



**SB-4019-A**  
**M. B. A. (Sem. II) Examination**  
**March / April – 2011**  
**Business Environment**  
*(New Course)*

Time : Hours]

[Total Marks :

**Instructions :**

(1)

<p>नीचे दशांशिक निशानीवाणी विगतो उत्तरवही पर अवश्य कृपया. Fillup strictly the details of signs on your answer book.</p> <p>Name of the Examination : M. B. A. (Sem. II)</p> <p>Name of the Subject : Business Environment (New)</p> <p>Subject Code No. : 4 0 1 9 Section No. (1, 2,.....) : Nil</p>	<p>Seat No. : □ □ □ □ □ □</p> <p style="text-align: center; border: 1px solid black; border-radius: 15px; padding: 10px;">Student's Signature</p>
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- (2) Q. 1, Q. 5 And Q. 6 are compulsory. Answer any two form Q.2, Q.3 and Q.4.
- (3) Figures to the **right** indicate full marks.

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| 1 Explain the concept of National Income. Discuss various methods of calculating the national income and discuss the drawbacks of national income calculation methods. | 18 |
| 2 Discuss the impact of union budget 2011-12 on services sector.   | 16 |
| 3 Critically examine the MSME policy 2006.   | 16 |
| 4 Why is social responsibility important for business ? Present your arguments for and against social responsibility.  | 16 |
| 5 Read the following case, present your analysis and answer the questions :  | 30 |

**Privatization of Water Utilities**

Water services fall in a low level equilibrium, where the utilities provided limited and low-quality services, due to insufficient resources. And inadequate service results in fewer

resources being collected. As a consequence, the entire population cannot be adequately covered. And it is the poor who have to pay the price by incurring substantial costs to seek alternatives. Paradoxically, any text book on public economics tells us that these very arguments make government intervention imperative. From early 1990s there has been a surge in privatization-related projects/proposals in the water sector in both-developed and developing countries (to a greater extent), often at the behest of the World Bank.

The proponents say that low-level equilibrium in the water sector can be punctured only through private sector participation (PSP).

Oddly enough, the World Bank has increasingly made its loans conditional on local governments privatizing their waterworks. These arguments put forward in favour of privatization are only a myth. Experience across the world suggests that instead of being a competitive market, water markets are generally monopolistic.

The high barriers to entry and low market contestability have resulted in few firms competing globally. In such a situation, the only option with the state is to regulate the firm. However, the effectiveness of such regulations is often questionable. There is evidence that firms even refuse to adhere to the rules of the regulator.

Reports indicate that one of the private owners of the water project challenged the government to take back the franchise if the regulator did not concede to the company's demands for changing the terms of the original agreement.

Since the sector has fewer firms, terminating the concession is not a realistic option. Sometimes the contracts may be difficult to alter or cancel once awarded, even if the circumstances change.

Even in developed countries, terminating water concession, can be very difficult.

Large firms, public or private, generally have the principal-agent problems that cause inefficiencies. In addition, in case of regulated sector with information asymmetry, the private operators may be inefficient to even over the cost prices as a fixed return is assured by the regulator.

The assertion that the private sector participation is essential to finance large investment needed in the water sector is also entirely true. Contrary to expectations, despite privatization, financial support from host governments through subsidies

or guarantees remains at significant levels.

A review of different privatization experiences across the world shows that privatization is concentrated in poorer countries and the private water industry is dominated by 6 MNCs.

The efficiency of privately owned utility is also shrouded in mystery. A recent review of 12 empirical studies by Anwander and Ozuna in the Environment and Development Economics on the relative efficiency of public versus private utilities confirms that the effect of privatization is ambiguous for the water sector.

Only four studies concluded that privatization is more efficient than public. Numerous examples exist of poorly performing privatized utilities. Several countries in Latin America have in fact reverted to municipal management due to poor performance of the private operators.

Corruption is another accompanying feature of water privatization. Recently, a French government's move of privatization was accused of corrupt practices to secure enormous profits. Moreover, any privatization that involves just one or few participants will lack transparency.

Private firms may be able to recover the tariffs better as they have no obligation to maintain supplies to non-payers or to keep the prices artificially low. To achieve this, they may resort to practices supplying water only to enterprises where they can make huge profits.

For example, the 1995 water privatization in Puerto Rico left the poor without water while the US military bases and tourist resorts got adequate water supplies.

India law holds that groundwater is not a common/community resource but belongs to the land owner. Any privatization will result in unchecked and excessive sinking of bore wells which will lower the water table and overload water supplies with dissolved salt, fluorine and arsenic.

In long-run, when the water table lowers and water becomes saline, it will have wide implication for the land-use patterns also.

This has happened everywhere. In India, Bechtel was involved in the Dabhol Power Project with Enron. It is now involved in water privatization of Coimbatore and Tirpur as a part of consortium with Mahindra and Mahindra and United International North West Water. As with other privatization contracts, this was one that has not been made public.

There exist several other ways to improve the efficiency of water supply, such as public ownership of resources with operations contracted out to the private sector and community and user participation.

Before resorting to private sector participation, public-private participation through service or management contracts should be tried out. The influence and control over pricing of water tariffs is vital to avoid exploitation of the monopoly power by private firms.

From the investor's point of view too, the public-private model works better than the private sector as the primary task of investing in a country is mitigated to a great extent.

The utilities should be restructured to make them more efficient. One component of restructuring is metering and charging a volumetric price reflecting the cost of service. It will not only improve water use but will reduce waste by users.

**Questions :**

- (i) Do you support privatization of water utilities ? Justify your stand.
- (ii) Are there any other means through which water utilities can be owned, operated and managed other than the options discussed in the case ?
- (iii) How wise would it be to hand over these vital resources to private parties/MNCs in India ?

**6** Write short notes on (any **two**) :

**20**

- (a) Chambers of commerce.
  - (b) Technology transfer.
  - (c) WTO
  - (d) Management education in India.
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