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Step-by-step solutions, alternate methods & exam tips for Class 12 Business Studies

Chapter 3: Business Environment

About this Chapter

NCERT Solutions for Class 12 Business Studies Chapter 3 Business Environment cover the meaning and features of business environment, its importance, the five dimensions, the 1991 economic reforms (Liberalisation, Privatisation and Globalisation), the impact of LPG on Indian business, and demonetisation. Each answer follows the CBSE 2026-27 marker template.

Topics covered: Meaning of business environment • Features • Importance • Five dimensions (Economic, Social, Technological, Political, Legal) • LPG reforms • Demonetisation • Managerial response

Quick Formula Sheet

Five dimensions:

Economic • Social • Technological • Political • Legal.

LPG (1991):

Liberalisation + Privatisation + Globalisation.

Impact of LPG:

Greater competition • Demanding customers • Technology change • Change as necessity • HR development • Market orientation • Loss of budgetary support.

Also see for this chapter: [Revision Notes](#) | [Handwritten Notes](#)

Very Short Answer Type Questions

Q 3.1 What is meant by business environment?

SOLUTION

Concept used. **Business environment** is the sum total of all individuals, institutions and other forces outside the control of a business enterprise but that may affect its performance. It includes economic, social, technological, political and legal forces along with the firm's customers, competitors, suppliers and investors.

Step 1. State the definition: sum of all external forces affecting the business.

Step 2. Note the scope: economic, social, technological, political, legal dimensions plus specific forces like customers, competitors, suppliers.

Step 3. State the implication: managers must continuously scan and adapt to the environment.

Final Answer: Business environment is the sum total of all external forces (economic, social, technological, political, legal and specific) that affect the working of a business.

External only

Business environment is the EXTERNAL forces. Internal forces (employees, board, owners) are inside the firm and are not part of the business environment.

EXPERT'S SOLUTION : Aditya Mehta, MBA, IIM Bangalore

Quick reading. “Sum total of external forces” is the textbook phrase. Use it verbatim.

Step 1. Define: sum total of all external forces.

Step 2. Scope: five dimensions (economic, social, technological, political, legal).

Step 3. Implication: dynamic, complex, multi-faceted, far-reaching impact.

Final Answer: Sum total of all external forces affecting a business.

Q 3.2 How does understanding of business environment help in improving performance of a business?

SOLUTION

Concept used. Understanding the business environment helps a firm **identify opportunities, threats and resources** so that it can plan strategy, take preventive action, and exploit windows of opportunity.

Step 1. Identify opportunities and get first-mover advantage (e.g. early entry into e-commerce as internet penetration grew).

Step 2. Identify threats and early warning signals (e.g. a new regulation on plastic packaging signals threat to a packaging firm).

Step 3. Tap useful resources (e.g. cheaper raw materials from a new supplier base).

Step 4. Cope with rapid changes via flexible planning.

Step 5. Assist in planning and policy formulation.

Step 6. Improve performance via informed decisions.

Final Answer: Six benefits: identify opportunities, identify threats, tap resources, cope with change, assist planning, improve performance.

EXPERT'S SOLUTION : Sneha Kapoor, MBA, FMS Delhi

Strategic angle. List six benefits, one line each.

Step 1. First-mover advantage (opportunities).

Step 2. Early warning (threats).

Step 3. Resource tapping (cheaper inputs).

Step 4. Coping with rapid change.

Step 5. Planning support.

Step 6. Better performance overall.

Final Answer: Identify opportunities, threats, resources; cope with change; plan better; perform better.

Q 3.3 Give an example to show that a business firm operates within numerous inter-related factors constituting the business environment.

SOLUTION

Concept used. The five dimensions of business environment do not act in isolation; a change in one triggers changes in others. The **interrelatedness** of dimensions is best illustrated with one concrete example.

Step 1. Example: smartphone industry.

- *Technological dimension:* 4G/5G rollout enables higher-speed smartphones.
- *Economic dimension:* rising disposable income increases smartphone demand.
- *Social dimension:* changing lifestyle and digital adoption make smartphones a necessity.
- *Political dimension:* “Make in India” policy attracts manufacturers like Apple, Foxconn to set up local plants.
- *Legal dimension:* data-protection laws (DPDP Act 2023) impose compliance costs on smartphone makers.

Step 2. All five dimensions are simultaneously affecting any smartphone firm; together they define its environment.

Final Answer: A smartphone firm faces all five dimensions at once (technology rollout, rising income, digital lifestyle, Make-in-India policy, data laws), each influencing the others.

EXPERT'S SOLUTION : *Karan Mehta, MBA, XLRI Jamshedpur*

Picture-first. Pick any modern product (smartphone, electric car, online food delivery). Show how all five dimensions hit it at once.

Step 1. Choose product: smartphone.

Step 2. List how each dimension affects it: technology (5G), economic (income), social (lifestyle), political (Make in India), legal (data laws).

Step 3. Conclude: dimensions are interrelated, not isolated.

Final Answer: Smartphone industry shows all five dimensions simultaneously, interconnected.

Q 3.4 Krishna Furnishers Mart started its operations in the year 1954 and emerged as the market leader in the industry because of their original designs and efficiency in operations. They had a steady demand for their products but over the years, they found their market share declining because of new entrants in the field. The firm decided to review their operations and decided that in order to meet the competition, they need to study and analyze the market trends and then design and develop their products accordingly. List any two impacts of changes in business environment on Krishna Furnishers Mart's operations.

SOLUTION

Concept used. Changes in the business environment force firms to adapt. NCERT lists seven impacts of LPG-era changes on business; the case shows two cues: "new entrants" (more competition) and "study market trends + design accordingly" (market orientation).

Step 1. Increasing competition. New entrants in the furnishings field are taking market share from Krishna Furnishers; competition has intensified.

Step 2. Market orientation. The firm has decided to study market trends and design products accordingly. This is a clear shift from product-oriented to customer-oriented strategy.

Final Answer: Two impacts: (i) increasing competition; (ii) market orientation (customer-led design).

EXPERT'S SOLUTION : Ravi Bansal, M.Com, Delhi School of Economics

Quick reading. The two textbook cues are explicitly given in the hint.

Step 1. Cue 1: “new entrants” → Increasing competition.

Step 2. Cue 2: “study market trends and design accordingly” → Market orientation.

Final Answer: (i) Increasing competition; (ii) market orientation.

Q 3.5 Name any two specific forces of business environment affecting business.

SOLUTION

Concept used. **Specific forces** of business environment are those that have a direct, immediate effect on the day-to-day functioning of the business. They differ from **general forces** which affect the firm indirectly. Specific forces include investors, customers, competitors, suppliers and the financial system.

Step 1. Customers. They drive demand; their preferences directly shape the firm's products and pricing.

Step 2. Competitors. They affect market share, pricing and innovation; daily competitive moves shape the firm's response.

Final Answer: (i) Customers; (ii) competitors.

EXPERT'S SOLUTION : Megha Kapoor, MBA, IIM Calcutta

Strategic angle. Pick any two specific forces and write one line each.

Step 1. Customers: drive demand and product design.

Step 2. Competitors: shape pricing and market share.

Step 3. Memorise also: investors, suppliers, financial system as backups.

Final Answer: Customers and competitors.

Short Answer Type Questions

Q 3.6 Why is it important for business enterprises to understand their environment? Explain.

SOLUTION

Concept used. Understanding the **business environment** is a precondition for strategic survival and growth. A firm that scans its environment well sees opportunities and threats early; a firm that ignores it is blindsided by change.

Step 1. First-mover advantage: spotting opportunities first lets the firm enter new markets, launch new products and capture customers before rivals can react.

Step 2. Early warning of threats: spotting a regulatory or technological shift early gives the firm time to adjust its strategy and avoid losses.

Step 3. Tapping useful resources: knowing the environment helps the firm identify cheaper suppliers, new talent pools, and emerging technologies.

Step 4. Coping with rapid change: scanning lets the firm respond to political, legal and economic shocks in time.

Step 5. Improving performance: informed decisions deliver better results across planning, marketing, finance and HR.

Final Answer: Understanding the environment lets the firm spot opportunities early, warn of threats, tap resources, cope with change, and improve performance.

🔍 Scan or sink

A firm that does not scan its environment will be sunk by the first major shift, demonetisation, GST, COVID-19. Continuous environmental scanning is survival, not optional.

EXPERT'S SOLUTION : *Pranav Iyer, MBA, IIM Lucknow*

Strategic angle. Five benefits, one line each, with one real-world example each.

Step 1. Opportunities: first-mover advantage. Example: Reliance Jio launching 4G first.

Step 2. Threats: early warning. Example: ITC anticipating plastic-ban impact.

Step 3. Resources: cheaper inputs. Example: tapping new supplier base.

Step 4. Coping: rapid change response. Example: pivoting to home delivery during COVID.

Step 5. Performance: informed decisions. Example: better marketing spend allocation.

Final Answer: Five benefits: opportunities, threats, resources, coping, performance.

Q 3.7 Explain the following terms: (a) Liberalisation, (b) Privatisation, (c) Globalisation.

SOLUTION

Concept used. **Liberalisation, Privatisation and Globalisation (LPG)** are the three pillars of the 1991 economic reforms launched by the Government of India through the New Industrial Policy.

Step 1. (a) Liberalisation. Liberation of the Indian business and industry from unnecessary controls, restrictions, regulations and red tape. The licence-permit-quota system was largely dismantled, foreign investment rules were eased, and price and distribution controls were lifted.

Step 2. (b) Privatisation. The reduction of the role of the public sector and the expansion of private sector participation in production and services. Public sector units were either sold (disinvestment) or opened to private competition.

Step 3. (c) Globalisation. The integration of the Indian economy with the world economy through the easing of foreign investment, foreign technology, foreign trade and a market-determined exchange rate.

Final Answer: Liberalisation: removal of internal controls. Privatisation: reduced role of public sector. Globalisation: integration with the world economy.

EXPERT'S SOLUTION : *Tarun Nair, MBA, ISB Hyderabad*

Strategic angle. Three one-line definitions, each with a one-line example.

Step 1. Liberalisation: end of licence raj; example, telecom liberalisation in 1994.

Step 2. Privatisation: disinvestment + private competition; example, Maruti and BPCL

disinvestment.

Step 3. Globalisation: integration with the world; example, India joining WTO in 1995.

Final Answer: LPG = removing internal controls (L), shrinking public sector (P), and integrating with world economy (G).

Q 3.8 National Digital Library of India (NDL India) works towards developing a framework of virtual repository of learning resources with a single-window search facility. It provides support to all academic levels including researchers, life-long learners and differently-abled learners free of cost. State the dimensions of business environment highlighted above.

SOLUTION

Concept used. The case mentions “virtual repository”, “single-window search” and “differently-abled learners free of cost”. These cues map directly onto two dimensions: **technological** (virtual library + search engine) and **social** (inclusion of all learner types including differently-abled).

Step 1. Technological dimension. A virtual repository with a single-window search is powered by digital technology (cloud storage, search algorithms, mobile access). This is a clear technological cue.

Step 2. Social dimension. Free access to all academic levels and differently-abled learners reflects social values: education for all, inclusion of the disabled, equity in access to learning.

Final Answer: Two dimensions highlighted: Technological (virtual digital library, search engine) and Social (inclusion of differently-abled, free access to all).

EXPERT'S SOLUTION : Anjali Bose, M.A. Economics, Jadavpur University

Quick reading. “Virtual” + “search facility” = technological. “Differently-abled free of cost” = social.

Step 1. Technological: virtual repository, single-window search.

Step 2. Social: inclusion of all learner types, free access.

Final Answer: Technological and Social dimensions.

Q 3.9 State the impact of demonetisation on interest rates, private wealth and real estate.

SOLUTION

Concept used. **Demonetisation** (November 2016) withdrew Rs. 500 and Rs. 1000 notes as legal tender. The immediate effects rippled through interest rates, private wealth and real estate.

Step 1. Interest rates. A massive inflow of deposits into banks (people deposited their old notes) increased their lendable resources; this brought down lending interest rates, as well as deposit interest rates.

Step 2. Private wealth. The wealth of those who held large amounts in old high-denomination notes declined sharply, especially if they could not legally convert it. Unaccounted cash was wiped out.

Step 3. Real estate. Real-estate prices, which had been inflated by cash transactions, fell. The sector slowed down because cash-heavy deals were no longer possible.

Final Answer: Demonetisation: (i) interest rates fell due to bank deposit surge; (ii) private wealth declined for those holding large cash; (iii) real estate prices fell as cash-driven demand slumped.

EXPERT'S SOLUTION : *Vikram Singh, B.Com (H), Lady Shri Ram College for Women*

Strategic angle. Three one-line statements, each clear cause-and-effect.

Step 1. Interest rates: down (deposit surge → excess liquidity).

Step 2. Private wealth: down for cash hoarders (unaccounted cash gone).

Step 3. Real estate: down (cash-driven sector slowed).

Final Answer: Interest rates: down. Private wealth: down. Real estate: down.

Long Answer Type Questions

Q 3.10 How would you characterize business environment? Explain with examples, the difference between general and specific environment.

SOLUTION

Concept used. The **characteristics** of business environment are seven: totality, specific + general forces, interrelatedness, dynamism, uncertainty, complexity and relativity. The environment also splits into two layers: **general** (broad forces affecting all firms in a country: economic, social, technological, political, legal) and **specific** (forces affecting one firm directly: customers, competitors, suppliers, investors).

Step 1. Characteristics of business environment.

- *Totality of external forces:* the sum of all external influences.
- *Specific and general forces:* two distinct layers.
- *Interrelatedness:* dimensions affect each other.
- *Dynamic nature:* continuously changing.
- *Uncertainty:* hard to predict, especially in turbulent times.
- *Complexity:* multiple forces operating simultaneously.
- *Relativity:* differs across countries and regions.

Step 2. General vs Specific.

- *General environment* = forces affecting all enterprises in a country (economic, social, technological, political, legal). Example: a rise in income tax rates affects every company in India.
- *Specific environment* = forces affecting one firm directly (its customers, competitors, suppliers, investors). Example: Apple's specific environment includes its supplier Foxconn and its competitor Samsung; these do not directly affect, say, Hindustan Unilever.

Final Answer: Business environment is total, interrelated, dynamic, uncertain, complex and relative. General environment is broad and affects all firms (LPG, dimensions); specific environment is narrow and affects one firm (its customers, competitors).

♥ Why This Matters

The general-vs-specific distinction is a regular 6-mark long-answer question. Memorise five characteristics plus one general example and one specific example each.

EXPERT'S SOLUTION : Meera Krishnan, MBA, IIM Ahmedabad

Strategic angle. List seven characteristics, then a two-column compare of general and specific.

Step 1. Seven characteristics: totality, specific + general, interrelated, dynamic,

uncertain, complex, relative.

Step 2. General environment: all firms; e.g. income-tax rate change.

Step 3. Specific environment: one firm; e.g. Apple's Foxconn supplier and Samsung competitor.

Final Answer: Seven characteristics. General = country-wide; specific = firm-specific.

Q 3.11 How would you argue that the success of a business enterprise is significantly influenced by its environment?

SOLUTION

Concept used. A business does not operate in a vacuum; it draws inputs from its environment and delivers outputs back into it. **Success** depends on how well the firm reads and responds to environmental forces.

Step 1. Input dependency. Raw materials, capital, labour, technology all come from the environment; favourable conditions lower input costs.

Step 2. Output dependency. Demand for the firm's products depends on the social and economic environment (income, lifestyle, taste).

Step 3. Regulatory dependency. Political and legal environments determine what the firm can sell, at what price, and under what conditions (e.g. GST rates, labour laws).

Step 4. Technological dependency. Rapid technology change can make a firm's products obsolete (Kodak's failure to anticipate digital photography) or open new markets (Reliance Jio's 4G launch).

Step 5. Competitive dependency. The firm's success depends on its position relative to rivals in the specific environment.

Step 6. Real-world illustrations:

- Reliance Jio rode the 4G technology wave to capture 400 million subscribers.
- Demonetisation hurt cash-heavy real estate and informal retail.
- GST 2017 reshaped the supply-chain economics of every Indian manufacturer.

Final Answer: Success depends on the environment for inputs, outputs, regulation, technology and competition. Firms that scan well succeed (Jio); firms that ignore change fail (Kodak).

EXPERT'S SOLUTION : *Suhana Khan, MBA, ISB Hyderabad*

Strategic angle. Five dependencies, each with a real-world example.

Step 1. Input dependency: raw materials, capital, labour.

Step 2. Output dependency: demand from social-economic shifts.

Step 3. Regulatory dependency: GST, labour laws.

Step 4. Technological dependency: 5G, AI, fintech.

Step 5. Competitive dependency: market share vs rivals.

Final Answer: Success of any business is shaped by five layers of environmental dependency.

Q 3.12 Explain, with examples, the various dimensions of business environment.

SOLUTION

Concept used. The **five dimensions of business environment** are economic, social, technological, political and legal. Each dimension has a distinct set of forces and a clear set of examples.

Step 1. Economic environment. Includes interest rates, inflation, GDP growth, household income, savings rate, exchange rates. Example: when RBI lowers the repo rate, home loan EMIs fall, boosting demand in the housing sector.

Step 2. Social environment. Includes customs, values, lifestyle, education levels, family structure, demographics. Example: the rise of nuclear families and working women has expanded demand for ready-to-eat foods and home appliances.

Step 3. Technological environment. Includes rate of technological change, innovation, R&D spending, automation. Example: the rise of UPI has displaced cash for everyday transactions; firms that did not enable UPI lost customers.

Step 4. Political environment. Includes political stability, government attitude towards business, central-state relations. Example: "Make in India" policy attracted

foreign manufacturers like Apple to set up Indian assembly.

Step 5. Legal environment. Includes laws, regulations, court rulings, compliance requirements. Example: the DPDP Act 2023 imposes data-protection compliance costs on every Indian tech firm.

Final Answer: Five dimensions: economic (repo rate), social (nuclear families), technological (UPI), political (Make in India), legal (DPDP Act).

Exam Tip

For each dimension, write the name + a one-line definition + a recent Indian example. Three ticks per dimension; five dimensions \times three ticks = 15 marks of content.

EXPERT'S SOLUTION : *Devansh Roy, MBA, MDI Gurgaon*

Strategic angle. Use a five-row structure: name, definition, recent Indian example.

Step 1. Economic: GDP, inflation, interest rates; example, repo rate cut.

Step 2. Social: lifestyle, family, education; example, working women + ready-to-eat foods.

Step 3. Technological: rate of change, R&D; example, UPI revolution.

Step 4. Political: stability, govt attitude; example, Make in India.

Step 5. Legal: laws, regulations; example, DPDP Act 2023.

Final Answer: Five dimensions, each with name + definition + recent example, as listed.

Q 3.13 The Government of India announced Demonetisation of Rs. 500 and Rs. 1,000 currency notes with effect from the midnight of November 8, 2016. As a result, the existing Rs. 500 and Rs. 1,000 currency notes ceased to be legal tender from that date. New currency notes of the denomination of Rs. 500 and Rs. 2,000 were issued by Reserve Bank of India after the announcement. This step resulted in a substantial increase in the awareness about and use of Point of Sale machines, e-wallets, digital cash and other modes of cashless transactions. Also, increased transparency in monetary transactions and disclosure led to a rise in government revenue in the form of tax collection. (a) Enumerate the dimensions of business environment highlighted above. (b) State the features of Demonetisation.

SOLUTION

Concept used. **Demonetisation** hit three dimensions of business environment: economic (cash supply), political (policy decision) and legal (legal-tender status of currency). It also had clear textbook features such as a cashless economy push, formalisation, and tax-base expansion.

Step 1. (a) Dimensions highlighted:

- *Economic dimension:* the cash supply, banking deposits, interest rates, e-wallet adoption all moved sharply.
- *Political dimension:* the demonetisation announcement was a top-down government decision.
- *Legal dimension:* the legal tender status of Rs. 500 and Rs. 1,000 notes was withdrawn by RBI; new notes were issued by law.
- *Social dimension:* public adopted digital payments rapidly.

Step 2. (b) Features of Demonetisation:

- Demonetisation was a step towards a cashless or less-cash economy.
- It is generally associated with creating monetary and fiscal benefits, including increased tax compliance and broader tax base.
- It led to tax administration measures: more disclosure, higher revenue.
- It channelled savings into the formal financial system; bank deposits surged.
- It boosted digital transactions and PoS machine deployment.

Final Answer: Dimensions: Economic, Political, Legal (and Social). Features: cashless economy, tax-base broadening, formalisation, deposit surge, digital adoption.

EXPERT'S SOLUTION : Aditi Roy, M.Com, St. Xavier's College Kolkata

Strategic angle. Part (a) wants dimensions; part (b) wants the five textbook features.

Step 1. Dimensions: Economic (cash supply, banking), Political (govt decision), Legal (currency legal tender).

Step 2. Features (5): cashless economy push; monetary-fiscal benefits; tax administration boost; formalisation of savings; digital adoption.

Final Answer: Three dimensions hit; five textbook features of demonetisation.

Q 3.14 What economic changes were initiated by the Government under the Indus-

trial Policy, 1991? What impact have these changes made on business and industry?

SOLUTION

Concept used. The **New Industrial Policy of 1991** launched the LPG reforms: **Liberalisation, Privatisation and Globalisation**. The impact on business and industry runs along seven dimensions, listed in NCERT.

Step 1. Economic changes initiated in 1991.

- *Liberalisation*: end of the licence-permit raj; removal of price and distribution controls; opening up of most industries to private firms.
- *Privatisation*: reduction of the public sector via disinvestment, and opening public sector activities to private competition.
- *Globalisation*: reduction of tariffs; convertible rupee; foreign direct investment allowed in most sectors; alignment with WTO rules from 1995.

Step 2. Impacts on business and industry (seven points).

- Increasing competition (domestic + foreign).
- More demanding customers (greater choice, better quality at lower prices).
- Rapidly changing technological environment (firms must keep upgrading).
- Necessity for change (continuous adaptation).
- Need for developing human resources (new skills required).
- Market orientation (customer-first strategy replaces product-first).
- Loss of budgetary support to the public sector (PSUs must compete on their own).

Final Answer: 1991 changes: LPG (liberalisation, privatisation, globalisation). Seven impacts: competition, demanding customers, technology change, change as necessity, HR development, market orientation, loss of budgetary support to public sector.

♥ Why This Matters

This is the most-repeated 6-mark long answer in Chapter 3. Memorise the seven impacts.

EXPERT'S SOLUTION : *Karthik Sharma, MBA, MDI Gurgaon*

Strategic angle. Two-part structure: changes (LPG), then seven impacts.

Step 1. Changes: L (licence raj end), P (disinvestment), G (FDI, tariffs cut).

Step 2. Impacts (memorise 7): competition, customers, technology, change, HR, market orientation, loss of budgetary support.

Final Answer: LPG triggered seven cascading impacts on Indian business and industry.

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Key Takeaways

- Business environment is the sum total of external forces (economic, social, technological, political, legal) affecting a business; it is dynamic, complex, multi-faceted.
- Five dimensions: Economic, Social, Technological, Political, Legal. Each has distinct forces.
- Importance: identify opportunities, threats, resources; cope with change; plan; improve performance.
- LPG (1991): Liberalisation + Privatisation + Globalisation = the new industrial policy.
- Seven impacts of LPG on Indian business: competition, demanding customers, technology change, change as necessity, HR development, market orientation, loss of budgetary support.
- Demonetisation (Nov 2016): pushed cashless economy, broadened tax base, formalised savings.

End of NCERT Exercises