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Q.3 What do you understand by Investment environment? Explain the factors that affect investment environment.

→ Investment is made for the expectation of income. Investors should have knowledge about the investment alternatives, but investors has invest in better alternatives. Better alternatives of investment depends on environment, government policies and decision, legal structures, political systems etc. An investors needs favourable investment market. Investment environment help the investment process.

Investment environment is a sum total of uncontrollable, external, economic, social, political, physical and legal factors. Any investors can invest if better environment is present. So, following factors affect the investment environment.

Factors affecting investment environment:

The investment market should have a favourable environment to be able to function effectively.

Following are the factors that affect investment environment:

- i) Legal Safe guard or legal Safety → legal Safety of capital encourages investors to invest in various alternatives. A stable government provides adequate legal safety and guarantee the safety of the capital. legal safety create better environment for investment.
- ii) Stable currency → A proper monetary policy and stable currency is required for better investment environment.
- iii) Existence of financial institution → The presence of financial institution in sufficient numbers also helps in creating a favourable investment environment. The establishment of financial institution like commercial banks, post office etc encourages savings and helps the investment market to grow.
- iv) Form of business organisation → The form of business organisation which is permanent

in existence aids savings and investment. Public limited Companies, a form of business organisation is the best for investors in compare of sole trading and partnership.

v) Social environment → Investment environment is affected by the investors nature that is social environment. Social environment encourage or discourage the habits of savings and investments of the investors. So, there should be proper social environment for the development of investment market.

vi) Economic policy → Economic policies of any country affects the business industry and economic activities of that country. Economic policies make important contribution in the development of investment market.

vii) Political environment → Political decisions influence the investment environment. When different political parties form the government, then the investment environment is greatly affected by the government policy.