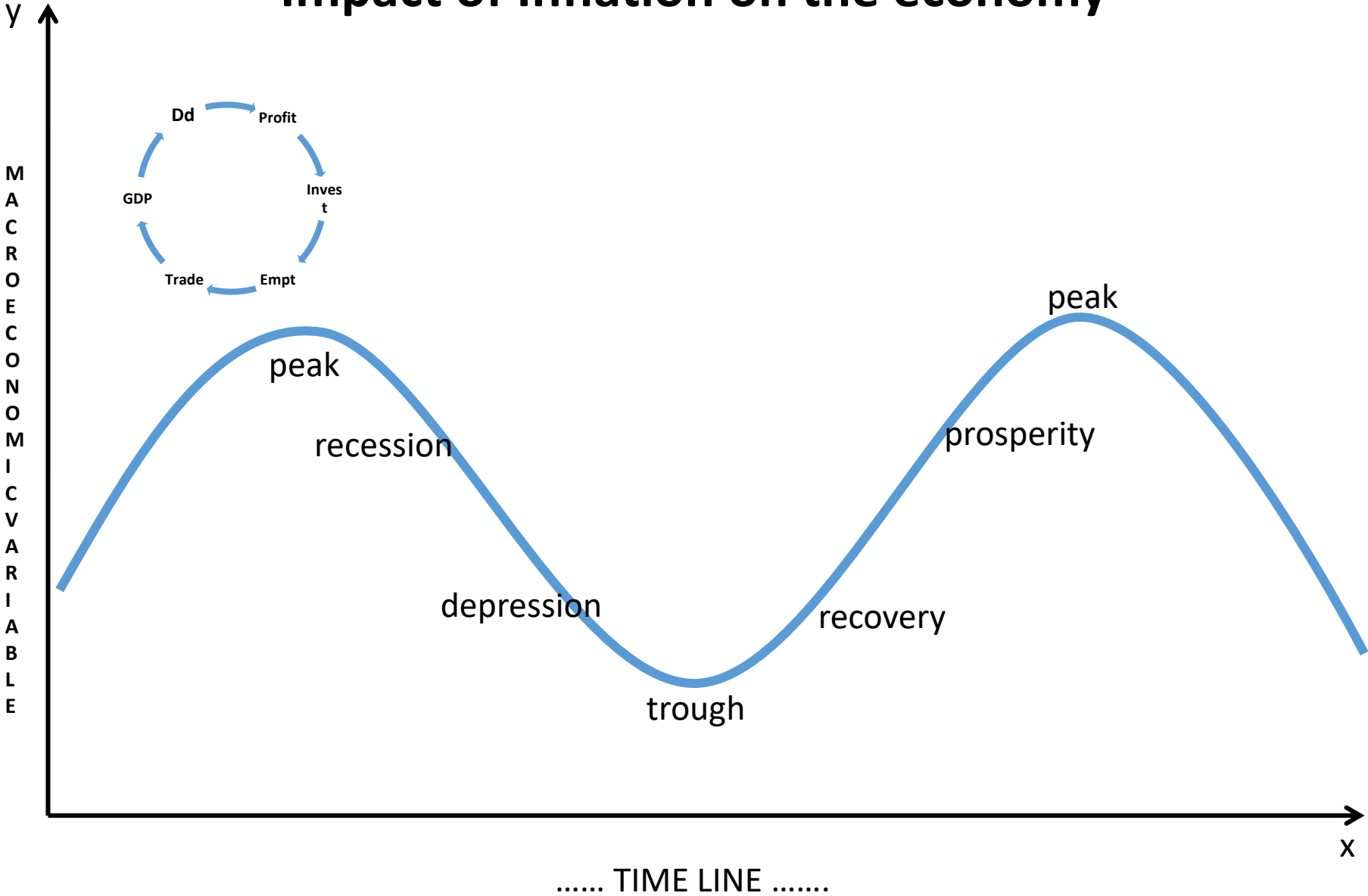
Less Exports/ More Imports

RECESSION

Impact of Inflation on Economy

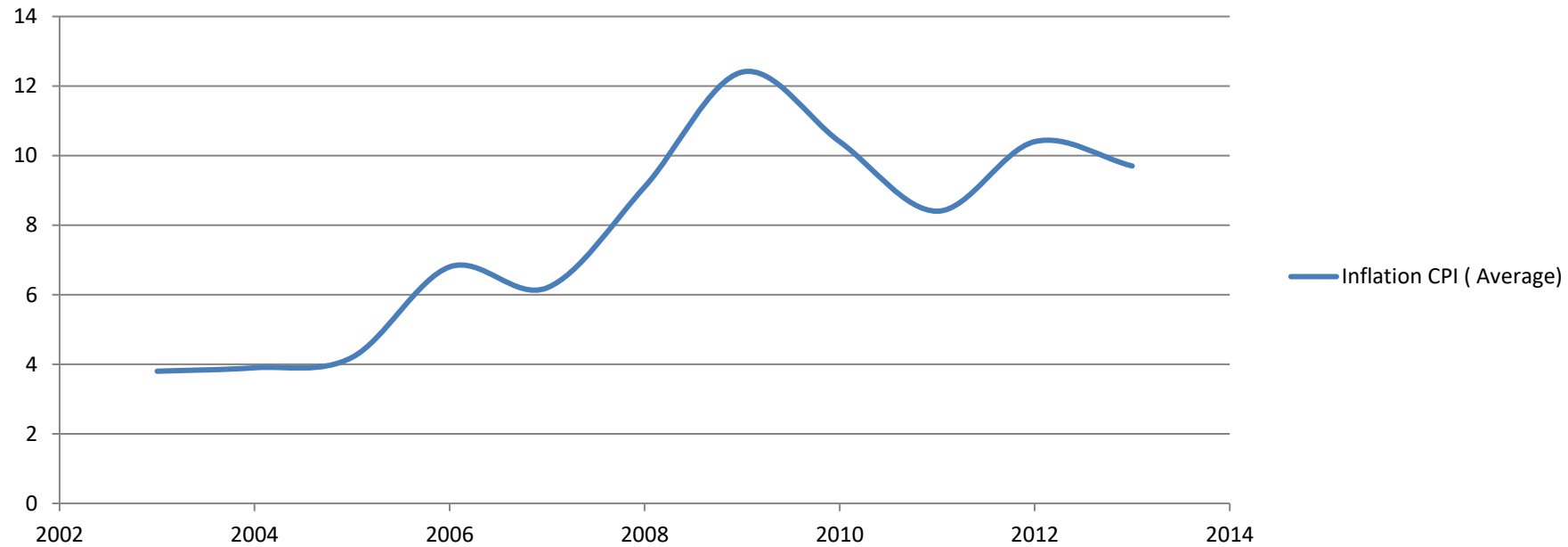


Impact of Inflation on the economy



Inflation in India

Inflation CPI (Average)



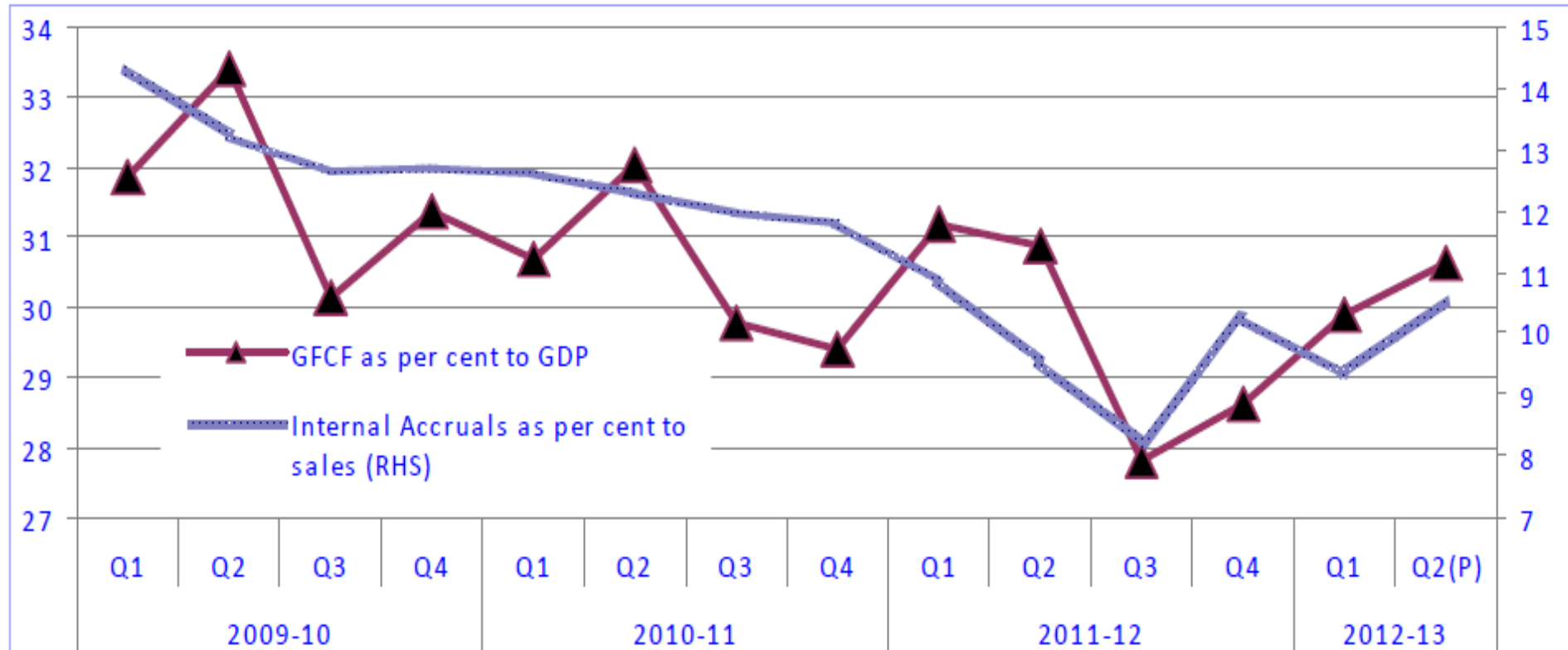
Economic Survey 2012-13

Share of Final Consumption in GDP at Current Market Prices (%)

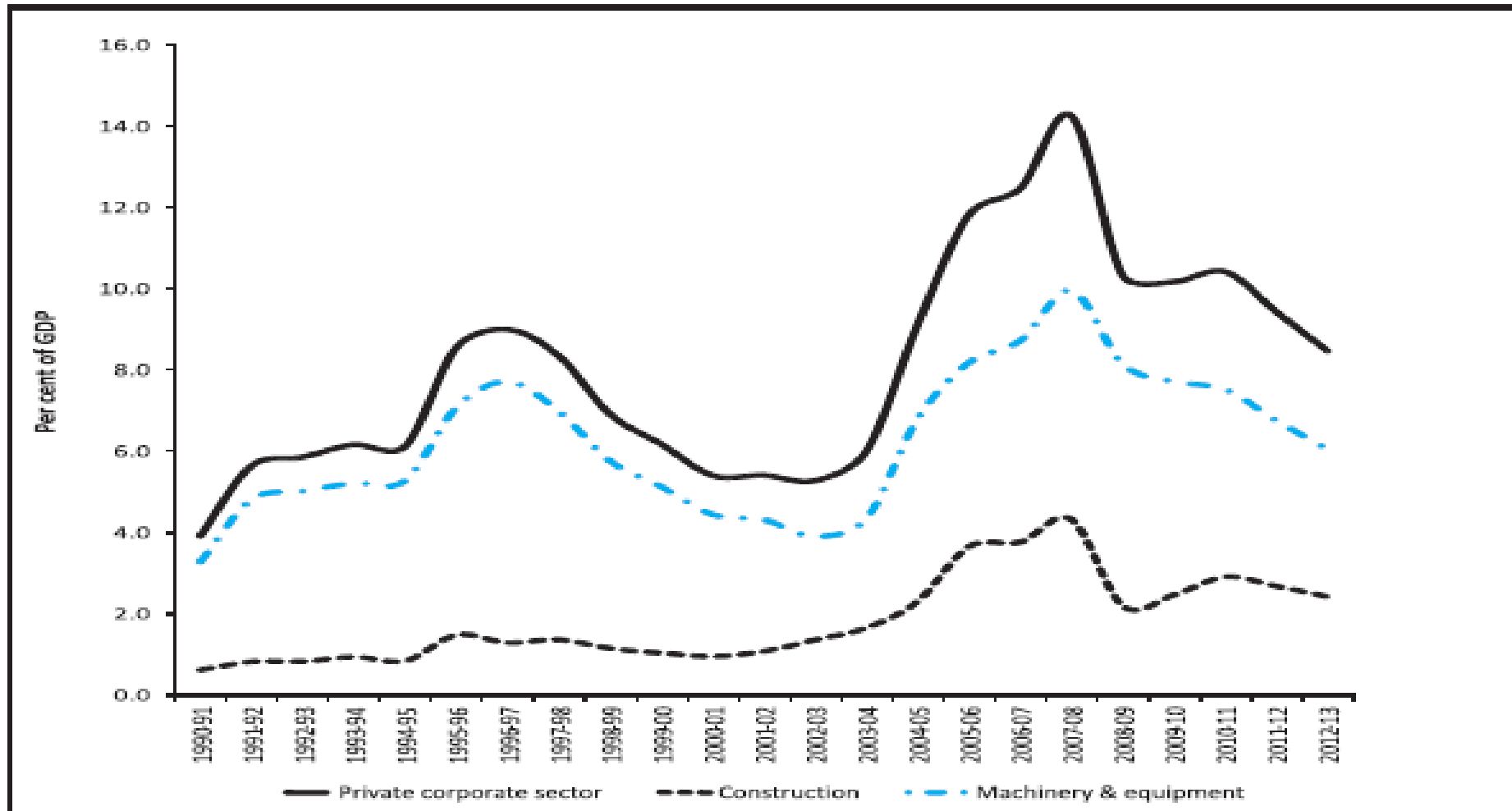
Item	1980s	1990s	2000s	2010-11 to 2013-14
TFCE	85.8	77.5	71.6	68.4

Source: CSO

Fig 3.4: Corporate Profitability and Gross Fixed Capital Formation



Gross Fixed Investment in Private Corporate Sector and its components as a ratio of GDP



Source: CSO.

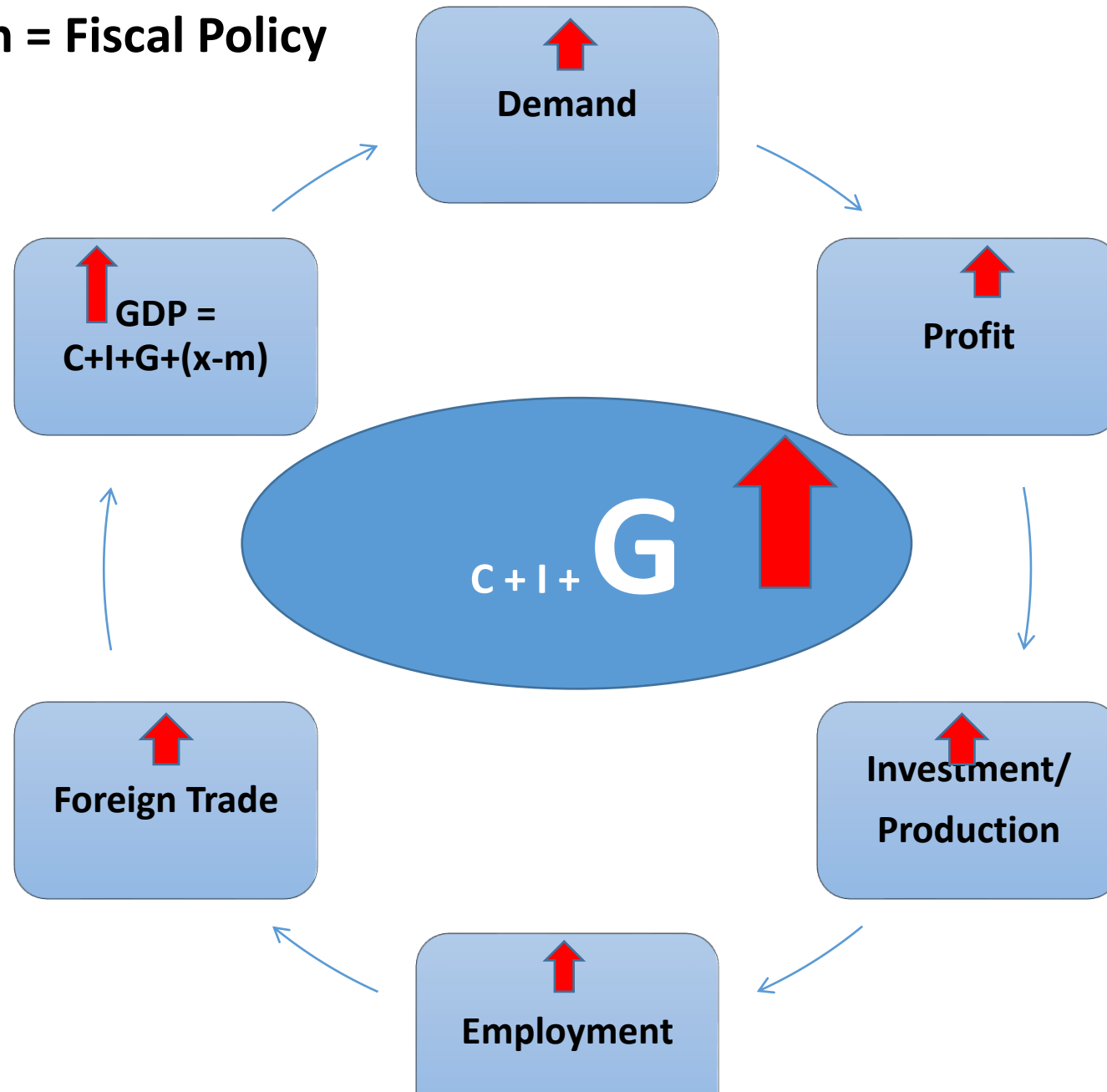
Unemployment levels rising in India, experts say

Times of India Jan 26,2014

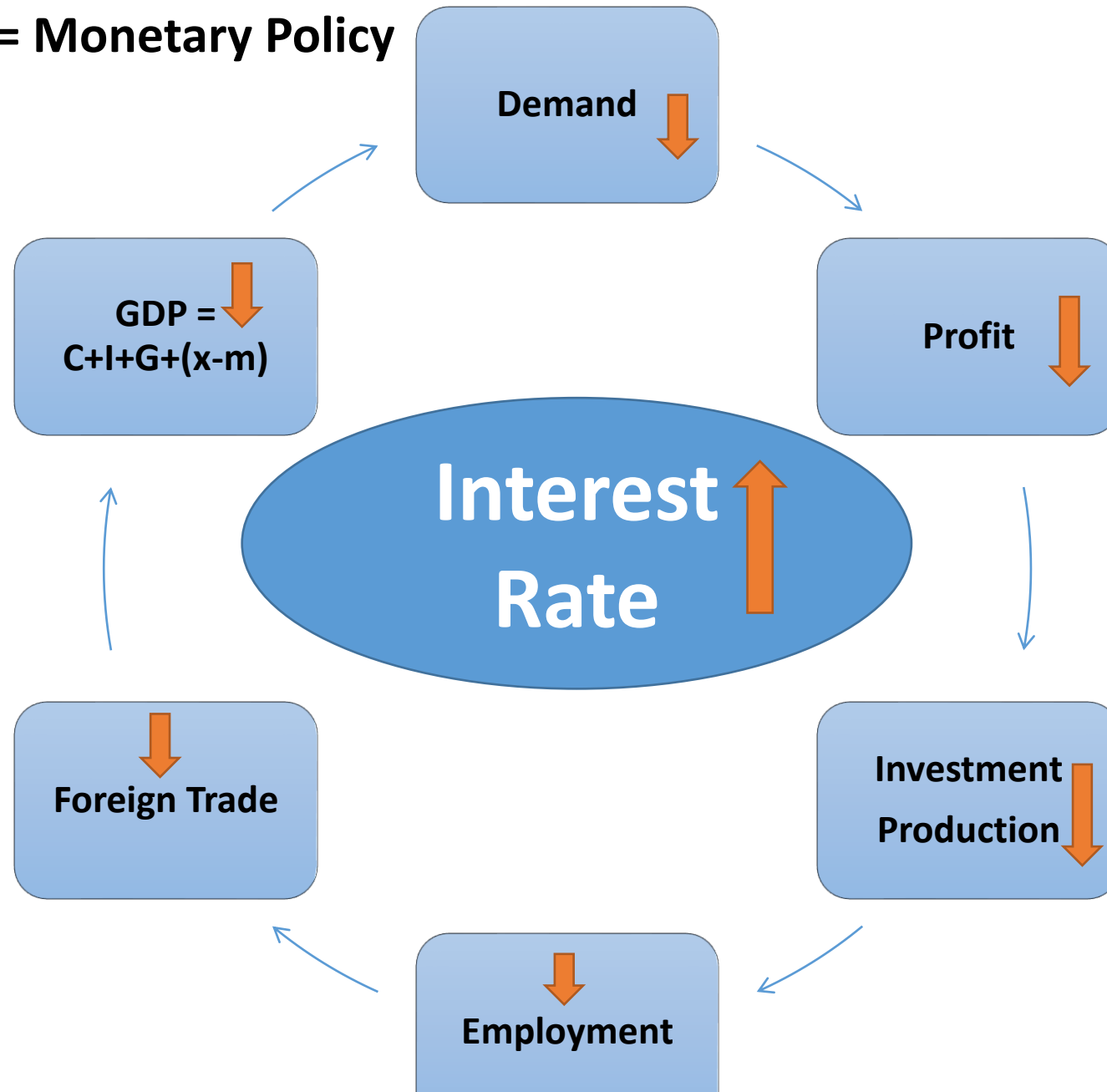
Unemployment rate in India is showing an increasing trend since 2011 when it was 3.5%. The same rose to 3.6% in 2012 and climbed to 3.7% last year.

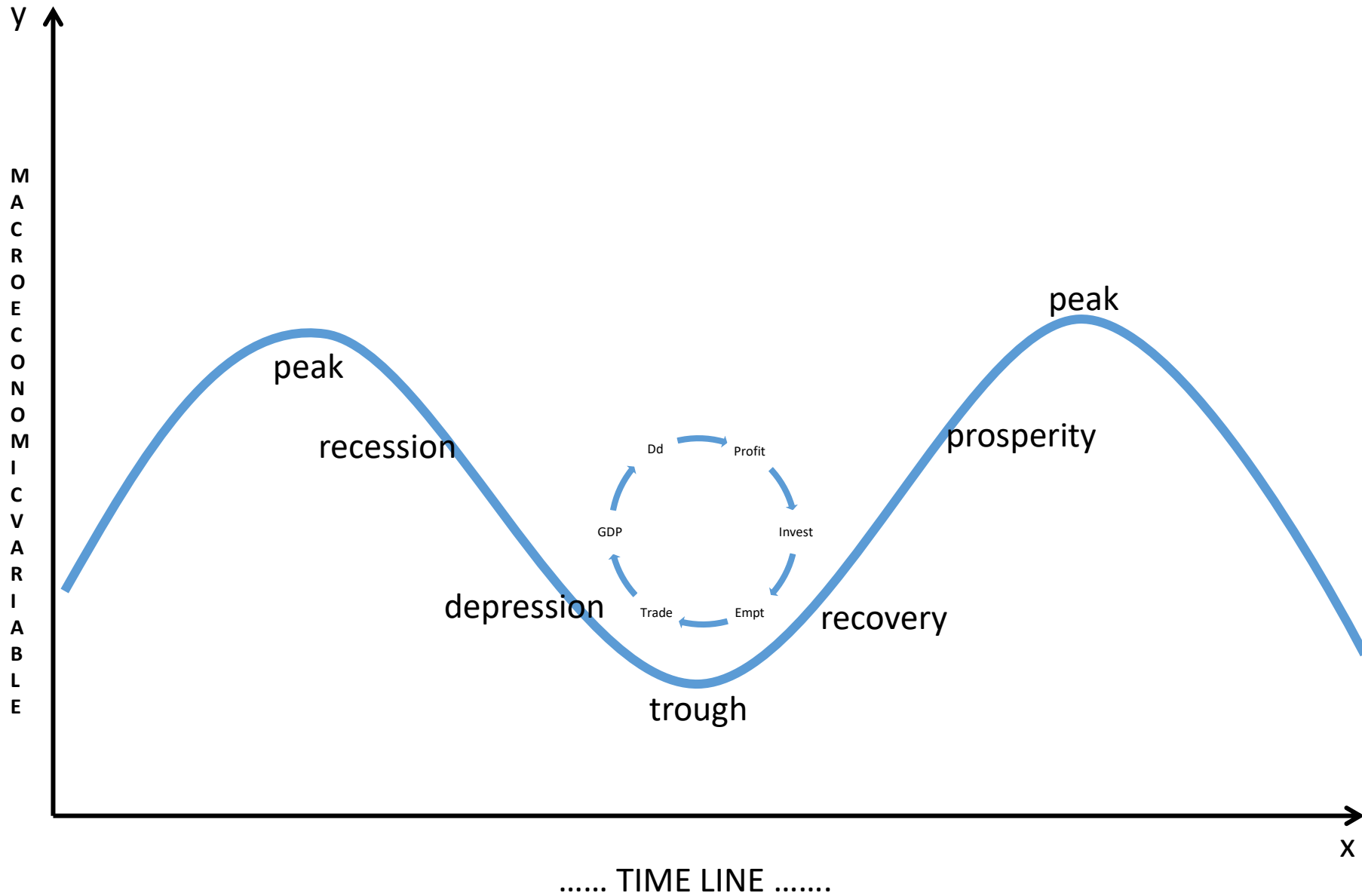
Data categories	Unit	2009-10	2010-11	2011-12	2012-13	2013-14
1. GDP and Related Indicators						
GDP (current market prices)	₹ Crore	6477827	7784115	9009722 ^{2R}	10113281 ^{1R}	11355073 ^{PE}
Growth Rate	%	15.1	20.2	15.7	12.2	12.3
GDP (factor cost 2004-05 prices)	₹ Crore	4516071	4918533	5247530 ^{2R}	5482111 ^{1R}	5741791 ^{PE}
Growth Rate	%	8.6	8.9	6.7	4.5	4.7
Index of Industrial Production ^b (growth)	%	5.3	8.2	2.9	1.1	-0.1
Export (in US\$ terms)	% change	-3.5	40.5	21.8	-1.8	4.1

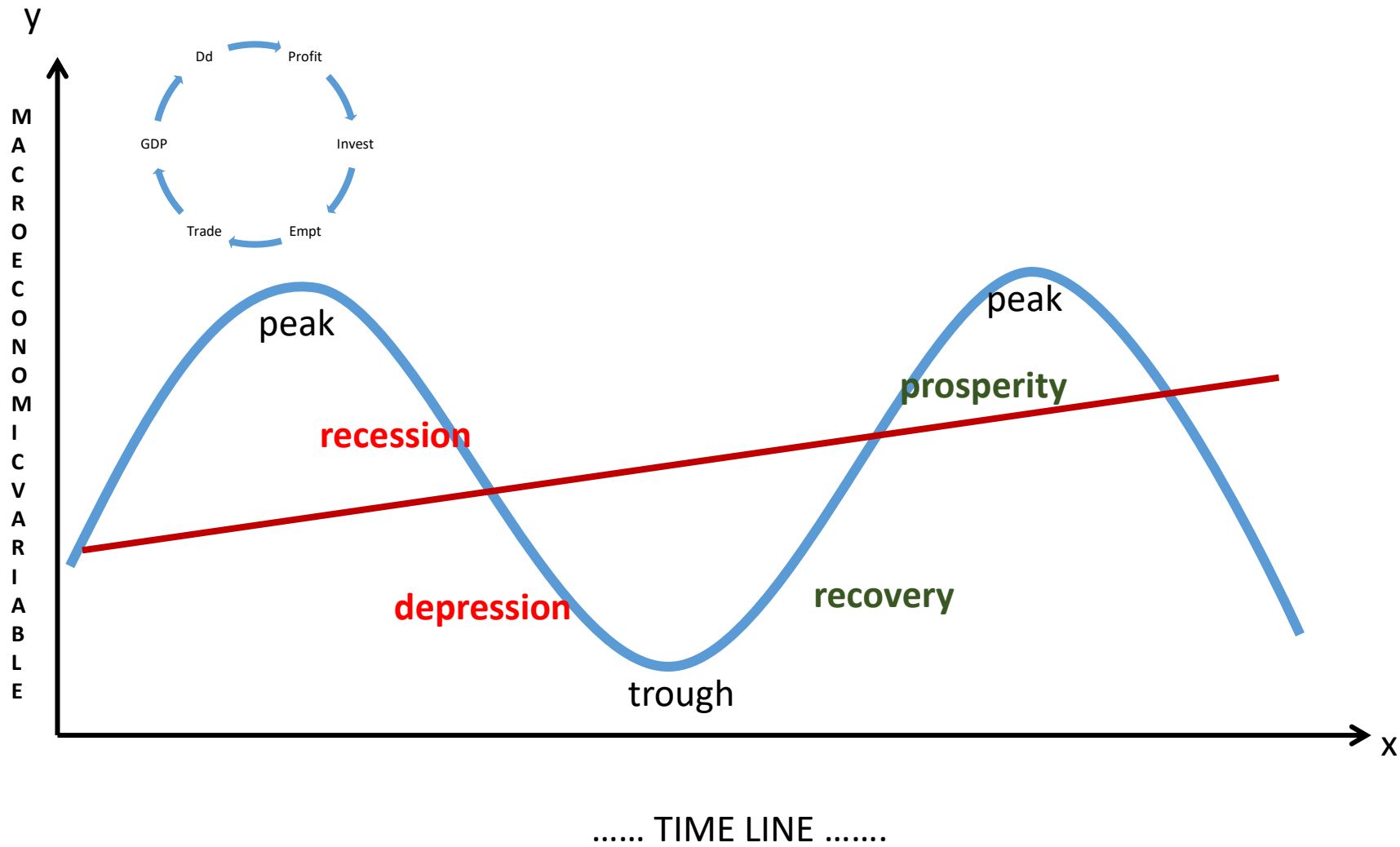
Solution = Fiscal Policy



Solution = Monetary Policy







Bibliography

- 1) David Altig, 'What is the Right Inflation Rate?' [Online]Federal Reserve Bank of Cleveland, September 15, 2003. Downloaded from <http://www.clevelandfed.org/research/commentary/2003/0915.pdf>
- 2) Mid Year Economic Analysis, 2012-13, Ministry of Finance, Department of Economic Affairs Downloaded from <http://finmin.nic.in/reports/MYR201213English.pdf>
- 3) Unemployment Rates Rising in India; Times of India January 26,2014 downloaded from <http://timesofindia.indiatimes.com/business/india-business/Unemployment-levels-rising-in-India-experts-say/articleshow/29403619.cms>

IMPORTANT SITES

RBI - <https://www.rbi.org.in/>

CIA- WORLD FACTBOOK –

<https://www.cia.gov/library/publications/the-world-factbook/>

<http://www.tradingeconomics.com/>

WORLD BANK - <http://data.worldbank.org/>

Economic Survey - <http://indiabudget.nic.in/survey.asp>

NATIONAL INCOME

CONCEPTS OF NATIONAL INCOME

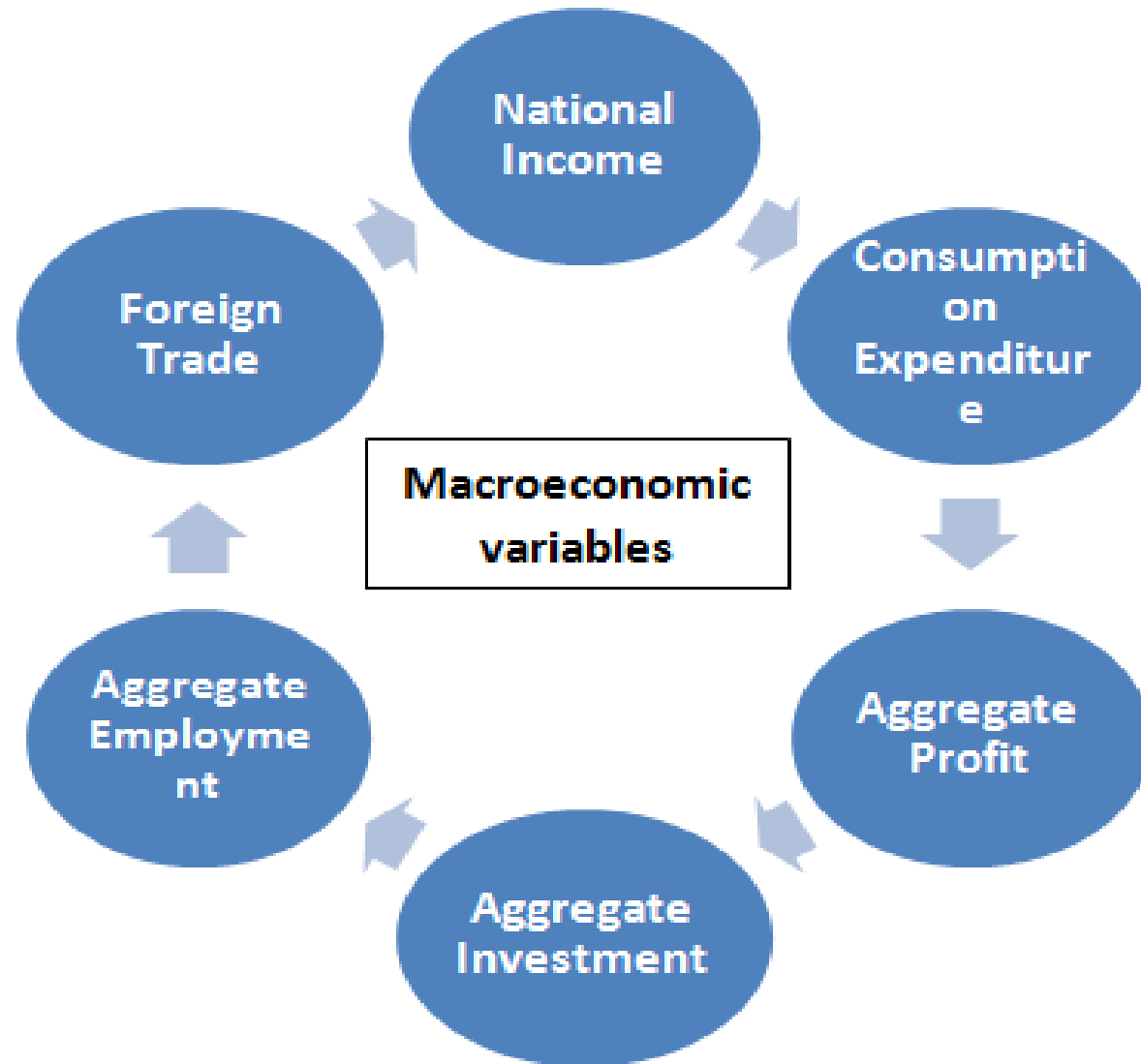
- $GDP = C + I + G + (X - M)$; $GNP - (R - P)$
- $GNP = C + I + G + (X - M) + (R - P)$
- $NDP = GDP - D$
- $NNP = GNP - D$
- NI at current prices
- NI at constant prices (Base year price)
- NI at market price = $GDP_{mp} = GDP_{fc} + T - S$ = bus ticket
- NI at factor cost = $GNP_{fc} = GNP_{mp} - T + S$
- $PCI = NI / \text{population}$
- Disposable Income = Gross income – Direct taxes
- Economic Growth and Economic Development

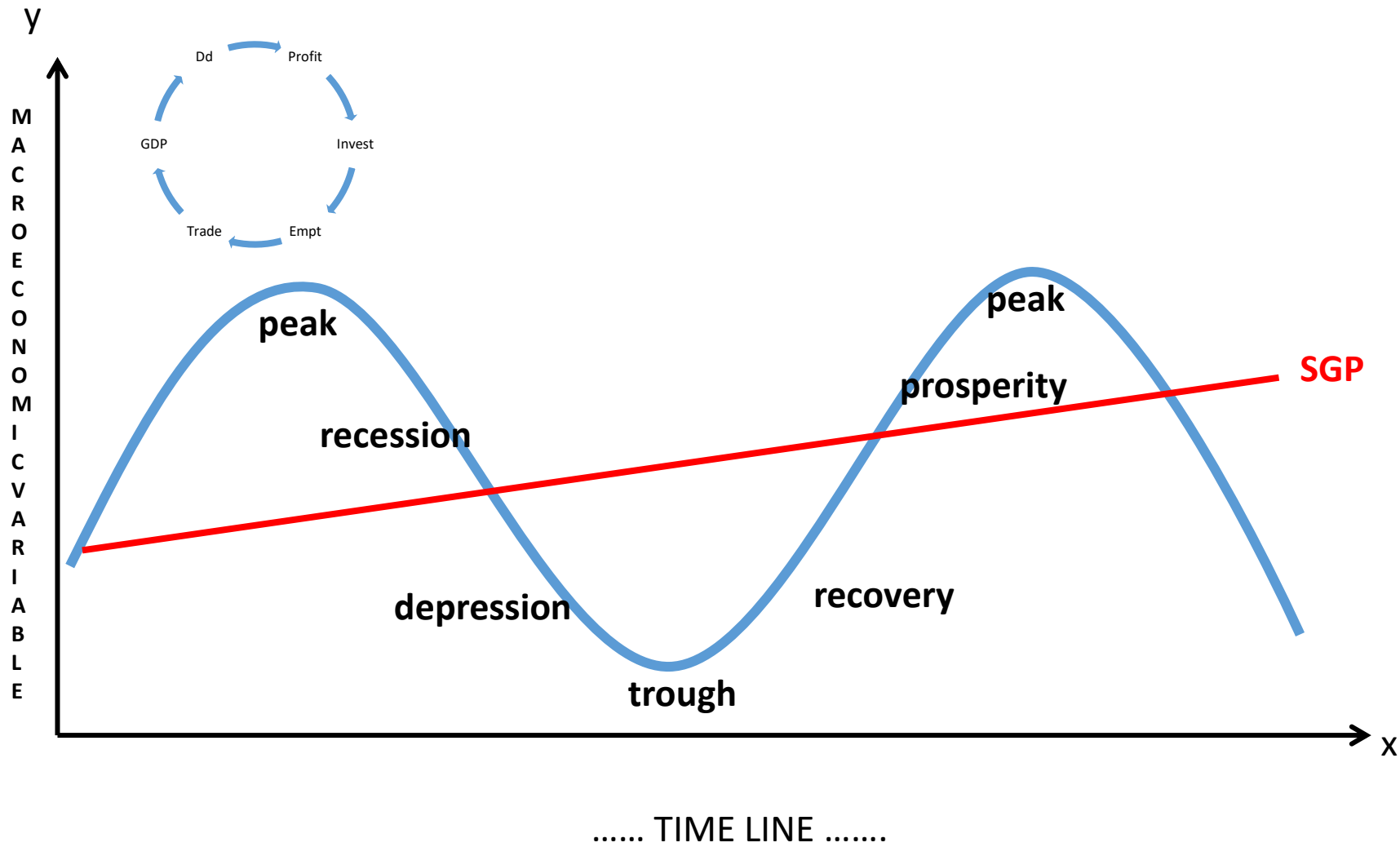


TRADE CYCLES (BUSINESS CYCLES)

is periodic but irregular up-and down movement of macroeconomic variables

CIRCULAR FLOW OF MACRO ECONOMIC VARIABLES





INFLATION: Continuous rise in general price level

Types of inflation

On the basis of degree of price rise:

Creeping: mild inflation, not more than 3%

Walking: danger signal 3-6%

Running : 10%

Jumping/Galloping/hyper: 100% or more than 100%
single digit& double digit

On the basis of Government interference:

Open: no govt. interference

Suppressed

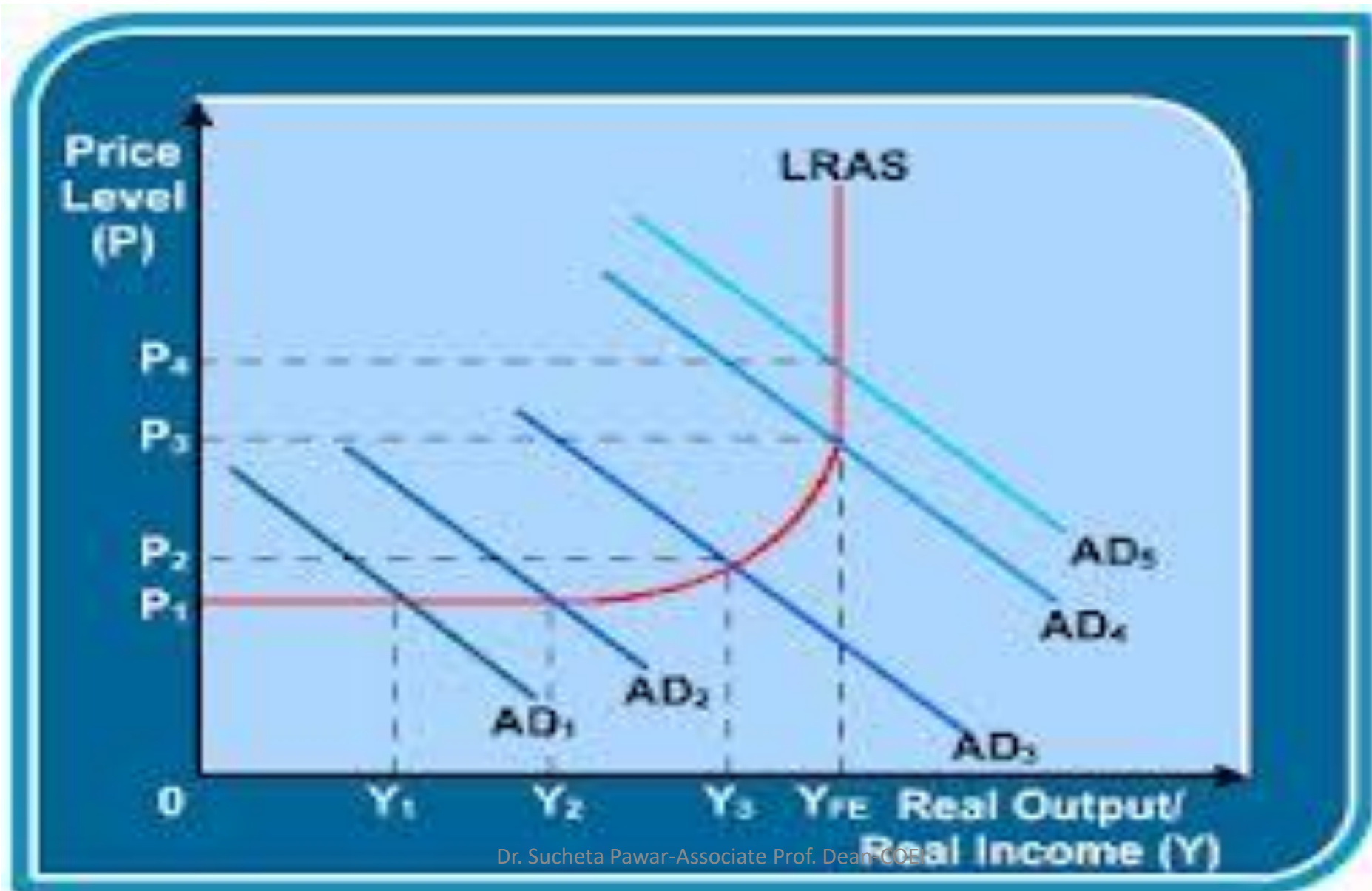
On the basis of Causes:

Demand Pull inflation: increase in money supply, deficit financing, credit creation, exports, repayment of public debt, black money, population.

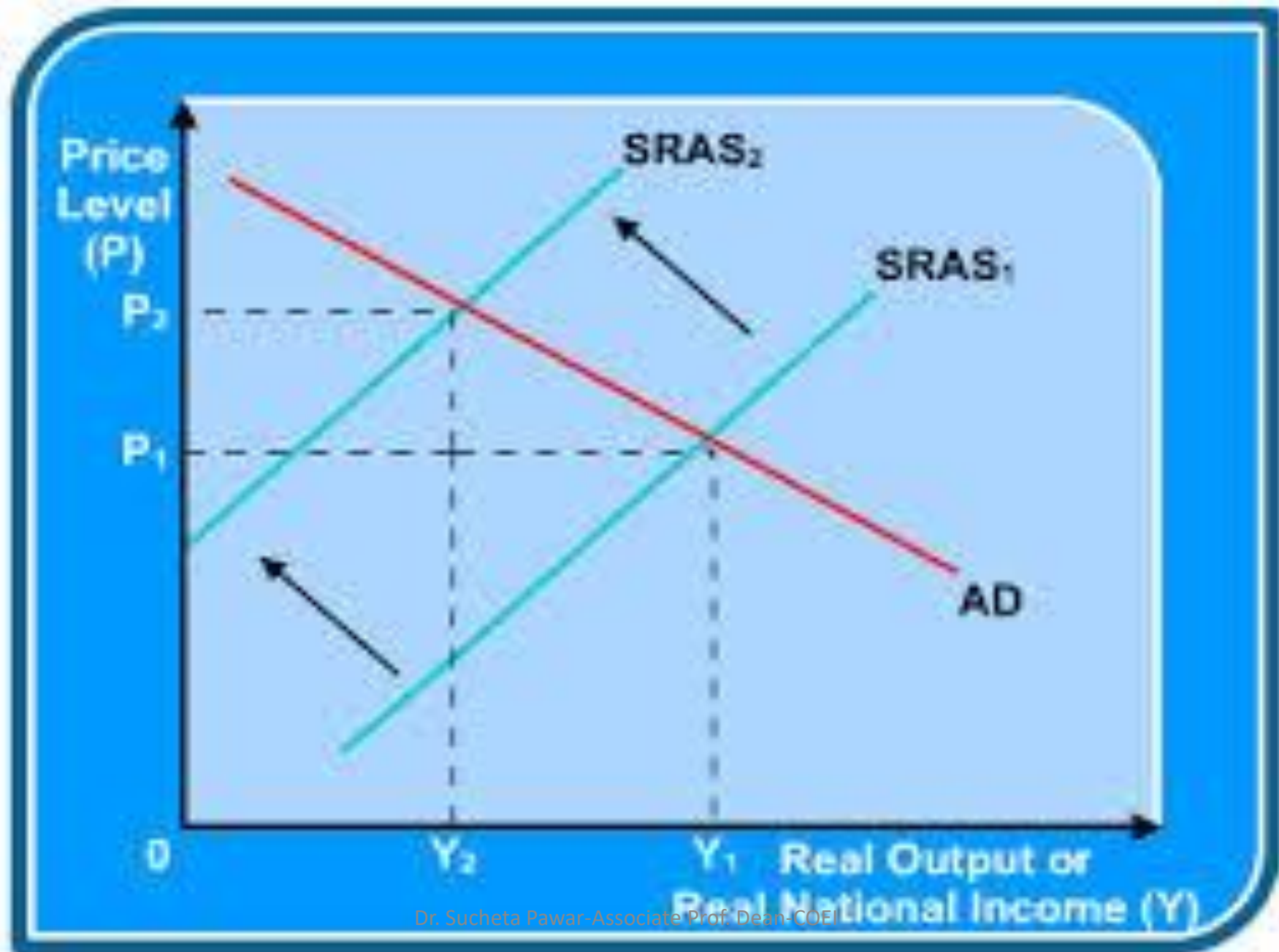
Cost push inflation: wages, material cost, increase in profit margin,

Other factors

DEMAND PULL INFLATION



COST PUSH INFLATION



Causes of Inflation

- **Due to huge investment on development project**
- **Unproductive public expenditure**
- **If money supply increases**
- **market imperfections**
- **Capital intensive techniques**
- **Less agriculture productivity**
- **Increase in the prices of agricultural raw material**
- **export necessary commodities**
- **Expenditure of fast growing population**
- **Scarcity of resources like oil**

EFFECTS OF INFLATION



- Slow economic growth**
- Fall in purchasing power of money**
- Unemployment**
- Inequality**
- Low living standard**

MEASURES TO CONTROL INFLATION

- 1) Monetary Policy
- 2) Fiscal Policy
- 3) Issue of Currency
- 4) Production
- 5) Price Control
- 6) Public Distribution System

https://youtu.be/gdSV9_ijk1c