SYNTHESIS OF ECONOMIC ENVIRONMENT AND CLASSIFICATION LEVELS OF DEVELOPMENT

***Mohammedelkhatim Ibrahim Mustafa SHARFELDIN*[1]**
PhD Student, Quatar

Economic environment is actual and influences business activities significantly. Economic environment includes microeconomic and macroeconomic factors. These factors assist in encouraging business and promote trade and investment activities. This work aims to illustrate those factors, their characteristics and how do they support international business activities. This paper also is intended to reveal the indicators used to classify countries' development for instance BOP, GNI, GDP and GNP. As a result, it also demonstrates the indicators' characteristics and how these indexes work.
Keywords: *microeconomic, distribution channels, Macroeconomic, income levels, cost of living, standard of living, poverty, unemployment, customs duty, balance of payments, gross national income, gross national product and gross domestic product.*

Mediul economic este actual și influențează în mod semnificativ domeniul afacerilor. El include în sine factori microeconomici și macroeconomici. Acești factori asistă la încurajarea afacerilor și la promovarea activităților comerciale și de investiții. Lucrarea dată își propune să ilustreze acești factori, caracteristicile lor și modul în care susțin activitățile de afaceri internaționale. De asemenea, această lucrare are drept scop evidențierea indicatorilor utilizați în clasificarea țărilor în curs de dezvoltare, de exemplu: BOP, VNB, PIB și PNB. Ca rezultat acesta demonstrează caracteristicile indicatorilor și modul în care acești indici funcționează.
Cuvinte-cheie: *microeconomic, canale de distribuție, macroeconomic, nivelul veniturilor, costul de trai, nivelul de trai, sărăcie, șomaj, taxe vamale, balanța de plăți, venitul național brut, produsul național brut, produsul intern brut.*

Экономическая среда актуальна и значительно влияет на деловую активность. Экономическая среда включает в себя микроэкономические и макроэкономические факторы. Эти факторы помогают в стимулировании бизнеса и содействуют развитию торговли и инвестиционной деятельности. Эта работа нацеленна проиллюстрировать эти факторы, их характеристики и как они поддерживают международную коммерческую деятельность. Данная работа также предназначена для выявления показателей, используемых для классификации развития стран, например, ПБ, ВНД, ВВП и ВНП. В результате она также демонстрирует характеристики состояние индикаторов и каким образом эти показатели работают.
Ключевые слова: *Микроэкономические, каналы распределения, макроэкономика, уровень доходов, стоимость жизни, уровень жизни, бедность, безработица, таможенная пошлина, платежный баланс, валовый национальный доход, валовый национальный продукт и валовый внутренний продукт.*

JEL Classification: C81, D01, E24, F61, J64.

Introduction. Economic environment plays a major role in business success and/ or failure. Countries strive to monitor and improve this environment because of its importance.

This work tackles the central components of the business economic environment, their characteristics and how these factors influence business operations. This paper also illustrates the common indicators used to look into the development of counties' economies. It similarly reveals the main features of these indicators and clarifies how these indicators work.

The economic environment of business refers to some factors which influence business operations. These factors affect business operation and production. Business therefore depends heavily on

---

[1] **© *Mohammedelkhatim Ibrahim Mustafa SHARFELDIN, khatim25@hotmail.com***

the economic environment as it has significant influences on business activities. The economic environment is one of the major determinants of market potential and opportunity. Consequently, understanding the economic environments of foreign markets and countries certainly assist in predicting how trends and tendencies in those environments might affect firms' current and future performance. Similarly, a careful analysis of the economic environment is essential as economic environment plays an important role in mobilizing the business corporates towards the correct directions.

Economic Environment. The economic environment is one of the important components of business external environment [1, p.23]. It denotes economic forces which exert some effects on the functioning of a business. These forces affect for instance consumer buying power and spending patterns. The economic environment in which a business operates has a great impact on business activities; it plays an essential role in business success and/or failure. These factors can also influence each other and work together consequently affecting the business. Economic environment is divided into microeconomic and macroeconomic environments. Microeconomic environment includes forces such as market size, demand, supply, producers, suppliers, consumers and distribution channels. Macroeconomic environment embraces economic systems and policies as well as economic conditions.

Market size is one of the essential constituents of economic environment. It refers to the number of individuals and corporates in a certain market who are potential buyers and/or sellers of a certain product or service. Businesses usually conduct market scan to measure the market size before setting up plans to introduce a product or service in a specific area. Big markets generally create stimulating business environment, so encourage corporates to bring varieties of products and services. The stimulating environment simultaneously assists in generating competitiveness between different firms. Needless to say that all corporates want to offer good products and services to have a good share in the market and earn profits. Therefore, market size encourages competitiveness between firms and consequently profitability for them in addition to good prices for consumers [2, p.295].

Determining the market size allow businesses to consider the value and volume of goods and services to be presented in a specific market. The demand for certain products in a particular market defines the suitable amount to be supplied in that market. Thus demand and supply are chief business economic environment forces as they play together a significant role in business operations. Increasing the demand for certain commodity or service in a market reflects the desire for that product, consequently encourages businesses to raise the volume to be supplied to that market to gain profits. The increase of product's volume in the market motivates consumers to look for good prices, accordingly forcing firms to reconsider pricing and quality strategies. Competitiveness between firms to offer good prices stimulates the microeconomic environment. Demand and supply integration help in understanding market and customer needs [3, p.15].

As previously shown, market size influences the business economic environment. Whenever, market size is greater, it encourages corporates to conduct business operations and consequently it promotes competition. Similarly, demand and supply have an impact on the business economic environment. Increase of demand leads to increase in supply. Thus, they also motivate businesses to compete to rise the volume of business activities in order to increase their market share and profit. The stimulating economic environment based on market size and the volumes of demand and supply influence similarly producers and suppliers. Producers tend to observe quality and price as demand is influenced mainly by the quality and cost of a product. Similarly suppliers lean towards offering good quality and prices. The rivalry between competitors trying to offer competitive products, influence positively the microeconomic environment.

Distribution channel is a key component in business economic environment. It is a series of businesses through which goods and/or services are delivered to a consumer. A distribution channel is the channel through which goods and services pass to reach a purchaser. It may take short or long forms depending on the number of intermediaries. Generally, the cost of distribution channel determines the required length of the channel. In the same way, other factors influence the choice of a distribution channel. Businesses need to consider aspects related to good or service quality and value. The type, volume and price of the product available in a market and consumer's number limit the channel [4, p.110]. Economic environment of business similarly relies similarly on macroeconomic forces. Macroeconomic environment constituents include economic systems policies and conditions as well as other forces revealed below.

Economic system is considered as a chief factor in the macroeconomic environment. It refers to the institutional and legal frameworks within which several economic activities are conducted. At the present time, there are three economic systems in the world. These are capitalism, socialism and mixed economy. The primary distinction between these economic systems is the degree to which the government takes part in the economy. Economic activities like production, distribution, consumption and economic growth are directed by a certain institutional framework. This framework consists of laws, customs and social institutions of a country. Economic systems generally aim to achieve goals like economic growth, economic development, full employment and price stability. The economic system in a country prescribes the suitable economic policies that governments have to adopt.

As revealed above, regimes aim to achieve certain economic goals; however, attaining these goals requires implementing specific economic policies. A country's economic policies are leading indicators of government's objectives. The economic policy in a country relies heavily on the available resources, hence governments tend to make maximum use of these resources to improve and support the economic conditions. Economic policies consist of components such as fiscal and monetary policies. Fiscal policy is a means by which governments adjust their tax rates and government spending levels to monitor and promote national economy. Monetary policy refers to the actions of a country's central bank to determine the money supply in that country. Production, employment and wages are all influenced by fiscal and monetary policies [5, p.16]. Through specific elements, fiscal and monetary policies influence the economic environment.

Fiscal policy is a strategy that governments use to adjust their spending levels and tax rates to monitor and influence national economy. It refers to the change in government's spending and tax rates to influence the level of aggregate demand. It can be divided into expansionary and deflationary policy. Expansionary policy aims at increasing aggregate demand and involves higher government spending and lower taxes rates. This policy helps in increasing employment rates but it may similarly cause a budget deficit. Deflationary policy includes lower government spending and higher tax rates aimed to reduce aggregate demand. This policy is devised to reduce a budget deficit. Choosing the proper time to apply the accurate fiscal policy is important for promoting a stable economic environment. Changing a fiscal policy at a wrong time may be a source of economic instability [6, p.224].

Monetary policy encompasses actions taken to manage money supply. It aims at setting interest rates, controlling inflation and recession, reducing unemployment rates and ensuring price stability. It may be divided into expansionary and contractionary policy. Expansionary policy increases the money supply so as to lower unemployment, consumers' spending, increase private-sector borrowing and consequently encourage economic growth hence avoid recession. Contractionary policy decreases money supply. It may increase unemployment rates, reduce consumers' spending and businesses' borrowing therefore slow economic growth and reduce inflation. When choosing expansionary or contractionary monetary policy, it is very essential to consider the country's economic characteristics [7, p.127]. Such a choice may reinforce or undermine business activities thus influences the economic environment

Governments attempt to stimulate economic environment through adopting certain economic policies. Both fiscal and monetary policies are considered as efforts to reduce economic fluctuations. They aim at creating a more stable economy characterized by low inflation and positive economic growth. They are devised to maintain price stability and full employment to promote the economic prosperity and welfare of the people. In order to implement the economic systems and policies regimes must enact economic legislations. Economic legislations refer to a set of laws and regulations legislated by governments' legislative bodies to control and regulate the economic operations and activities. Economic legislations can take different forms such as states' intervention in foreign exchange markets which is considered also as a mechanism to support and promote the stability of economic environment.

Exchange rate is a significant component of the economic environment. It is one of the major economic policies. It can be referred to as the price for which a currency of a country can be exchanged for another state's currency. Accordingly, an exchange rate has two components, a national currency and a foreign currency. Exchange rates are either fixed or floating. Fixed exchange rates are generally governed by a country's central bank. Floating exchange rates are determined by the market forces of demand and supply. Many factors influence the exchange rates such as trade balance, general state of economy and political stability. Constant exchange rate encourages firms to initiate investment activities hence supporting economic environment. Therefore, some countries occasionally intervene in the foreign exchange markets in an attempt to stabilize the exchange rate [8, p.13].

Customs duty and taxes are significant sources of revenue for states. Customs duty is a charge imposed on imported merchandises. It aims to protect a country's economy, people and environment through controlling the flow of commodities, particularly restrictive and prohibited goods into the country. Some countries may allow importing certain amount or percentage of a specific goods to protect the local production, while barring importation of others based on cultural differences for instance. Tax is another charge imposed by a government institution on individuals and corporations to finance government activities. There are several types of taxes such as income tax, sales tax and property tax, thus tax percentage depends on its type. Customs duty structure and taxes percentages constitute crucial aspects in encouraging investors. Some countries may exempt investors from tax and customs duty to attract them [9, p.100].

Before choosing specific economic policies, governments must consider the economic conditions in the country. Regimes conduct economic planning according to available natural resources for instance mineral and agricultural resources. They consider the best means to make maximum use of these resources and to promote investment activities. Investors themselves take into account the availability and quality of natural resources but also laborers. Human resources constitute a significant factor in the economic environment. Business always seeks to find skilled but cheap laborers. A short time ago, many international firms for instance Sony and Dell erected plants in China and India. In Southeast Asian countries, in addition to skilled labor force, salaries of laborers are not high [10, p.167]. Economic conditions encompass income level, distribution of income, cost and standard of living as well as poverty and unemployment rates.

As revealed above, income is a substantial part in the economic conditions in a country. The levels of income reveal the level of education and the professions in a society thus reflect the economic conditions and the classes to which society's members belong. Level of income determines the amount and quality of products and services demanded by peoples in certain areas. It reveals the marketing strategies, solutions and promotions that businesses have to take on. Distribution of income and wealth fundamentally affects peoples' purchasing behavior and consequently the market size. Consumer discretionary income, income per capita and consumer savings rate influence the value and volume of commodities and services they buy. Studies demonstrate that income influences purchasing power and decisions as it raises consumers' awareness to be more price-sensitive for hedonic purchases [11, p.208].

Cost of living plays a substantial role in the economic environment. It refers to the amount of money necessary to sustain a certain level of living, including but not limited to basic expenses such as accommodation, nutrition and health care. Cost of living is regularly used to determine the living expenses in one place in comparison to another one. It is also used to compare the expenses at two periods of time within the same place. Salary levels in a particular geographical area depend heavily on expenses indispensable to maintain a basic standard of living in that area, thus salaries are closely related to the cost of living. Hence wages, cost of living and standard of living are closely interrelated and influence each other significantly. Needless to say that an increase of income, may lead to a similar growth in the purchasing power, thus affecting the cost of living and consequently the standard of living.

The standard of living constitutes a significant component in the economic environment. It refers to the level of luxury and wealth available for certain classes within a society. It is frequently used to compare geographical regions and may similarly be used to compare different periods of time. The standard of living includes factors for instance economic growth and constancy as well as political freedom and stability. It can be measured using a variety of tools such as gross domestic product (GDP) per capita and gross national product per person (GNP). Standard of living is closely related to quality of life; they are components of well-being. It is a measure of material aspects but also other characteristics for instance health and education. The UN formulated a human development index that merges factors such as life expectancy, education and income in order to measure the standard of living [12, p.470].

Poverty is a phenomenon that reflects the economic condition of a person or a society. It refers to a condition in which a person or a society lacks financial resources and necessities to enjoy a minimum standard of living that is considered adequate in a certain society. Poverty level and rates are used as standard to determine the proportion of a population living in poverty. They are important indexes for both governments and investors as they influence the national economic development and investment activities. Thus, governments are required to initiate researches to study causes of poverty and its impact on society then to introduce and implement necessary strategies and policies to fight against poverty and promote the well-being of their nations. Investors also need to conduct a market scan to recognize the characteristics of the potential market so as to determine the value and volume of goods and services desired.

Unemployment is a significant phenomenon that affects economic environment. It is a situation where people at the age of work who are seeking employment are unable to get a job. While unemployment rate is used to measure the unemployment, unemployment as a phenomenon is used to measure the health of economy. Unemployment rates are substantial indicators of societies' economic conditions and significant signs of the economic environment. They impact economic growth strategies and plans, thus governments can reduce unemployment rates through adopting certain encouraging employment schemes and policies. Unemployment rates may also challenge investment plans as corporates would not risk to initiates investment activities in countries where unemployment rates are high. Researches demonstrate that foreign investors may be less attracted to regions where employment rates are high [13, p.139].

Researchers devised certain criteria to assess the impact of economic system and policies as well as to determine their impact in the economic conditions. Balance of payments (BOP) is an economic indicator that reflects the economic situations in countries of the world. It is a statement which summarizes economic transactions with the rest of the world for a quarter of a year or one year. Transactions included in the BOP statement are divides into three accounts: current account, capital account and financial account. BOP assists in economic planning and formulation of economic strategies and policies since it is a vital guide to states' economic conditions. It has a crucial role in promoting investment activities in a specific country because it reveals various aspects of countries' international economic position. It demonstrates the foreign investment profits in a country and the country's profits abroad [14, p.238].

Gross National Income (GNI) is the sum of incomes generated by both total domestic production in addition to the international production activities of national firms in a given period. It measures all income of a country's people and businesses, regardless of production location. It does not include the earnings of foreigners living in the country, even if they spend it within the country. As such, the GNI may be considered as an economic indicator because it reflects the amount of production in a country in addition to the size of investments abroad as well as the profits that these investments earned. Similarly, GNI information may reveal the characteristics of economic environment in each country. More precisely, this information can demonstrate the size of overseas investments and why these investments exists overseas. Thus GNI may be a key indicator that businesses need to evaluate before initiating any activity.

Gross National Product (GNP) is the total value of all final goods and services produced within a country in a certain year, plus the income earned by its citizens comprising income of those located abroad, minus the income earned by foreigners within the domestic economy. It is one of the economic indicators used to measure the national economic conditions of a country. Since national economies gained an increasing importance globally, GNP assists in revealing essential information about the economic environment in a specific country. It may also determine people's purchasing power and hence the value and volume of goods and/or services that firms need to bring into a particular market. It also demonstrates the size of revenues earned by national corporates from overseas investments, thus it illustrates national investors trends and tendencies. GNP reveals the production of national firms even those working abroad [15, p.12].

Gross domestic product (GDP) denotes the total monetary value of all final goods and services produced within a country in a precise year. It can be calculated on a quarterly basis as well. GDP can be calculated by adding personal consumption expenditures plus government spending plus the sum of all the country's business investment plus the country's total net exports. It is a quantitative measure of a state's total economic activity and is an important indicator of a country's economic performance. The information provided in the GPD data is vital for both governments and investors. Personal consumption reflects the purchasing power plus the commodities and services desired in a specific market. Government expenditure reveals the size of government intervention in a national economy through fiscal policies implemented. Research shows that GDP has constructive and strong influence on investors [16, p.66].

Conclusion. The economic environment of business refers to the economic factors that influence business operations. It is divided to micro and macro factors. Microeconomic environment include forces as market size, demand, supply, producers, suppliers, consumers and distribution channels. Determining the market size allow businesses to consider the value and volume of goods and services to be presented in a specific market. The demand for certain products in a particular market determines the amount to be supplied on that market. Producers and suppliers compete to observe quality and price as demand and supply are influenced mainly by the quality and cost of a product. Product's type, volume and price and number of consumers as well as channel's cost determine the distribution channel's length.

Macroeconomic environment similarly impacts the business environment. It includes factors such as economic system and policies as well as other forces. States' ideologies determine their economic system. The economic system figures which economic policies governments have to be considered. Economic policies include fiscal, monetary and other policies. Fiscal policy is a strategy that governments use to adjust their spending levels and tax rates to monitor and influence national economy. It is devised to reduce a budget deficit. Monetary policy encompasses actions taken to manage money supply. It aims at setting interest rates, controlling inflation and recession, reducing unemployment rates and ensuring price stability. Before choosing specific economic policies, governments must consider the economic conditions in the country.

Economic conditions in a country can be assessed and evaluated through various criteria. Level of income determines the amount and quality of products and services demanded by peoples in certain areas. Cost of living is regularly used to determine the living expenses in one place in comparison to another one. Standard of living is a significant economic environment indicator. It refers to the level of luxury and wealth available for certain classes within a society. Poverty and unemployment rates also significant economic environment indicators. Poverty rates determine the proportion of a population living in poverty, thus reveals demand and supply potential volumes. Unemployment rates measure unemployment and the unemployment measures the health of economy. Economic policies take the form of legislations. Customs duty and taxes in addition to exchange rate are among the common economic legislations which impact on business.

Economic environment indicators are used to assess the economic health. They include (BOP), (GNI), (GNP) and (GDP). They have a crucial role in promoting investment activities in a specific country as they reveal various aspects of a country's international economic position. BOP is an economic indicator that reflects the economic situations in countries of the world. It assists in economic planning and formulation of economic strategies and policies. GNI measures all income of a country's people and businesses, irrespective of production location. It demonstrates the size of investments overseas and why these investments exist overseas. GNP determines people's purchasing power and hence the value and volume of goods or services desired in a particular market. GDP is a quantitative measure of states' total economic activity. It reveals countries' economic performance.

REFERENCES

1. BERGER, A.N., UDELL, G.F. Small business credit availability and relationship lending: The importance of bank organisational structure. 2002 [accesat 24 martie 2016]. Disponibil: https://www.federalreserve.gov/PUBS/FEDS/2001/200136/200136pap.pdf
2. MELITZ, M.J., OTTAVIANO, G.I.P. Market size, trade, and productivity. In: The review of economic studies. 2008, vol. 75, no. 1, pp. 295-316.
3. ESPER, T.L. et al. Demand and supply integration: a conceptual framework of value creation through knowledge management. In: Journal of the Academy of marketing Science. 2010, vol. 38, no. 1, pp. 5-18.
4. DeTHOMAS, A., DERAMMELAERE, S.A. *Writing a convincing business plan*. New York: Barron's Educational Series, 2008. 263 p. ISBN 9780764139345.
5. LANGDANA, F. *Macroeconomic policy: demystifying monetary and fiscal policy*. New York: Springer Science&Business Media, 2009. ISBN 978-0-387-77666-8.
6. GWARTNEY, J.D. et al. *Economics: Private and public choice*. Toronto: Nelson Education, 2014. 784 p.
7. MAHADEVA, L., STERNE, G. *Monetary policy frameworks in a global context*. Abingdon: Routledge, 2012. 127 p.
8. FISCHER, S. Exchange rate regimes: is the bipolar view correct? In: Journal of economic

perspectives. 2001, vol. 15, no. 2, pp. 3-24.
9. SALACUSE, J.W. *The three laws of international investment: national, contractual, and international frameworks for foreign capital*. Oxford: OUP Oxford, 2013. 440 p. ISBN 9780199654567.
10. DAQUILA, T.C. *The Economies of Southeast Asia: Indonesia, Malaysia, Philippines, Singapore, and Thailand*. New York: Nova Publishers, 2005. 167 p. ISBN 9781594541889.
11. WAKEFIELD, K.L., INMAN, J.J. Situational price sensitivity: the role of consumption occasion, social context and income. In: Journal of Retailing. 2003, vol. 79, issue 4, pp. 199-212.
12. KOMLOS, J., KRIWY, P. The biological standard of living in the two Germanies [accesat 24 martie 2016]. Disponibil: https://epub.ub.uni-muenchen.de/55/1/ddr.pdf
13. REVENGA, A., SILVA-JAUREGUI, C. et al. *Slovak Republic: living standards, employment and labor market study*. Washington: World Bank Publications, 2002. 139 p. ISBN 0-8213-5081-1.
14. KUMAR, R. *International Economics*. Noida: Excel Books India, 2008. 552 p. ISBN 9788174466488.
15. BREZINA, C. *Understanding the gross domestic product and the gross national product*. New York: The Rosen Publishing Group, 2011. 80 p. ISBN 978-1448855698.
16. MODY, A. *Foreign direct investment and the world economy*. Abingdon: Routledge, 2007. 66 p. ISBN 9780415701921.
17. GHIŢIU, L., NOVAC, A., GRYGA, V. The reality and perspectives of achieving the millennium development goals regarding poverty in the Republic of Moldova. In: Economie şi Sociologie = Economy and Sociology. 2015, nr. 4, pp. 99-103.

Recommended for publication: 27.08.2016