

**ANSWER KEY & MARKING SCHEME · CBSE CLASS 12****Business Environment**

Business Studies · Chapter 3 · Use this with the Board Paper · Companion to Quick Drill

**HOW TO USE**

Attempt the Board Paper first (closed-book, full time). Then come here. For 2-mark+ questions, compare your answer to the model. For 3-4 mark questions, also consult the **Topper Templates** below — these show the exact step-by-step structure that scores full marks per CBSE marking-scheme conventions.

**MODEL ANSWERS · BOARD PAPER****Section A — VSA (1 mark × 4)****Q1. Define business environment. [1 mark]**

**Ans:** Business environment is the sum total of all individuals, institutions and other forces that are outside the control of a business enterprise but may affect its performance.

**Q2. State the full form of the 1991 NEP pillars (LPG). [1 mark]**

**Ans:** Liberalisation, Privatisation and Globalisation.

**Q3. Name any two dimensions of the business environment. [1 mark]**

**Ans:** Any two of: economic, social, technological, political, legal.

**Q4. Are the specific and general environment internal or external to the firm? [1 mark]**

**Ans:** Both are EXTERNAL to the firm (specific = micro/task; general = macro). Neither is internal.

**Section B — SA-I (3 marks × 2)****Q5. Briefly explain any 3 features of the business environment. [3 marks]**

**Ans:** (1) Totality of external forces: it is the sum total of all forces outside the firm. (2) Inter-relatedness: a change in one force (e.g. social) triggers changes in others (e.g. economic/legal). (3) Dynamic nature: it keeps changing as technology, tastes and policy evolve. (Other valid: specific+general forces, uncertainty, complexity, relativity.)

**Q6. Differentiate between the specific and general environment with one example each. [3 marks]**

**Ans:** SPECIFIC (micro) environment affects a particular firm directly — customers, competitors, suppliers, investors (e.g. a key supplier raising prices). GENERAL (macro) environment affects all firms — economic, social, technological, political, legal forces (e.g. an RBI interest-rate change). Both are external.

**Section C — SA-II (4 marks × 1)****Q7. Demonetisation in 2016 was a major Government policy change. Explain its meaning and any two of its features/aims. [4 marks]**

**Ans:** MEANING: On 8 November 2016 the Government withdrew the legal-tender status of the old Rs 500 and Rs 1000 notes; holders could deposit or exchange them at banks. FEATURES/AIMS (any two): (1) it was a TAX-ADMINISTRATION measure aimed at curbing black money, fake currency and tax-evasion; (2) it gave a strong push towards a CASHLESS / DIGITAL economy (UPI, cards, wallets); (3) it channelled cash savings into the formal banking system and encouraged financial formalisation.

**Q8. Why is understanding the business environment important for managers? Explain any 5 points. [5 marks]**

**Ans:** (1) Identifying opportunities + first-mover advantage: scanning helps a firm spot opportunities early and lead the market (e.g. early movers in health drinks). (2) Identifying threats + early warning: it signals threats so the firm can act defensively before damage. (3) Tapping useful resources: the environment is the source of finance, materials, machinery and labour — a give-and-take relationship. (4) Coping with rapid change: understanding the environment lets managers plan a response rather than merely react. (5) Basis for planning + improved performance: environmental analysis is the raw material for planning and helps firms out-perform rivals.

**Q9. Explain the impact of the Government policy changes introduced under the New Economic Policy 1991 (LPG) on business and industry. [7 marks]**

**Ans:** In 1991 India adopted the New Economic Policy of Liberalisation (end of Licence Raj), Privatisation (greater private role + PSU disinvestment) and Globalisation (integration with the world economy). Its impacts on business and industry were: (1) INCREASING COMPETITION — end of licensing and entry of MNCs intensified rivalry; (2) MORE DEMANDING CUSTOMERS — with greater choice, customers became quality- and value-conscious; (3) RAPIDLY CHANGING TECHNOLOGICAL ENVIRONMENT — global technology inflows forced firms to upgrade; (4) NECESSITY FOR CHANGE — firms had to continuously modify operations rather than follow a fixed policy; (5) NEED FOR DEVELOPING HUMAN RESOURCES — competition demanded a more skilled, adaptable workforce; (6) MARKET ORIENTATION — production shifted from 'sell what is produced' to 'produce what the market demands'; (7) LOSS OF BUDGETARY SUPPORT TO THE PUBLIC SECTOR — PSUs could no longer rely on automatic government funds and had to generate their own resources. Overall, Indian business became more competitive, technology-driven, market-oriented and globally integrated.

**★ TOPPER ANSWER TEMPLATES**

**3 TEMPLATES · MEMORISE THE FORMAT**

**★ TOPPER TEMPLATE — 5-mark: 'Why is understanding the business environment important for managers? Explain any 5 points.'**

Annual

<b>Step 1</b> [1 mark]	<b>Identifying opportunities + first-mover advantage</b>	Environmental awareness helps a firm IDENTIFY OPPORTUNITIES early and gain the FIRST-MOVER ADVANTAGE. Example: firms that read the rising health-awareness trend early launched health drinks/atta-noodles before rivals and captured the market.
<b>Step 2</b> [1 mark]	<b>Identifying threats + early warning</b>	It gives EARLY WARNING SIGNALS of THREATS so the firm can act defensively. Example: an Indian firm sensing a strong new MNC entrant can improve quality or cut cost before being squeezed.
<b>Step 3</b> [1 mark]	<b>Tapping useful resources</b>	The environment is the SOURCE OF RESOURCES (finance, raw material, machinery, labour). Understanding it helps the firm assemble what it needs and, in turn, supply the goods the environment wants — a give-and-take relationship.
<b>Step 4</b> [1 mark]	<b>Coping with rapid change</b>	Markets, technology and customer tastes change fast. Continuous scanning helps managers PLAN A RESPONSE rather than merely react — turning change-management into a strategic strength.
<b>Step 5</b> [1 mark]	<b>Planning + performance improvement</b>	Environmental analysis is the RAW MATERIAL FOR PLANNING and policy; firms that scan systematically out-perform those that don't, improving long-run PERFORMANCE.

**COMMON LOSS OF MARKS:**

- Listing points without the example/explanation sentence.
- Giving fewer than the asked number of points.
- Confusing 'importance of understanding' with 'features of' the environment — two different questions.

**★ TOPPER TEMPLATE — 5-6 mark: 'Explain the impact of Government policy changes (New Economic Policy 1991) on business and industry.'**

2017, 2019, 2021, 2023

<b>Step 1</b> [1 mark]	<b>Set up: what the 1991 NEP was (LPG)</b>	In 1991 India adopted the New Economic Policy of LIBERALISATION (end of Licence Raj), PRIVATISATION (bigger private role + PSU disinvestment) and GLOBALISATION (integration with the world economy). Its impact on business and industry can be listed under the textbook heads below.
<b>Step 2</b> [1 mark]	<b>Increasing competition + more demanding customers</b>	INCREASING COMPETITION: removal of licensing and entry of MNCs sharply raised competition for Indian firms. MORE DEMANDING CUSTOMERS: with more choice, customers became better-informed and quality/price-conscious, so firms had to become market-oriented.
<b>Step 3</b> [1 mark]	<b>Rapidly changing technology + necessity of change</b>	RAPIDLY CHANGING TECHNOLOGICAL ENVIRONMENT: global technology inflows forced firms to upgrade or perish. NECESSITY FOR CHANGE: firms could no longer follow a set policy for long — they had to continuously modify operations.
<b>Step 4</b> [1 mark]	<b>Need to develop human resources + market orientation</b>	NEED FOR DEVELOPING HUMAN RESOURCES: new technology and competition demanded a more competent, adaptable workforce. MARKET ORIENTATION: production shifted from 'sell what is produced' to 'produce what the market demands' (marketing-led).
<b>Step 5</b> [1 mark]	<b>Loss of budgetary support to public sector + conclusion</b>	LOSS OF BUDGETARY SUPPORT TO THE PUBLIC SECTOR: PSUs could no longer rely on automatic Government funds and had to generate their own resources. CONCLUSION: overall, the 1991 reforms made Indian business more competitive, technology-driven and globally integrated.

**COMMON LOSS OF MARKS:**

- Describing what LPG means but NOT the IMPACTS on business/industry (the question asks for impacts).
- Missing the 'loss of budgetary support to public sector' point.
- Confusing liberalisation, privatisation and globalisation in the set-up line.

**★ TOPPER TEMPLATE — 5-mark: 'Explain any 5 dimensions of business environment with one example each.'**

Annual

<b>Step 1</b> [1 mark]	<b>Economic</b>	ECONOMIC: interest rates, inflation, income, monetary/fiscal policy, stock-market, value of rupee. Example: an RBI repo-rate cut lowers EMLs and boosts demand for cars and homes.
<b>Step 2</b> [1 mark]	<b>Social</b>	SOCIAL: customs, values, demographics, literacy, lifestyle, festivals. Example: rising health awareness expands the market for organic foods and gyms; festival demand spikes for sweets and clothing.
<b>Step 3</b> [1 mark]	<b>Technological</b>	TECHNOLOGICAL: scientific innovations and methods of production. Example: UPI/digital payments and e-commerce have transformed how retailers reach customers.
<b>Step 4</b> [1 mark]	<b>Political</b>	POLITICAL: political stability, government attitude to business, ideology of the ruling party. Example: a stable government with a 'Make in India' stance attracts manufacturing investment.
<b>Step 5</b> [1 mark]	<b>Legal</b>	LEGAL: laws, rules and regulations governing business. Example: the Companies Act, Consumer Protection Act, FSSAI rules, GST and advertising-standards law all constrain how a firm operates.

**COMMON LOSS OF MARKS:**

- No example given for a dimension (CBSE rewards a concrete example each).
- Confusing the social and economic dimensions.
- Listing fewer dimensions than asked.

**MARKING SCHEME — GENERAL NOTES**

- Examples (Indian companies / real policies like the 1991 NEP and 2016 demonetisation) carry marks — cite them.
- Listing without explaining loses marks. Each point needs a sentence of explanation.
- In the 1991-impact answer, the 'loss of budgetary support to the public sector' point is the most-forgotten — always include it.
- Keep liberalisation, privatisation and globalisation distinct — do not blur the three pillars.
- Use BSt-specific vocabulary — 'specific/general environment', 'dimensions', 'market orientation', not casual language.