NAAC ACCREDITED

तेजस्वि नावधीतमस्तु

ISO 9001:2008 & 14001:2004

FAIRFIELD

Institute of Management & Technology

'A' Grade Institute by DHE, Govt. of NCT Delhi and Approved by the Bar Council of India and NCTE

Reference Material for Three Years

Bachelor of Commerce (Hons.)

Code : 888

Semester – II

FIMT Campus, Kapashera, New Delhi-110037, Phones : 011-25063208/09/10/11, 25066256/ 57/58/59/60
Fax : 011-250 63212 Mob. : 09312352942, 09811568155 E-mail : fimtoffice@gmail.com Website : www.fimt-ggsipu.org

DISCLAIMER : FIMT, ND has exercised due care and caution in collecting the data before publishing tis Reference Material. In spite of this ,if any omission ,inaccuracy or any other error occurs with regards to the data contained in this reference material, FIMT, ND will not be held responsible or liable. FIMT , ND will be grateful if you could point out any such error or your suggestions which will be of great help for other readers.

COPYRIGHT FIMT 2020

INDEX

Three Years

Bachelor of Commerce (Hons.)

Code : 888

Semester – II

NAAC ACCREDITED
ISO 9001:2015 & 14001:2015

COPYRIGHT FIMT 2020

Business Mathematics

[B.Com.-102]

Q1. Use Cramer's rule to solve the system of equations

$$3x + y - 2z = -3$$
$$2x + 7y + 3z = 9$$
$$4x - 3y - z = 7$$

A1. The terms in the left members are arranged in the proper order and only the constant terms appear in the right members.

Hence, we proceed as follows:

$$Ax = B \text{ Where } A = \begin{vmatrix} 3 & 1 & -2 \\ 2 & 7 & 3 \\ 1 & -3 & -1 \end{vmatrix};\ x = \begin{vmatrix} x \\ y \\ z \end{vmatrix};\ B = \begin{vmatrix} -3 \\ 9 \\ 7 \end{vmatrix}$$

Step 1:

The determinant of A is:

$$D = \begin{vmatrix} 3 & 1 & -2 \\ 2 & 7 & 3 \\ 4 & -3 & -1 \end{vmatrix}$$

Compute the determinant D by the method of minors and cofactors. That is, compute the sum of the products of a number, the minor, and the determinant of the two by two matrix resulting when the row and column containing the minor is crossed out. The summation can be along any row or column and the following scheme provides the sign for each minor.

$$\begin{vmatrix} + & - & + \\ - & + & - \\ + & - & + \end{vmatrix}$$

The minors may be the elements along any chosen row or column of the matrix. The cofactor is the determinant of the four terms remaining when the row and column of the chosen minor is eliminated.

$$= 3\,|7 \quad 3| \qquad |2 \quad 3| \qquad |2 \quad 7|$$

COPYRIGHT FIMT 2020

| —3 —1 | —1 | 4 —1 | —2 | 4 —3
|

The determinant of a two by two matrix is computed as follows

det | a b | = ad — bc
| c d |

= 3 (—7 + 9) — 1 (—2 — 12) — 2(—6 — 28)

D = 6 + 14 + 68

= 88

Step 2:

Now compute D_x, D_y, D_z i.e., the determinants of the matrices resulting when you replace the column containing the coefficient of the variable under consideration by the constant terms in matrix B while keeping the other two columns the same.

| —3 1 —2 |
D_x = | 9 7 3 |
| 7 —3 — 1|

= —3 | 7 3 | | 9 3| | 9 7 |
| —3 —1 | —1 | 7 —1| —2 | 7 —3 |

= —3 (—7 + 9) — 1 (—9 — 21) — 2(—27 — 49)

= —6 + 30 + 152 = 176.

Step 3: | 3 —3 —2 |
D_y = | 2 9 3 |
| 4 7 — 1|

= | 9 3 | | 2 3 | | 2 9 |
| 7 —1| +3 | 4 —1| —2 | 4 7 |

= 3(—9 — 21) + 3 (—2 — 12) — 2(14 — 36)

= —90 — 42 + 44

= —88

Step 4: | 3 1 —3 |

COPYRIGHT FIMT 2020

$$D_z = \begin{vmatrix} 2 & 7 & 9 \\ 4 & -3 & 7 \end{vmatrix}$$

$$= 3 \begin{vmatrix} 7 & 9 \\ -3 & 7 \end{vmatrix} - 1 \begin{vmatrix} 2 & 9 \\ 4 & 7 \end{vmatrix} - 3 \begin{vmatrix} 2 & 7 \\ 4 & -3 \end{vmatrix}$$

$= 3(49 + 27) - 1(14 - 36) - 3(-6 - 28)$

$= 228 + 22 + 102$

$= 352$

Step 5: $x = D_x / D = 176/88 = 2$

$y = D_y / D = -88/88 = -1$

$z = D_z / D = 352/88 = 4$

by Cramer's rule. Hence the solution set is $\{(2,-1,4)\}$; it can be checked by the method of substitution.

Q2. Show that

$$\begin{vmatrix} b+c & a-b & a \\ c+a & b-c & b \\ a+b & c-a & c \end{vmatrix} = 3abc - a^3 - b^3 - c^3.$$

A2. The following is a known property of determinants:

$$\begin{vmatrix} a_1 + \bar{a}_1 & b_1 & c_1 \\ a_2 + \bar{a}_2 & b_2 & c_2 \\ a_3 + \bar{a}_3 & b_3 & c_3 \end{vmatrix} = \begin{vmatrix} a_1 & b_1 & c_1 \\ a_2 & b_2 & c_2 \\ a_3 & b_3 & c_3 \end{vmatrix} + \begin{vmatrix} \bar{a}_1 & b_1 & c_1 \\ \bar{a}_2 & b_2 & c_2 \\ \bar{a}_3 & b_3 & c_3 \end{vmatrix}.$$

Notice that in our given determinant there are two columns with their elements expressed as the sum of two terms. We will first apply the above property to the first column.

We thus obtain:

$$\begin{vmatrix} b+c & a-b & a \\ c+a & b-c & b \\ a+b & c-a & c \end{vmatrix} = \begin{vmatrix} b & a-b & a \\ c & b-c & b \\ a & c-a & c \end{vmatrix} + \begin{vmatrix} c & a-b & a \\ a & b-c & b \\ b & c-a & c \end{vmatrix}$$

COPYRIGHT FIMT 2020

Now, applying this property to the second column of both determinants on the right side of the equal sign we obtain:

$$\begin{vmatrix} b & a & a \\ c & b & b \\ a & c & c \end{vmatrix} + \begin{vmatrix} b & -b & a \\ c & -c & b \\ a & -a & c \end{vmatrix} + \begin{vmatrix} c & a & a \\ a & b & b \\ b & c & c \end{vmatrix} + \begin{vmatrix} c & -b & a \\ a & -c & b \\ b & -a & c \end{vmatrix}$$

But, if each element in a column of a determinant is multiplied by a number p, in this case p = — 1, then the value of the determinant is multiplied by p. That is,

$$\begin{vmatrix} a_1 & pb_1 & c_1 \\ a_2 & pb_2 & c_2 \\ a_3 & pb_3 & c_3 \end{vmatrix} = p \begin{vmatrix} a_1 & b_1 & c_1 \\ a_2 & b_2 & c_2 \\ a_3 & b_3 & c_3 \end{vmatrix}$$

Thus, our above determinants become,

$$= \begin{vmatrix} b & a & a \\ c & b & b \\ a & c & c \end{vmatrix} - \begin{vmatrix} b & b & a \\ c & c & b \\ a & a & c \end{vmatrix} + \begin{vmatrix} c & a & a \\ a & b & b \\ b & c & c \end{vmatrix} - \begin{vmatrix} c & b & a \\ a & c & b \\ b & a & c \end{vmatrix}$$

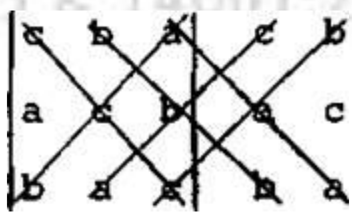
Recall that when two columns of a determinant are identical, the value of the determinant is zero. Thus, the first three determinants vanish and we are left with

$$- \begin{vmatrix} c & b & a \\ a & c & b \\ b & a & c \end{vmatrix}.$$

To evaluate this third order determinant we employ the following method: rewrite the first two columns of the determinant next to the third column, obtaining:

$$- \begin{vmatrix} c & b & a \\ a & c & b \\ b & a & c \end{vmatrix} \begin{matrix} c & b \\ a & c \\ b & a. \end{matrix}$$

Draw three diagonal lines sloping downward from left to right, each of which encompasses three elements of the determinant. Do this also from right to left. The diagram now looks like: -



We now form the products of the elements in each of the six diagonals, preceding each of the terms in the left to right diagonals by a positive sign, and each of the terms in the right to

COPYRIGHT FIMT 2020

left diagonals by a negative sign. The sum of the six products is the required expansion of the determinant. Thus, we obtain: $-(c \cdot c \cdot c + b \cdot b \cdot b + a \cdot a \cdot a - acb - cba - bac) = -c^3 - b^3 - a^3 + 3abc = 3abc - a^3 - b^3 - c^3$.

Q3. If $A = \begin{vmatrix} 3 & -5 \\ 7 & 0 \end{vmatrix}$ and $B = \begin{vmatrix} 2 & 4 \\ -8 & 9 \end{vmatrix}$, find AB and BA .

A3. The product of two 2 ╳ 2 matrices is the 2 ╳ 2 matrix given by the following formula,

$$\begin{vmatrix} a & b \\ c & d \end{vmatrix} \begin{vmatrix} p & q \\ r & s \end{vmatrix} = \begin{vmatrix} ap + br & aq + bs \\ cp + dr & cq + ds \end{vmatrix}$$

We consider the first row of the first matrix and the first column of the second matrix. (See the dotted line between the two matrices). Multiply the number in the first row and first column of the first matrix by the number in the second matrix which is in the same position. Then we multiply the number in the first row and second column of the first matrix by the number in the first column and second row of the second matrix. Adding the two products, we obtain the term in the first row, first column of the product matrix. We perform the multiplication in a similar manner on the second row of the first matrix and the first column of the second matrix, to obtain the second row, first column of the product matrix.

$$\begin{vmatrix} a & b \\ c & d \end{vmatrix} \quad \begin{vmatrix} p & q \\ r & s \end{vmatrix}$$

We do the same for the second column of the second matrix. Therefore,

$$AB = \begin{vmatrix} 3 & -5 \\ 7 & 0 \end{vmatrix} \begin{vmatrix} 2 & 4 \\ -8 & 9 \end{vmatrix} = \begin{vmatrix} 3\,(2) + (-5)\,(-8) & 3\,(4) + (-5)\,9 \\ 7\,(2) + (0)\,(-8) & 7\,(4) + (0)\,9 \end{vmatrix} = \begin{vmatrix} 46 & -33 \\ 14 & 28 \end{vmatrix}$$

$$BA = \begin{vmatrix} 2 & 4 \\ -8 & 9 \end{vmatrix} \begin{vmatrix} 3 & -5 \\ 7 & 0 \end{vmatrix} = \begin{vmatrix} 2\,(3) + 4\,(7) & 2(-5) + 4\,(0) \\ -8\,(3) + 9\,(7) & (-8)\,(-5) + 9\,(0) \end{vmatrix} = \begin{vmatrix} 34 & -10 \\ 39 & 40 \end{vmatrix}$$

In this case AB ≠ BA. Hence, matrix multiplication is not commutative.

Q4. Find the derivative of: $y = (x^2 + 2)^3$.

NAAC ACCREDITED
ISO 9001:2015 & 14001:2015

COPYRIGHT FIMT 2020

A4. Method 1. We may expand the cube and write:

$$\begin{aligned} dy/dx &= d/dx\,[(x^2 + 2)^3] = d/dx\,(x^6 + 6x^4 + 12x^2 + 8) \\ &= 6\,x^5 + 24\,x^3 + 24\,x. \end{aligned}$$

Method 2. Let $u = x^2 + 2$, then $y = (x^2 + 2)^3 = u^3$; Using the chain rule we have:

$$\begin{aligned} dy/dx &= dy/du \cdot du/dx \\ &= [\{d(u^3)\} / (du)] \cdot [d(x^2 + 2) / (dx)] \\ &= 3\,u^2\,(2x) \\ &= 3\,(x^2 + 2)^2 \cdot (2x) = 3(x^4 + 4x^2 + 4) \cdot (2x) \\ &= 6x^5 + 24x^3 + 24x. \end{aligned}$$

Q5. Find three numbers in A.P. whose sum is 15 and sum of squares of the two extremes is 58.

A5. Let three numbers in A.P. be a - d, a, a + d. Then

$$a - d + a + a + d = 15$$

$$\Rightarrow \quad 3a = 15 \text{ or } a = 5$$

$$\text{Also,} \quad (a - d)^2 + (a + d)^2 = 58$$

$$\text{i.e.,} \quad 2(a^2 + d^2) = 58$$

$$\Rightarrow \quad a^2 + d^2 = 29 \qquad \text{i.e., } 25 + d^2 = 29$$

$$\Rightarrow \quad d^2 = 4 \quad \text{or} \quad d = +2, -2$$

If d = 2, the numbers are 3, 5, 7, and if d = -2, the numbers are 7, 5, 3.

Q6. Find the sum of all numbers between 200 and 400, which are exactly divisible by 7.

A6. The numbers between 200 and 400 which are divisible by 7 are:

203, 210, 217, ………, 399

It is required to find the sum of the series: 203 + 210 + 217 + ………. + 399

COPYRIGHT FIMT 2020

This is an Arithmetic Series with first term 203 and common difference 7.

Let n be the number of terms in this series, then

$a_n = 399 \quad \Rightarrow \; 203 + (n - 1)7 = 399$

⇨ $n = 29$

Required sum = $S_{29} = 29/2\,(203 + 399) = 29/2(602) = 8729.$

Q7. Find the sum to n terms of the series: 8 + 88 + 888 + …

A7. 8 + 88 + 888 + … to n terms

= 8 (1 + 11 + 111 + … to n terms)

= 8/9 (9 + 99 + 999 + … to n terms)

$= 8/9\,\{(10 - 1) + (10^2 - 1) + (10^3 - 1) + \ldots + (10^n - 1)\}$

$= 8/9\{(10 + 10^2 + 10^3 + \ldots + 10^n) - (1 + 1 + 1 + \ldots + 1)\}$

$= 8/9\{10(10^n - 1/10 - 1) - n\}$

$= 8/9\{10/9(10^n - 1) - n\}.$

Q8. Use the Principle of Mathematical Induction to prove that:

$1 + 2 + 3 + \ldots + n = n(n + 1)/2$

for all natural numbers n.

A8. Let P(n) denote the given statement, i.e.,

$P(n) = 1 + 2 + 3 + \ldots + n = n(n + 1)/2$

…………………………………….(1)

Induction Basis: First we check the base case when n = 1. For n = 1, the left hand side of equation (1) is 1, while the ride hand side equals 1 (1 + 1)/2 = 1.

Therefore, P(1) is true.

COPYRIGHT FIMT 2020

Induction Hypothesis: Next we come to the induction hypothesis. We assume that P(k) is true for some positive integer k, i.e.,

$$P(k) = 1 + 2 + 3 + \ldots + k = k(k + 1)/2.$$

Induction Step: We have to deduce that P(k + 1) is also true, i.e.,

$$1 + 2 + 3 + \ldots k + (k + 1) = (k + 1)(k + 2)/2$$

Using the induction hypothesis, we find that

$$\text{LHS} \Rightarrow \quad 1 + 2 + 3 + \ldots k + (k + 1) = [k(k + 1)/2] + [k + 1]$$

$$= [k(k + 1) + 2(k + 1)]/2$$

$$= [(k + 1) + (k + 2)]/2$$

$$= \text{RHS}$$

Therefore, P(k + 1) is also true.

Hence by the principle of mathematical induction, the statement is true for all natural numbers n.

Q9. Find the inverse of the following matrix by row transformation.

$$\begin{bmatrix} 1 & 3 & 3 \\ 1 & 4 & 3 \\ 1 & 3 & 4 \end{bmatrix}$$

A9. First, write down the entries the matrix *A*, but write them in a double-wide matrix:

$$\left[\begin{array}{ccc:ccc} 1 & 3 & 3 & & & \\ 1 & 4 & 3 & & & \\ 1 & 3 & 4 & & & \end{array}\right]$$

In the other half of the double-wide, write the identity matrix:

COPYRIGHT FIMT 2020

$$\left[\begin{array}{ccc|ccc} 1 & 3 & 3 & 1 & 0 & 0 \\ 1 & 4 & 3 & 0 & 1 & 0 \\ 1 & 3 & 4 & 0 & 0 & 1 \end{array}\right]$$

Now do matrix row operations to convert the left-hand side of the double-wide into the identity. (What follows are just the steps that happened to occur.)

$$\left[\begin{array}{ccc|ccc} 1 & 3 & 3 & 1 & 0 & 0 \\ 1 & 4 & 3 & 0 & 1 & 0 \\ 1 & 3 & 4 & 0 & 0 & 1 \end{array}\right] \begin{array}{c} \xrightarrow{-R_1+R_2} \\ \xrightarrow{-R_1+R_3} \end{array} \left[\begin{array}{ccc|ccc} 1 & 3 & 3 & 1 & 0 & 0 \\ 0 & 1 & 0 & -1 & 1 & 0 \\ 0 & 0 & 1 & -1 & 0 & 1 \end{array}\right]$$

$$\xrightarrow{-3R_2+R_1} \left[\begin{array}{ccc|ccc} 1 & 0 & 3 & 4 & -3 & 0 \\ 0 & 1 & 0 & -1 & 1 & 0 \\ 0 & 0 & 1 & -1 & 0 & 1 \end{array}\right]$$

$$\xrightarrow{-3R_3+R_1} \left[\begin{array}{ccc|ccc} 1 & 0 & 0 & 7 & -3 & -3 \\ 0 & 1 & 0 & -1 & 1 & 0 \\ 0 & 0 & 1 & -1 & 0 & 1 \end{array}\right]$$

Now that the left-hand side of the double-wide contains the identity, the right-hand side contains the inverse. That is, the inverse matrix is the following:

$$\begin{bmatrix} 7 & -3 & -3 \\ -1 & 1 & 0 \\ -1 & 0 & 1 \end{bmatrix}$$

Q10. Evaluate limit x tends to 3 for the function $[(x^4 - 81) / (2x^2 - 5x - 3)]$

A10.

COPYRIGHT FIMT 2020

$$\lim_{x\to 3} \frac{x^4 - 81}{2x^2 - 5x - 3}$$

Putting x = 3

$$= \frac{(3)^4 - 81}{2\,(3)^2 - 5\,(3) - 3}$$

$$= \frac{81 - 81}{18 - 15 - 3}$$

$$= \frac{0}{0}$$

Since it is a $\frac{0}{0}$ form

we simplify as

$$\lim_{x\to 3} \frac{x^4 - 81}{2x^2 - 5x - 3} = \lim_{x\to 3} \frac{(x^2)^2 - (9)^2}{2x^2 - 6x + x - 3}$$

(Using $a^2 - b^2 = (a - b)\,(a + b)$)

$$= \lim_{x\to 3} \frac{(x^2 - 9)\,(x^2 + 9)}{2x\,(x - 3) + 1\,(x - 3)}$$

$$= \lim_{x\to 3} \frac{(x^2 - (3)^2)\,(x^2 + 9)}{(x + 1)(x - 3)}$$

(Using $a^2 - b^2 = (a - b)\,(a + b)$)

$$= \lim_{x\to 3} \frac{(x - 3)\,(x + 3)(x^2 + 9)}{(2x + 1)\,(x - 3)}$$

$$= \lim_{x\to 3} \frac{(x + 3)\,(x^2 + 9)}{2x + 1}$$

Putting $x = 3$

COPYRIGHT FIMT 2020

$$= \frac{(3+3)((3)^2+9)}{2\times3+1}$$

$$= \frac{6\,(9+9)}{6+1}$$

$$= \frac{6(18)}{7}$$

$$= \frac{108}{7}$$

Q11. Evaluate the following:

(a) If $y = (4x^3-5x+7)(3x^4-2x^3+2)$, find dy/dx using Product Rule.

(b) If $y = (x^3-x^2+1)/(x^2+1)$, find dy/dx using Quotient Rule.

A11. (a) Applying the product rule, we obtain

$$dy/dx = (4x^3-5x+7)\, d/dx\, (3x^4-2x^3+2) + (3x^4-2x^3+2)\, d/dx\, (4x^3-5x+7)$$

$$= (4x^3-5x+7)(12x^3-6x^2) + (3x^4-2x^3+2)(12x^2-5)$$

$$= 84x^6 - 48x^5 - 75x^4 + 120x^3 - 18x^2 - 10$$

(b) Applying the quotient rule, we obtain

$$dy/dx = [(x^2+1)\, d/dx\, (x^3-x^2+1) - (x^3-x^2+1)\, d/dx\, (x^2+1)] / (x^2+1)^2$$

$$= [(x^2+1)(3x^2-2x) - (x^3-x^2+1)(2x^2)] / (x^2+1)^2$$

$$= [(x^4 + 3x^2 - 4x)] / (x^2+1)^2$$

$$= [x(x^3 + 3x - 4)] / (x^2+1)^2$$

COPYRIGHT FIMT 2020

Q12. A publishing house finds that the cost of production directly attributed to each book is Rs. 30 and that the

fixed costs are Rs. 15,000. If each book can be sold for Rs. 45, then determine:

(i) the cost function, (ii) the revenue function,

(iii) the profit function, (iv) the break-even point.

A12. (i) Let the number of books published by the publishing house be x. From the given information,

variable cost = 30x and fixed cost = Rs. 15,000

Hence the total cost function, C(x), may be written as $C(x) = 30x + 15000$

(ii) Since each book is sold for Rs.45, the revenue function, R(x), is given by

$$R(x) = 45x$$

(iii) Profit function, P(x), is given by

$$P(x) = R(x) – C(x) = 45x – 30x – 15000 = 15x – 15000$$

(iv) At the break-even point, P(x) = 0. That is,

$$15x – 15000 = 0 \qquad \text{i.e., } x = 1000$$

Hence 1000 books should be produced and sold to achieve break-even point.

Q13. Find the consumer and producer surplus under pure competition for demand function p = [8/(x+1)]-2 and

supply function p = (x+3)/2 where p and x are price and quantity respectively.

A13. Under pure competition, the market demand is obtained by equating the demand and supply functions. Thus

$$[8/(x+1)]-2 = ½(x+3)$$

COPYRIGHT FIMT 2020

⇨ $16 - 4(x+1) = (x+3)(x+1)$

⇨ $16 - 4x - 4 = x^2 + 4x + 3$

⇨ $x^2 + 8x - 9 = 0$ or $(x - 1)(x + 9) = 0$

⇨ $x = 1$, as the negative value of $x = -9$ is meaningless.

Substituting $x = 1$ in the demand function, we obtain $p = (8/1+1) - 2 = 2$. Thus the equilibrium point is (1,2).

The Consumers' Surplus is:

$$CS = {}_0\int^1 [8/(x+1)]-2\, dx - 1 \times 2 = = [8 \log (x+1) - 2x] |_0^1 - 2 = 8 \log 2 - 4.$$

The Producers' Surplus is:

$$PS = 1 \times 2 - {}_0\int^1 ½(x+3)\, dx = 2 - [(x + 3)^2/4] |_0^1 = 1/4.$$

Q14. The XYZ Co. has approximated the marginal revenue function for one of its product by $MR = 20x-2x^2$ and

marginal cost $MC = 81-16x+x^2$. Determine the profit maximizing output and the total profit at the optimum

level, assuming fixed cost as zero.

A14. We are given: $MR = 20x - 2x^2$ and $MC = 81-16x+x^2$

For maximum profit, MR = MC and dMR/dx < dMC/dx

Now MR = MC => $20x - 2x^2 = 81-16x+x^2$

⇨ $3x^2 - 36x + 81 = 0$

⇨ $x = 3$ or $x = 9$

Also, $dMR/dx = 20 - 4x$ and $dMC/dx = -16 + 2x$

COPYRIGHT FIMT 2020

At x = 3, dMR/dx = 8 and dMC/dx = -10

Therefore, dMR/dx is not less than dMC/dx at x = 3

Thus the value x = 3 is rejected. However,

At x = 9, dMR/dx = -16 and dMC/dx = 2

Therefore, dMR/dx < dMC/dx at x = 9.

⇨ Profit is maximum when x = 9 and the maximum profit is:

$$P_{max} = \int_0^9 (MR - MC)\,dx = \int_0^9 (20x - 2x^2 - 81 + 16x - x^2)\,dx$$

$$= \int_0^9 (-3x^2 + 36x - 81)\,dx$$

$$= \left| -x^3 + 18x^2 - 81x \right|_0^9 = 0.$$

Q15. Determine the local minimum and maximum points and the intervals on which the function is increasing and decreasing for $f(x) = 2x^3 + 3x^2 - 36x$.

A15. Step 1: Find the values of x when the first derivative is 0, $f'(x)=0$.

Find the first derivative:

$$f(x) = 2x^3 + 3x^2 - 36x$$

$$f'(x)=6x^2+6x-36$$

Set the derivative equal to zero:

$$0 = 6x^2 + 6x - 36$$

Factor:

$$0 = 6(x^2 + x - 6)$$

COPYRIGHT FIMT 2020

$0 = 6(x + 3)(x - 2)$

Set each factor to zero and solve:

$6 \neq 0$

$x + 3 = 0; x = -3$

$x - 2 = 0; x = 2$

Step 2: Create a table of intervals that end/begin with x-values such that $f'(x)=0$

Take the x-values found in Step 1 and create an interval table.

To determine the sign of the first derivative select a number in the interval and solve.

If the first derivative on an interval is positive, the function is increasing. If the first derivative on an interval is negative, the function is decreasing.

Interval	**$f'(x)=6x^2+6x-36$**		**f**
$-\infty \leq x \leq -3$	$f'(-4)=6(-4)^2+6(-4)-36=36$	+	Increasing on $-\infty \leq x \leq -3$
$-3 \leq x \leq 2$	$f'(0)=6(0)^2+6(0)-36=-36$	-	Decreasing on $-3 \leq x \leq 2$
$2 \leq x \leq \infty$	$f'(3)=6(3)^2+6(3)-36=36$	+	Increasing on $2 \leq x \leq \infty$

COPYRIGHT FIMT 2020

Step 3: Apply the first derivative test to determine the minimum/maximum points.

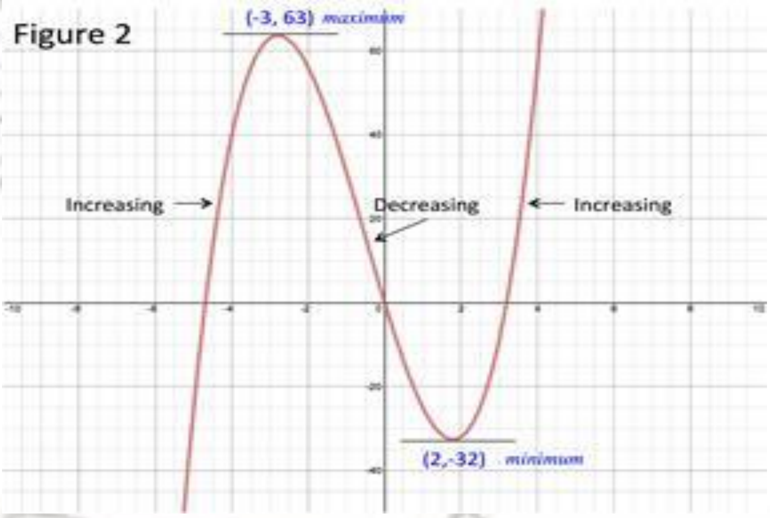
Because the first derivative changes from positive to negative at -3, there is a local maximum at -3.

The maximum value at that point is:

f(−3)=2 (−3) 3 +3 (−3) 2 −30(−3)=63 Local maximum: (-3, 63)

Because the first derivative changes from negative to positive at 2, there is a local minimum at 2. The maximum value at that point is:

f(2)=2 (2) 3 +3 (2) 2 −30(2)=−32   Local minimum: (2, -32)



तेजस्विनावधीतमस्तु
ISO 9001:2015 & 14001:2015

Q16.

COPYRIGHT FIMT 2020

Find $\int x\sqrt{1+2x}\ dx$ using

(a) Integration by substitution

A16.

(a) Integration by substitution

Let $u = 1+2x$

then $\frac{du}{dx} = 2$

so $dx = \frac{1}{2}\,du.$

Also, if $u = 1+2x$, then $x = \frac{1}{2}(u-1)$

Making the substitution:

$$\int x\sqrt{1+2x}\ dx$$

$$= \int \frac{1}{2}(u-1).u^{1/2}\,\frac{1}{2}\,du$$

$$= \frac{1}{4}\int u^{3/2} - u^{1/2}\ du$$

$$= \frac{1}{4}\left(\frac{2}{5}u^{5/2} - \frac{2}{3}u^{3/2}\right) + C$$

$$= \frac{1}{10}(1+2x)^{5/2} - \frac{1}{6}(1+2x)^{3/2} + C$$

Q17. Evaluate the following definite integral:

A17.

तेजस्वि नावधीतमस्तु
ISO 9001:2015 & 14001:2015

COPYRIGHT FIMT 2020

$$\int_0^2 \frac{1}{(3+5x)^2}\,dx$$

Let $u = 3+5x$

then $\frac{du}{dx} = 5$

and $dx = \frac{1}{5}\,du$

At $x=0$, $u = 3+5*0 = 3$
At $x=2$, $u = 3+5*2 = 13$

Making the substitution:

$$\int_3^{13} \frac{1}{u^2}\,\frac{1}{5}\,du$$

$$= \frac{1}{5}\int_3^{13} u^{-2}\,du$$

$$= \frac{1}{5}\left(-u^{-1}\right]_3^{13}$$

$$= -\frac{1}{5}\left(\frac{1}{13} - \frac{1}{3}\right)$$

$$= \frac{2}{39}$$

Q18. Evaluate the following integral:

A18.

$$\int\sqrt{2x+1}\,dx$$

Let $u = 2x + 1$

then $\frac{du}{dx} = 2$

so $dx = \frac{1}{2}\,du$

Making the substitution:

$$\int\sqrt{u}\,\frac{1}{2}\,du$$

$$= \frac{1}{2}\int u^{1/2}\,du$$

$$= \frac{1}{2}\,\frac{2}{3}\,u^{3/2} + C$$

$$= \frac{1}{3}(2x+1)^{3/2} + C$$

Q19. In how many different ways can the letters of the word 'OPTICAL' be arranged so that the vowels always come together?

COPYRIGHT FIMT 2020

A19. The word 'OPTICAL' contains 7 different letters.

When the vowels OIA are always together, they can be supposed to form one letter.

Then, we have to arrange the letters PTCL (OIA).

Now, 5 letters can be arranged in $5! = 120$ ways.

The vowels (OIA) Can be arranged among themselves in $3! = 6$ ways.

$\therefore$ Required number of words = $(120\times6) = 720$.

Q20. How many 3-digit numbers can be formed with the digits 1,4,7,8 and 9 if the digits are not repeated?

A20. Three digit numbers will have unit's, ten's and hundred's place.

Out of 5 given digits any one can take the unit's place.

This can be done in 5 ways ------- (i)

After filling the unit's place, any of the four remaining digits can take the ten's place.

This can be done in 4 ways ------- (ii)

After filling in ten's place, hundred's place can be filled from any of the three remaining digits.

This can be done in 3 ways ------- (iii)

=> By counting principle, the number of 3 digit numbers $=5\times4\times3==5\times4\times3=$ **60**

ISO 9001:2015 & 14001:2015

COPYRIGHT FIMT 2020

BUSINESS LAW-104

Ques1: Define contract and its Characteristics.

Ans: Definition: The Indian Contract Act, 1872 defines the term "Contract" under its section 2 (h) as "An agreement enforceable by law". In other words, we can say that a contract is anything that is an agreement and enforceable by the law of the land.

This definition has two major elements in it viz – "agreement" and "enforceable by law". So in order to understand a contract in the light of The Indian Contract Act, 1872 we need to define and explain these two pivots in the definition of a contract

A contract is a legally enforceable agreement between two or more parties. It may be oral or written. A contract is essentially a set of promises. Typically, each party promises to do something for the other in exchange for a benefit

Characteristics:

COPYRIGHT FIMT 2020

1] Two Parties: So you decide to sell your car to yourself! Let us say to avoid tax or some other sinister purpose. Will that be possible? Can you have a contract with yourself? The answer is no, unfortunately. You can't get into a contract with yourself. A Valid Contract must involve at least two parties identified by the contact. One of these parties will make the proposal and the other is the party that shall eventually accept it. Both the parties must have either what is known as a legal existence e.g. companies, schools, organizations, etc. or must be natural persons. For Example: In the case State of Gujarat vs Ramanlal S & Co. – A business partnership was dissolved and assets were distributed among the partners as per the settlement. However, all transactions that fall under a contract are liable for taxation by the office of the State Sales Tax Officer. However, the court held that this transaction was not a sale because the parties involved were business partners and thus joint owners. For a sale, we need a buyer (party one) and a seller (party two) which must be different people.

2] Intent Of Legal Obligations: The parties that are subject to a contract must have clear intentions of creating a legal relationship between them. What this means is those agreements that are not enforceable by the law e.g. social or domestic agreements between relatives or neighbors are not enforceable in a court of law and thus any such agreement can't become a valid contract.

3] Case Specific Contracts: Some contracts have special conditions that if not observed would render them invalid or void. For example, the Contract of Insurance is not a valid contract unless it is in the written form. Similarly, in the case of contracts like contracts for immovable properties, registration of contract is necessary under the law for these to be valid.

4] Certainty of Meaning: Consider this statement "I agree to pay Mr. X a desirable amount for his house at so and so location". Is this a valid contract even if all the parties agree to this term? Of course, it can't be as "desirable amount" is not well defined and has no certainty of meaning. Thus we say that a valid contract must have certainty of Meaning.

5] Possibility Of Performance Of an Agreement: Suppose two people decide to get into an agreement where a person A agrees to bring back the person B's dead relative back to life. Even when all the parties agree and all other conditions of a contract are satisfied, this is not valid because bringing someone back from the dead is an impossible task. Thus the agreement is not possible to be enforced and the contract is not valid.

COPYRIGHT FIMT 2020

6] Free Consent: Consent is crucial for an agreement and thus for a valid contract. If two people reach a similar agreement in the same sense, they are said to consent to the promise. However, for a valid contract, we must have free consent which means that the two parties must have reached consent without either of them being influenced, coerced, misrepresented or tricked into it. In other words, we say that if the consent of either of the parties is vitiated knowingly or by mistake, the contract between the parties is no longer valid.

Ques 2: Explain the rights of indemnity holder and indemnifier

Ans: Right of the indemnity holder – (Section 125)
An indemnity holder (i.e. indemnified) acting within the scope of his authority is entitled to the following rights –

1. Right to recover damages – he is entitled to recover all damages which he might have been compelled to pay in any suit in respect of any matter covered by the contract.

2. Right to recover costs – He is entitled to recover all costs incidental to the institution and defending of the suit.

3. Right to recover sums paid under compromise – he is entitled to recover all amounts which he had paid under the terms of the compromise of such suit. However, the compensation must not be against the directions of the indemnifier. It must be prudent and authorized by the indemnifier.

4. Right to sue for specific performance – he is entitled to sue for specific performance if he has incurred absolute liability and the contract covers such liability. The promisee in a contract of indemnity, acting within the scope of his authority, is entitled to recover from the promisor-

(1) all damages which he may be compelled to pay in any suit in respect of any matter to which the promise to indemnify applies

(2) all costs which he may be compelled to pay in any such suit if, in bringing or defending it, he did not contravene the orders of the promisor, and acted as it would have been prudent for him to act in the absence of any contract of indemnity, or if the promisor authorized him to bring or defend the suit ;

COPYRIGHT FIMT 2020

(3) all sums which he may have paid under the terms of any compromise of any such suit, if the compromise was not

It is important to note here that the right to indemnity cannot be claimed of dishonesty, lack of good faith and contravention of the promisor's request. However, the right cannot be negatived in case of oversight. [Yeung v HSBC]

Right of Indemnifier –
Section 125 of the Act only lays down the rights of the indemnified and is quite silent of the rights of indemnifier as if the indemnifier has no rights but only liability towards the indemnified.

In the logical state of things if we read Section 141 which deals with the rights of surety, we can easily conclude that the indemnifier's right would also be same as that of surety.

Where one person has agreed to indemnify the other, he will, on making good the indemnity, be entitled to succeed to all the ways and means by which the person indemnified might have protected himself against or reimbursed himself for the loss. [Simpson v Thomson]

Principle of Subrogation is applicable because it is an essential part of law of indemnity and is based on equity and the Contract Act contains no provision in contravention with [Maharaja Shri Jarvat Singhji v Secretary of State for India]

Ques3: A court of law will typically question the adequacy of consideration to ensure that the contract to be enforced is a fair one. Elaborate.

Ans: Adequacy of consideration means that for a lawful agreement to be made, the offeree must give a price that is equal measure to the value given by the offeror.
In law, adequacy of consideration means that for a lawful agreement to be made between two parties, the offeree, also known as the beneficiary, must give in return, a fair price, that is either in equal measure or reasonably proportional to the value given by the offeror, also known as the benefactor. The price, however, may come in several forms:

- An act
- A promise to perform or not to perform an act
- Property

COPYRIGHT FIMT 2020

- Money

For example, if you offer to sell off your house to someone at $50,000, and in exchange, he offers services to you worth this amount, then the consideration is deemed to be adequate

In addition to a consideration, an agreement to the terms of a contract, a valid offer, and acceptance are necessary for a contract to be enforced by any court. Consideration, in essence, ensures the enforcement of promises made by one party to another, in a manner that is acceptable by the law. In a written contract, even though inadequate consideration is not void, it can make a contract unenforceable.

Some contracts do not necessarily require considerations in order to be enforceable. If the court determines that one party deceived the other and they got into a contract that does not meet the minimum requirements for a consideration, the court may allow for a substitute of consideration, considering that the deceived party greatly relied on the promises made by the other party

Principles of Adequacy of Consideration

- A consideration may involve monetary sums, a promise to do something, or a promise not to do something.
- A past consideration, such as a party promising to perform a task that he is already legally bound to perform or has already performed, is not considered adequate.
- Once the parties agree upon a consideration, it may be considered binding even if the price may not be totally equivalent to the promise.
- If a consideration involves a worthless item or a misleading promise, it is deemed inadequate.
- The amount or performance given in a consideration must be of a value recognizable by the court.
- A consideration that violates a public policy, such as prostitution, is deemed inadequate

Ques4: Explain duties and rights under bailment.

COPYRIGHT FIMT 2020

Ans: Bailment

A bailment is a special contract defined under section 148 of the Indian Contract Act, 1872. It is derived from a French word i.e. “bailer” which means “to deliver”[2]. The etymological meaning of bailment is “handing over”or “change of possession of goods”. By bailment, we mean delivery of goods from one person to another for a special purpose on the contract that they shall reimburse the goods on the fulfilment of the purpose or dispose of them as per the direction of the bailor. The person who delivers the goods is known as bailor. And the person to whom the goods are given is known as Bailee. And the property bailed is known as Bailed Property.

Duties of a Bailor

Section 150 of the Indian Contract Act, 1872 bound the bailor with certain duties to disclose the latent facts specifically pertaining to defect in goods. Bailor’s duty of disclosure are:

- **Gratuitous Bailment:** It is the duty of the bailor to disclose all the defects in the goods that he is aware of to the Bailee that can interfere with the use of goods or can expose him to extraordinary risks. And failure to do the same will make bailor liable for damages.
- **Non Gratuitous Bailment (Bailment for Reward):**This duty particularly deals with the goods given on hire. As per this provision, when the goods are bailed for hire, then in such a situation even if the bailor is aware of the defect in the goods or not will be held liable for the injury that has been caused due to the existence of such defect.

In *Hyman v Nye & Sons*[3], the plaintiff took a carriage on hire from the defendant but the carriage was not fit for the journey and subsequently, the plaintiff suffered injuries. The court held that even though the defendant was aware of such defect or not he shall be liable.

Duties of Bailee

Bailee has to fulfil several obligations as per Indian Contract Act, 1872. That is:

COPYRIGHT FIMT 2020

- **Duty to take reasonable care:** It is the duty of the Bailee to take care of goods as his own goods. He shall ensure all safety measures that are necessary to protect the goods. The standard of care should be such as taken care by a prudent man. The goods shall be taken care of equally whether they are gratuitous or non-gratuitous. The Bailee shall be held liable for payment of compensation if he fails to take due care. But if the Bailee has taken due care and instead of that the goods are damaged then in such a situation Bailee will not be liable to pay compensation. The Bailee is not liable for the loss of goods due to destruction by fire[4]. (Section 151-152)
- **Duty not to make unauthorized use of the goods:**Bailee is duty bound to use the goods for a specific purpose only and not otherwise. If he uses the goods for any other purpose than what is agreed for then the bailor has the right to terminate such bailment or is entitled with compensation for damage caused due to unauthorized use. (Section 153-154)
- **Duty not to mix bailor's goods with his own goods:** It is the duty of the Bailee not to mix bailor's goods with his own. But if he wants to do the same then he shall seek consent from the bailor for mixing of goods. If the bailor agrees for the mixing of the goods then the interest in the mixed goods shall be shared in proportion. In case, Bailee without the consent of bailor mixes the goods with his own then two situations arise: goods can be separated and goods can't be separated. In the former case the Bailee has to bear the cost of separation and in the latter case since there is the loss of the goods, therefore, bailor shall be entitled with damages of such loss. (Section 155-157)
- **Duty to return the goods on the fulfilment of purpose:**Bailee is duty bound to return the goods once the purpose is achieved or on the expiry of the time period for which the goods were bailed. But if the Bailee makes default in returning the goods on proper time then he will be responsible with the loss, destruction or deterioration of the goods if any. (Section 160-161)

In the case of *Bank of India v. Grains & Gunny Agencies*[5] the court held that if the goods are lost or destroyed due to the negligence of servant of Bailee, then in such case as well Bailee shall be liable.

COPYRIGHT FIMT 2020

- **Duty to deliver to the bailor increase or profit if any on the goods bailed:**The Bailee has a duty to return the goods along with increase or profit subject to contract to the contrary. Accretion that has accrued from the bailed goods is the part of the bailed goods and therefore bailor has the right over such accretions if any. And such accretions shall be handed over to the bailor along with the goods bailed. For instance, A leaves a cow in the custody of B and cow gives birth to the calf. Then B is duty bound to hand over the bailed goods along with accretion to the bailor[6]. (Section 163)

Rights of a Bailor

As such Indian Contract Act, 1872 does not provide for Rights of a Bailor. But Rights of a Bailor is same as Duties of the Bailee i.e. Rights of Bailor = Duties of Bailee[7]. So the rights of bailor are:

- **Enforcement of Bailee's Duty:**Since Right of the bailor is same as the right of the Bailee, therefore on the fulfilment of all duties of Bailee the bailor's right is accomplished. For example, it is the duty of the Bailee to give the accretions and it is the right of bailor to demand the same.
- **Right to claim damages:** If the Bailee fails to take care of the goods, the bailor has the right to claim damages for such loss. (Section 151)
- **Right to Termination the Contract:** If the Bailee does not comply with the terms of the contract and acts in a negligent manner in such case the bailor has the right to rescind the contract. (Section 153)
- **Right to claim compensation:** If the Bailee uses the goods for an unauthorized purpose or mixes the goods which cause loss of goods in such case bailor has the right to claim compensation.
- **Right to demand the return of goods:** It is the duty of the Bailee to return the goods and the bailor has the right to demand the same.

Rights of a Bailee

- **Right to recover expenses:**In the contract of Bailment, the Bailee incurs expenses to ensure the safety of goods. The Bailee has the right to recover such expenses from the bailor. (Section 158)

COPYRIGHT FIMT 2020

- **Right to remuneration:** When the goods are bailed to the Bailee he is entitled to receive certain remuneration for services that he has rendered. But in case of gratuitous bailment, the Bailee is not awarded any remuneration.
- **Right to recover compensation:**At times a situation arises wherein bailor did not have the capacity to contract for bailment. Such a contract causing loss to the Bailee, therefore the Bailee has the right to recover such compensation from the bailor. (Section 168)
- **Right to Lien:**Bailee has the right over Lien. By this, we mean that if the bailor fails to make payment of remuneration or does not pay the amount due, the Bailee has the right to keep the goods bailed in his possession till the time debtor dues are cleared. Lien is of two types: particular lien and general lien. (Section 170-171)

In the case of Surya Investment Co. v. S.T.C[8], the court held that expenses incurred by Bailee during preservation of goods under lien shall be borne by bailor.

- **Right to suit against a wrongdoer:**After the goods have been bailed and any third party deprives the Bailee of use of such goods, then the Bailee or bailor can bring an action against the third party. (Section 180)

Ques5: Depending on the circumstances, parties can form a contract without putting the terms in writing.Comment.

Ans: A contract, in its most basic form, is an agreement between parties that legally binds them. Even without a handshake to seal it.

People bind themselves to contracts every day, sometimes without even realising it, and as a result also acquire certain legal rights and responsibilities.

It is commonly thought that a contract can't be binding unless it is put in writing. While this is true in some cases, generally speaking – unwritten contracts ARE enforceable. There are only a very small number of contracts that have to be in writing – like the sale of land.

You can form a contract through an exchange of emails or private messages, through a telephone call or a combination of those activities. It is helpful to think of a contract as a bargain and when a dispute arises, the law aims to determine whether or not the bargain made can be enforced.

COPYRIGHT FIMT 2020

As a hint, bets in the pub – not enforceable bargains. Sorry. You'd be surprised how many people ask!

So whether a bargain is based on a verbal agreement, written agreement or a combination of the two, remember that actions can speak louder than words. However, its the written words you will want to rely on if something goes wrong.

It is always wise to write down the details of an agreement, especially if large sums of money are involved and where there are no reliable witnesses or other evidence of the details. I've seen business partners waste all of their profits in legal disputes because they didn't put their agreement in writing 10 years earlier while they were still friends. The beauty of having something in writing is for reference, when people have forgotten the details, or remember different things.

MAKING A CONTRACT

A written contract must have three identifiable features:

1. Agreement (offer and acceptance)
2. Intention
3. Consideration

Contracts – Agreement

A contract is formed when there is an agreement between the parties to undertake certain obligations. The point at which negotiations have been concluded and the agreement is reached is not always easily worked out, but there must have been a clear indication (offer) by one party of a willingness to be bound on certain terms and an unqualified acceptance of that offer.

'Unqualified' means that it shouldn't be subject to conditions. Anything subject to conditions is not acceptance, it is further negotiation. This is where counter-offers and acceptance can become confused. There are legal cases debating the point at which agreements are eventually reached, and whether or not an agreement was even made.

Intention

For there to be a legally enforceable contract the parties must have intended to enter into a legally binding agreement. Intention is seldom stated, but is usually inferred from the circumstances surrounding the agreement. This is where the bet in the pub becomes the primary example. Someone making an off-hand bet is unlikely to be serious. Another good example is where someone promises something you know they simply can't deliver – for example "*I'll give you a million bucks if you …*" when you know the person simply doesn't have that money to spare.

COPYRIGHT FIMT 2020

Consideration

Before there can be a contract there must be an agreement to exchange. Each party must provide something in return for what the other is providing. The item or action exchanged is called the consideration. It does not matter if the consideration given by each side is of unequal value. The law requires only that something is given by each party.

So consideration can be money, or actions, or property. Swapping items (like sports uniforms at international sporting events) is treated no differently than money being exchanged for an item.

Donations are not the same thing. Only one party has the benefit of a donation, so a promise to donate is usually unenforceable. However, where something is offered in exchange for a donation – like a red nose, or a white ribbon – then that may be sufficient consideration to create a binding contract.

Nominal consideration is usually enough. So when a seller says you need to pay a substantial deposit to secure the deal, their actions may be capable of being considered misleading. There are many cases where $1, or similar small amount have been found to be sufficient to secure a deal.

THE EFFECT OF SIGNING A CONTRACT

A person who signs a contract is generally bound by any terms it contains regardless of whether they have read the document, and legislation like the Electronic Transactions Act 1999 *(Cth)* allows for that. It was commented in the explanatory memorandum that "*An addressee who actually knows, or should reasonably know in the circumstances, of the existence of the communication should be considered to have received the communication. For example, an addressee who is aware that the communication is in their electronic mail 'box', but who refuses to read it should be considered to have received the communication.*"

Despite this rule, in some circumstances a person may be able to withdraw a contract, start a court action to enforce it, or apply to a court to have the contract voided.

You should also be aware that a contract or agreement need not necessarily be signed to be enforceable. The circumstances surrounding the contract can be enough to demonstrate that something in writing has accurately set out the parties' intentions. A signature is usually relied upon as evidence that a person has read the document and agrees to be bound by its terms, but clicking an '*I agree*' box on an electronic form or webpage can have the same effect.

These are technical legal arguments that generally only arise at the point of dispute.

COPYRIGHT FIMT 2020

Remember, if you do find yourself in a dispute, the enforceability of an agreement or contract will depend on what law applies. For example – people buying or selling products or services online could be anywhere in the World. The law in Victoria, Australia is not the same as the law in Singapore. Different rules apply, not to mention different courts. But that is a conversation for another day.

THE FINAL WORD ON CONTRACTS

Contract law can be extremely complex, and there are different nuances in all legal systems. Look at the type of contracts you are entering into and consider the risks involved in doing so.

Ques6: Explain contract of sale. Difference between sale and agreement to sell.

Ans: Contract of sale of goods is a contract, whereby, the seller transfers or agrees to transfer the property in goods to the buyer for a price. There can be a contract of sale between one part-owner and another. In other words, under a contract of sale, a seller (or vendor) in the capacity of the owner, or part-owner of the goods, transfers or agrees to transfer the ownership in goods to the buyer (or purchaser) for an agreed upon value in money (or money equivalent), called the price, paid or the promise to pay same.

Essentials elements of a Contract of Sale

The following six features are essential elements of any contract of sale of goods.

- Goods
- Price
- Two parties
- Transfer of ownership
- All Essentials of a Valid Contract of Sale
- Includes both a '*sale*' and '*an agreement to sell*'

BASIS FOR COMPARISON	**SALE**	**AGREEMENT TO SELL**
Meaning	When in a contract of sale, the exchange of goods for	When in a contract of sale the parties to contract agree to

COPYRIGHT FIMT 2020

BASIS FOR COMPARISON	SALE	AGREEMENT TO SELL
	money consideration takes place immediately, it is known as Sale.	exchange the goods for a price at a future specified date is known as an Agreement to Sell.
Nature	Absolute	Conditional
Type of Contract	Executed Contract	Executory Contract
Transfer of risk	Yes	No
Title	In sale, the title of goods transfers to the buyer with the transfer of goods.	In an agreement to sell, the title of goods remains with the seller as there is no transfer of goods.
Right to sell	Buyer	Seller
Consequences of subsequent loss or damage to the goods	Responsibility of buyer	Responsibility of seller
Tax	VAT is charged at the time of sale.	No tax is levied.
Suit for breach of contract by the seller	The buyer can claim damages from the seller and proprietary remedy from the party to whom the goods are	Here the buyer has the right to claim damages only.

COPYRIGHT FIMT 2020

BASIS FOR COMPARISON	SALE	AGREEMENT TO SELL
	sold.	
Right of unpaid seller	Right to sue for the price.	Right to sue for damages.

Ques 7: Define transfer of ownership with example.

Ans: The word "Property in the Goods" means the legal ownership or title to the goods. Sale of goods involves transfer of ownership or property from the seller to the buyer. It is necessary to determine the time at which the ownership of the goods is transferred to the buyer.

Secs. 18 to 24 of the Indian Sale of Goods Act 1930 deal with the rules for the transfer of ownership which determine the time at which the ownership of the goods is transferred from the seller to the buyer. However, the general rule is that the transfer of ownership depends upon the intention of the parties to the contract.

The parties may fix any time for the transfer of ownership from the seller to the buyer. But sometimes the intentions of the parties may not clear from the contract itself. In such cases, their intention is ascertained according to the rules laid down in Secs. 18 to 24 of the Sale of Goods Act. These rules can be discussed in the succeeding paragraphs.

1. Transfer of Ownership in case of Sale of Specific Goods

The rules relating to the transfer of ownership in case of sale of specific goods are contained in Secs. 20 to 22 of the Sale of Goods Act which may be discussed under the following sub-heads:

1. The Ownership is Transferred at the Time of Making the Contract

As per Sec. 20 of the Act, in case of specific goods, the ownership is transferred at the time of making the contract if the following conditions are fulfilled.

COPYRIGHT FIMT 2020

1) Specific Goods

The sale must be of specific goods – the goods that are identified and agreed upon at the time of making the contract of sale.

2) Deliverable State

The goods must be in a deliverable state. The goods are in a deliverable state when they are acceptable to the buyer and he can take delivery immediately.

3) Unconditional Contract of Sale

The contract of sale must be unconditional – the contract in which no condition is imposed with regard to the transfer of ownership of the goods.

On the fulfillment of the above said three conditions, the ownership of the goods is transferred from the seller to the buyer.

Example: **A**, a car dealer, had many cars in his show room. Out of them, he sold one car to **B**. But at the time of contract of sale, the car sold to **B** was not identified and separated from the other cars. Here the ownership of the car is not transferred to **B** at the time of contract of sale, because the contract is not for the sale of specific goods. However, had the car been identified and kept separate from the other cars, the ownership of car would have been transferred to **B** at the time of making the contract.

2. The Ownership may also be Transferred at Some Other Time

When the conditions specified in Sec. 20 of the Act are not satisfied, the ownership will not be transferred at the time of Contract of Sale. In such cases, the rules contained in Secs. 21 and 22 of the Sale of Goods Act shall be applicable.

In the following two cases, the ownership can be transferred at some other time:

1) Where the goods are to be put in a deliverable state by the seller i.e. where the goods are not in a deliverable state at the time of contract, and the seller has to do some act to put them in a deliverable state. In such cases, the ownership is transferred as soon as the seller has put the goods in a deliverable state and the buyer comes to know about this act of the seller. The seller may be required to do certain acts to put the goods into a deliverable state e.g., packing, filling the goods in containers, collecting the goods, separating or loading the goods etc.

COPYRIGHT FIMT 2020

Example: **A** sold some quantity of oil lying in cistern to **B**. According to the terms of the contract, A was required to fill the oil in drums and then the drums were to be taken away by B. A filled some of the drums in the presence of B. Before the remainder could be filled, a fire broke out and the whole quantity of oil was destroyed. Held, the buyer must bear the loss of oil which was filled in drums, and the seller must bear the loss of remaining unfilled drums.

2) Where the goods are to be weighed by the seller to ascertain the price i.e. where the seller has to do some act for the purpose of ascertaining their price. In such cases, the ownership is transferred to the buyer as soon as the seller has done such act and the buyer comes to know about this act of the seller.

The seller may be required to do certain acts for the purpose of ascertaining the price of the goods e.g., to weigh the goods, measure the goods or to test the goods etc.

Example: **A** sold to **B** some quantity of wheat at the rate of Rs.350 per 100 kg. However, A had to weigh the wheat so as to know the price of the entire quantity of wheat sold to **B**. Here the ownership of the wheat shall transfer to **B** as soon as the **A** weighs the wheat and **B** comes to know about the same.

2. Transfer of Ownership in case of Sale of Unascertained Goods

Unascertained goods are those goods that are not specifically identified at the time of making the contract of sale. In case of sale of unascertained goods, the ownership is transferred to the buyer as and when the goods are identified and are set apart for the purpose of delivering to the buyer.

The ownership in case of unascertained goods is transferred to the buyer only on the fulfillment of the following two conditions

1. When the goods are ascertained, and
2. When the goods are appropriated to the contract.

1. Ascertainment of Goods

The term "ascertainment" may be referred as the process by which the goods to be delivered under the contract are identified and set apart. After ascertaining the goods, these must be appropriated to the contract.

2. Appropriation of Goods to the Contract

COPYRIGHT FIMT 2020

The term “appropriation” may be defined as the process by which the goods to be delivered under the contract are ascertained with the mutual consent of the seller and the buyer. The goods may be appropriated either by the seller with the consent of the buyer, or by the buyer with the consent of the seller.

Generally, the act of appropriation is done by the seller, because the goods are in his possession. Once the goods are appropriated with the mutual consent of the parties, they become the property of the buyer.

Ques 8: Compare conditions and warranties.

Ans: All of us who have bought electronic items or similar devices, ask about the warranty periods. In some cases, you may have seen that even the warranty is sold separately as a commodity. But does the law say about it? Here in this section on the concepts of condition and warranty, we will see the manner in which we can define these terms and also the manner in which they derive their legality in the light of The Sale Of Goods Act, 1930.

Warranty And Conditions

In a contract of sale, parties may make certain statements about the stipulation or the course of trade. These stipulations in the contract of sale are made with reference to the subject matter of the sale. These stipulations may either be a condition or in the form of a warranty.

The provisions of the conditions and warranty are provided in the sections 11 to 17 of the Act. The stipulations are the essence of the contract of sale and a breach of these stipulations provides a remedy to the grieved party.

Express and Implied Warranties

Stipulations As To Time – Sec 11

To understand the concept of warranty and conditions, we need to learn about the stipulation as to time. The stipulation as to time may be with regards to the delivery of goods or it may be with regards to the payment of the price.

COPYRIGHT FIMT 2020

However, it may be noted that stipulations as to the time of delivery of the goods are usually the essence of the contract. In Section 11 of the Act, the topic of the stipulation as to time has been discussed. The Sec 11 states the follows:

Stipulations as to time: Unless a different intention can be ascertained from the contract, stipulations as to the time of payment are not considered to be of the essence of a contract of sale. Whether any other stipulation as to time is of the essence of the contract or not will ultimately depend on the terms of the contract.

This means that whether the stipulations as to the time of payment of the price is of the essence of the contract or not depends on the terms of the contract. Unless the terms of the contract specify something different than this.

Conditions

A condition is a stipulation essential to the main purpose of the contract, the breach of which gives the right to repudiate the contract and to claim damages. (Sec 12 (2)). We can understand this with the help of the following example:

Say 'X' wants to purchase a car from 'Y', which can have a mileage of 20 km/lt. 'Y' pointing at a particular vehicle says "This car will suit you." Later 'X' buys the car but finds out later on that this car only has a top mileage of 15 km/ liter. This amounts to a breach of condition because the seller made the stipulation which forms the essence of the contract. In this case, the mileage was a stipulation that was essential to the main purpose of the contract and hence its breach is a breach of condition.

Warranty

A warranty is a stipulation collateral to the main purpose of the said contract. The breach of warranty gives rise to a claim for damages. However, it does give a right to reject the goods or treat the contract as repudiated. (Sec 12(3)). Let us understand this with the help of an example below.

COPYRIGHT FIMT 2020

A man buys a particular car, which is warranted to be quite to drive and very comfortable. It turns out that after some days the car starts to make a very unpleasant noise every time it is operated. Also sitting inside it is also not very comfortable.

Thus the buyer's only remedy is to claim damages. This is not a breach of the condition but rather a breach of warranty, because the stipulation made by the seller was only a collateral one.

NAAC ACCREDITED

Identification of a Stipulation as a Condition or Warranty

Whether a stipulation is a condition or a warranty is a very important aspect to have the knowledge about. A stipulation in a contract of sale is either a condition or is a warranty depending in either case on the construction of the contract. A stipulation may be a condition, though called a warranty in the contract.

difference between a Condition and a Warranty

Difference Basis	Warranty	Condition
Nature	A warranty is only collateral to the main purpose of the contract.	It is essential to the main purpose of the contract.
Exemption from performance in case of a breach of the stipulation.	In this case, the aggrieved party can't rescind the contract but can claim damages only.	The aggrieved party can repudiate the contract and is exempted from performance and can also claim damages.
Treatment	Breach of warranty can't be treated as a breach of condition.	A breach of contract may be treated as a breach of

ISO 9001:2015 & 14001:2015

COPYRIGHT FIMT 2020

	warranty.

Ques 9: Explain the rights of an unpaid seller with effective level of outcome.

Ans: Rights of Unpaid Seller against Buyer

In a contract, there is always a reciprocal promise. Even in a contract of sale, both the buyer and the seller must perform their duties. And if the buyer does not pay the seller his due, the seller becomes an unpaid seller. This means such unpaid seller has some rights against the buyer. Let us see.

Rights of Unpaid Seller Against Buyer

When the buyer of goods does not pay his dues to the seller, the seller becomes an unpaid seller. And now the seller has certain rights against the buyer. Such rights are the seller remedies against the breach of contract by the buyer. Such rights of the unpaid seller are additional to the rights against the goods he sold.

1] Suit for Price

Under the contract of sale if the property of the goods is already passed but he refuses to pay for the goods the seller becomes an unpaid seller. In such a case. the seller can sue the buyer for wrongfully refusing to pay him his due.

But say the sales contract says that the price will be paid at a later date irrespective of the delivery of goods,. And on such a day the if the buyer refuses to pay, the unpaid seller may sue

COPYRIGHT FIMT 2020

for the price of these goods. The actual delivery of the goods is not of importance according to the law.

2] Suit for Damages for Non-Acceptance

If the buyer wrongfully refuses or neglects to accept and pay the unpaid seller, the seller can sue the buyer for damages caused due to his non-acceptance of goods. Since the buyer refused to buy the goods without any just cause, the seller may face certain damages.

The measure of such damages is decided by the Section 73 of the Indian Contract Act 1872, which deals with damages and penalties. Take for example the case of seller A. He agrees to sell to B 100 liters of milk for a decided price. On the day, B refuses to accept the goods for no justifiable reason. A is not able to find another buyer and the milk goes bad. In such a case, A can sue B for damages.

3] Repudiation of Contract before Due Date

If the buyer repudiates the contract before the delivery date of the goods the seller can still sue for damages. Such a contract is considered as a rescinded contract, and so the seller can sue for breach of contract. This is covered in the Indian Contract Act and is known as Anticipatory Breach of Contract.

4] Suit for Interest

If there is a specific agreement between the parties the seller can sue for the interest amount due to him from the buyer. This is when both parties have specifically agreed on the interest rate to be paid to seller from the date on which the payment becomes due.

But if the parties do not have such specific terms, still the court may award the seller with the interest amount due to him at a rate which it sees fit.

Remedies of Buyer Against the Seller

COPYRIGHT FIMT 2020

Just as the seller can rescind the contract, then so can the seller. When the seller breaches the contract the buyer also has certain remedies against the seller. Let us take a look at some remedies that the Sales Act prescribes for the buyer.

1] Damages of Non-Delivery

If the seller wrongfully or neglectfully refuses to deliver the goods to the buyer, then the buyer can sue for non-delivery of the goods. According to Section 57 of the Sale of Goods Act, if the buyer faces losses due to the wrongful actions of the seller (non-delivery) he can sue for damages caused due to this.

Let's take for example A whose agrees to sell to B 10 pair of shoes for 1000/- each. B was going to sell the same shoes to C for 1100/- a pair. A neglects to deliver the goods to B. Now, B can sue A for non-delivery. He can sue for the amount of 100/- per pair, i.e. 1000/- (the difference between B's cost price and sale price)

2] Suit for Specific Performance

If the seller commits a breach of contract, the buyer can approach the court to ask the seller for specific performance. The court after deliberation can command the seller for specific performance. One important point to keep in mind is that this remedy is only available if the goods are ascertained or specific.

Example: There was a contract between A and B, that A will sell to B a very expensive painting on a specific date. On the said day A refuses to sell. B can approach the court, who orders A to sell the painting to B at the ascertained price.

Ques 10: CASE STUDY

Bathroom city washed its hands off the problem

Simon Bell, of King's Lynn, Norfolk, has been battling with Bathroom City, Birmingham, over a cracked bathroom unit for six months after buying a shower tray, cabinet and basin in March. The delivery did not turn up for a month, despite a promise that it would arrive within days. Mr. Bell, left, who is a former heating and plumbing engineer, says: "When the delivery was made I inspected the goods and could see nothing wrong. But because the delivery was so late I missed my opportunity to fit it immediately."

COPYRIGHT FIMT 2020

It wasn't until a couple of days later that he noticed a "hairline crack" on the basin when he took it out of the box. He sent a photograph of the damage to Bathroom City, which said that there was nothing it could do because he had not reported it within two days of delivery. The company also claimed that it did not look like a manufacturing fault but damage caused when fitting the taps. However, Consumer Direct says that it is the duty of Bathroom City to prove that it was not responsible; if it cannot, then the company owes Mr Bell a replacement or repair. Mr. Bell says: "Bathroom City has refused to budge and my e-mails and letters have been ignored. I have fitted many bathroom suites over the years and have never broken anything. What's more, I know that it is impossible to inflict this type of damage with modern taps."

After being contacted by Times Money, Bathroom City offered to replace the basin as a goodwill gesture, but maintains that it has "clear proof" that it did not damage the basin because "Mr. Bell clearly states that when it was delivered he checked the goods over and found no initial fault".

Question 1:
Identify the elements of sale of goods.
The elements of sale of goods present in this case study are as follows:

Two parties: there are 2 parties present here that is the buyer (Simon Bell) and the seller, (Bathroom City, Birmingham)

Goods: the goods which should be transferred from the seller to the buyer are a shower tray, cabinet and basin. These goods which form the subject-matter of the contract of sale are movable.

Price: Though nothing about price or money is mentioned, it is obvious that a certain amount of cash is paid, (naturally speaking) because the goods mentioned are not gifts and are brought from the bathroom city by Mr. Simon Bell

Transfer of general property: the goods show the nature of general property.

Essential elements of a valid contract: the essential elements if a contract are as follows:

COPYRIGHT FIMT 2020

Two parties: As mentioned before, there are two parties mentioned in the given case study that is the buyer (Simon Bell) and the seller, (Bathroom City, Birmingham)

Offer/Acceptance: there is an agreement seen in the case study i.e. the goods offered by the company, The Bathroom city are accepted by the customer, Mr. Simon Bell.

Legal Obligation: the legal formalities of the contract are not clearly mentioned but since there is a promise being mentioned that the goods would arrive within days, it is assumable that the required statutory formalities are complied with.

Question 2

Identify in which point the case supports or deviates the rules of sale of goods act.

The instances when the case deviate the rules of sale of goods act:

The goods where not delivered as promised by the promise (the bathroom city)

According to (Sec.11) which relates to stipulation as to time, in a contract of sale, stipulations other than those relating to the time of payment are regarded as of the essence of the contract. Thus, if a time if fixed for the delivery of goods, the delivery must be made at the fixed time; otherwise the other party is entitled to put an end to the contract.

The mode of payment is not mentioned the given case

Lack of mutual consent

The bathroom city refused to respond to the e-mails and letters of Mr. Bell.

According to the company, “Mr. Bell clearly states that when it was delivered he checked the goods over and found no initial fault” but Mr. Bell insisted on the fact that the basin be either fixed or replaced as it had been damaged prior to its fitting

The instances when the case supports the rules of sale of goods act:

All the essential elements of the Sale of Goods Act are clearly present in the case except for the price of the goods as mentioned in the answer to the previous question.

Two parties: there are 2 parties present here that is the buyer (Simon Bell) and the seller, (Bathroom City, Birmingham)

COPYRIGHT FIMT 2020

Goods: the goods which should be transferred from the seller to the buyer are a shower tray, cabinet and basin. These goods which form the subject-matter of the contract of sale are movable.

Price: Though nothing about price or money is mentioned, it is obvious that a certain amount of cash is paid, (naturally speaking) because the goods mentioned are not gifts and are brought from the bathroom city by Mr. Simon Bell

Transfer of general property: the goods show the nature of general property.

Essential elements of a valid contract: the essential elements if a contract are present.

All the essential elements of the contract (according to Indian contract act, 1872) are also present.

CONCLUSION

From the above case study we can conclude that a contract for the sale of immovable property is a contract laying down that the ‘Sale’ of such property shall take place on the terms settled between the parties in the said contract. Such contract for sale does not create any interest in or charge on such immovable property. The contract for sale does not result in any transfer of ownership. However a sort of obligation is created in respect of the ownership of the property.

Ques 11: Explain Memorandum of Association. Differentiate Memorandum and Article of Association.

Ans: MoA: A Memorandum of Association (MOA) is a legal document prepared in the formation and registration process of a limited liability company to define its relationship with shareholders. The MOA is accessible to the public and describes the company’s name, physical address of registered office, names of shareholders and the distribution of shares. The MOA and the Articles of Association serve as the constitution of the company.

COPYRIGHT FIMT 2020

Comparison chart of MOA and AOA

	MEMORANDUM OF ASSOCIATION (MOA)	ARTICLES OF ASSOCIATION (AOA)
1.	MOA is the constitution of the company.	AOA is a set of rule and regulations to govern the company's working.
2.	MOA defines objectives, powers and constraints of the organization as a whole.	AOA describe powers, duties, rights and liabalities of individuals associated with the organization (like members of the Board of Directors).
3.	MOA must contain six clauses.	AOA is prepared as per the requirements of the organization.
4.	Registering an MOA is mandatory for all the companies.	A public company limited by shares can adopt Table A instead of articles.
5.	MOA has to be filed at the time of company registration.	Filing AOA at the time of company registration is optional.
6.	MOA is the supreme document for the company.	AOA is subordinate to the MOA.
7.	MOA is the dominant instrument and it controls articles in AOA.	Any article in AOA that is in violation of the provisions in MOA, would be considered invalid.
8.	MOA of a company can not be amended with retrospective effect.	AOA of a company can be amended retrospectively.
9.	MOA is defined in the Section 2 (28) of the Companies Act 1956.	AOA is defined in the Section 2 (2) of the Companies Act 1956.
10.	MOA is subordinate to The Companies Act. This means that MOA can not give any company a power that is not in accordance with the Act.	AOA is also subordinate to the Companies Act; but AOA is also subordinate to the MOA.
11.	MOA defines objectives of a company.	AOA defines regulations with which the company will achieve objectives defined in MOA.

COPYRIGHT FIMT 2020

Ques 12: Briefly discuss the essentials conditions of a valid meeting.

Ans: **Requisites of a Valid Meeting**

If the business transacted at a meeting is to be valid and legally binding, the meeting itself must be validly held. A meeting will be considered to be validly held, if:

a) It is properly convened by proper authority.

b) Proper notice must be served. (Sec. 101 and Sec. 102 of the Companies Act, 2013)

c) Proper quorum must be present in the meeting. (Sec. 103 of the Companies Act, 2013)

d) Proper chairman must preside the meeting. (Sec. 104 of the Companies Act, 2013)

e) Business must be validly transacted at the meeting.

f) Proper minutes of the meeting must be prepared. (Sec. 118 and 119 of the Companies Act, 2013)

Proper Authority to Convene Meeting: A meeting must be convened or called by a proper authority. Otherwise it will not be a valid meeting. The proper authority to convene general meetings of a company is the Board of Directors. The decision to convene a general meeting and issue notice for the same must be taken by a resolution passed at a validly held Board meeting.

Notice of Meetings: A meeting in order to be valid must be convened by a proper notice issued by the proper authority. It means that the notice convening the meeting be properly drafted according to the Act and the rules, and must be served on all members who are entitled to attend and vote at the meeting. For general meeting of any kind at least 21days notice must be given to members. A shorter notice for Annual General Meeting will be valid, if all members entitled to vote give their consent. The number of days in each case shall be clear days, i.e. the days must be calculated excluding the day on which the notice is issued, a day or so for postal transit, and the day on which the meeting is to he held. Every notice of meeting of a company must specify the place and the day and hour of the meeting, and shall contain a statement of the business to be transacted thereat.

Quorum of Meetings: Quorum is the minimum number of members who must be present at a meeting as required by the rules. Any business transacted at a meeting without a quorum is invalid. The main purpose of having a quorum is to avoid decisions being taken at a meeting

COPYRIGHT FIMT 2020

by a small minority which may be found to be unacceptable to the vast majority of members. The number constituting a quorum at any company meeting is usually laid down in the Articles of Association. In the absence of any provision in the Articles, the provisions as to quorum laid down in the Companies Act, 2013 (under Sec.103) will apply. Sec. 103 of Companies Act provides that the quorum for general meetings of shareholders shall be five members personally present in case of a public company if the number of members as on the date of meeting is upto 1000, 15 quorum if number of members as on the date of meeting is more than 1000 but upto 5000 and if number of member exceeds 5000 than 30 quorum is required; and two members personally present for any private company or articles may provide otherwise.

Chairman of a Meeting: 'Chairman' is the person who has been designated or elected to preside over and conduct the proceedings of a meeting. He is the chief authority in the conduct and control of the meeting.

Agenda of Meetings: The word 'agenda' literally means 'things to be done'. It refers to the programme of business to be transacted at a meeting. Agenda is essential for the systematic transaction of the business of a meeting in the proper order of importance. It is customary for all organisations to send an agenda along with the notice of a meeting to all members. The business of the meeting must be conducted in the same order in which the items are placed in the agenda and the order can be varied only with the consent of the meeting.

Minute: Minute of a meeting contains a fair and correct summary of the proceedings of a meeting. Minutes must be prepared and signed within 30 days of the conclusion of the meeting. The minute books of meetings must be kept at the registered office of the company or at such other place as may be approved by the board.

Proxy: The term 'proxy' is used to refer to the person who is nominated by a shareholder to represent him at a general meeting of the company. It also refers to the instrument through which such a nominee is named and authorised to attend the meeting.

Ques 13: Explain appointment and qualification of a Director.

COPYRIGHT FIMT 2020

Ans: Directors: A director is not a servant of any master, they are rather the officers of the company. A director is, in fact, a director or controller of a company and he manages all the affairs of the company. However, a director can work as an employee in a different capacity. For instance, Lee v. Lee's Air Farming Ltd.

Directors are basically registered under the companies act and are duly appointed by the company to direct and manage the business of the company. They are sometimes described as agents, as trustees and sometimes as managing partners.

Appointment

Casual vacancies

A casual vacancy occurs when the director's office is vacated before the expiry of the term of the director. Such a vacancy can be filled by the procedure or the process prescribed by the articles. If any clause is absent in the articles then the power is given to the directors so that he can fill the vacancy at the board meeting. The person who has been appointed by this procedure, hold the office until the expiry of the period for which the outgoing director would have held the office.

Additional directors

Considering the powers of the directors, additional directors can be appointed by the board. There can be an addition to directors but total members of the directors should not exceed the maximum limit as mentioned in the articles. If the strength of directors is below the minimum limit of the members then the addition of directors is valid.

However, the additional directors can hold the office only up to the date of the next meeting which is held annually. The additional director is exempted to fulfill the requirement of consent under Section 264.

Appointment by Central Government

The central government has the power to appoint directors for the purpose to prevent mismanagement under Section 408. This power is applied when a petition has been filed to the National Company Law Tribunal to prevent mismanagement.

COPYRIGHT FIMT 2020

Consent to act as directors

Every person who has appointed as director shall furnish a consent in writing to the company as such in Form DIR-2. The director must submit such consent with the registrar in Form DIR-12 within thirty days(30 days) of the appointment of the director.

Qualifications of directors

Share qualification

The articles of the company provides that every director should hold a certain number of shares. Such shares are known as qualification shares. A director must obtain the required number within two months of the appointment. If a director is not appointed as a director he cannot be compelled to obtain qualification shares. Also within a period shorter than two months of the appointment, he cannot be compelled to obtain the qualification of shares. The value of the qualification shares cannot be more than five thousand rupees except when the nominal value of the share is more than the amount of the share. A director can hold only shares and not share warrants. A director may suffer if he fails to obtain his qualification shares as advised. He can suffer in two ways:

- His office can fall vacant.
- He will be liable to pay a penalty if he continues to act as a director. The director is required to hold the shares in his own right.

Disqualifications

The minimum requirements for the eligibility of members are laid down in Section 274. A person is not capable of being appointed as a director in some cases that follow:

- When the person is of unsound mind and he is certified by the court.
- A person who is unable to pay his debts and it cannot be covered by his assets and he(director) has initiated proceedings against him.
- When the director is adjudicated as insolvent.
- When the director has been sentenced to imprisonment of at least six months for the offense that involves morally wicked behavior and five years have not passed from the date of expiry of the sentence.

COPYRIGHT FIMT 2020

- When he has not paid for call of his shares for six months.
- Where he has been disqualified for preventing fraudulent persons under Section 203.

If a private company is not a subsidiary of a public company can further add to disqualifications. In other words of the Supreme Court, a public company and its subsidiaries cannot add or increase any other disqualifications.

Ques14: Define company according to company act 2013 and its types.

Ans: A company follows the provisions mentioned in the Companies Act 2013, which says that a – “Company” means a company incorporated under this Act or any previous company law;In other words, A company is a legal entity which is formed by different individuals to generate profits through their commercial activities

Different Types of Companies

Companies can be classified into different types based on their mode of incorporation, the liability of the members, and number of the members. The most common types of companies are:

- Royal Chartered Companies
- Statutory Companies
- Registered or Incorporated Companies
- Companies Limited By Shares
- Companies Limited By Guarantee
- Unlimited Companies
- Public Company (or Public Limited Company)
- Private Company (or Private Limited Company)
- One Person Company

Types Of Companies Based On The Mode of Incorporation

Companies can be classified into three types based on whether they are created by a special act, special order, or are registered just like any normal company.

COPYRIGHT FIMT 2020

Royal Chartered Companies

Royal Chartered Companies are companies created by the Royal Charter. This means they are granted power or a right by the monarch or by special order of a king or a queen. Examples of Royal Chartered Companies are East India Company, BBC, Bank Of England, etc.

Statutory Companies

Statutory Companies are companies incorporated by means of a special act passed by the central or state legislature. They are mostly invested with compulsory powers and are responsible to carry out some special business of national importance. Some examples of statutory companies are The Reserve Bank of India (formed under RBI act, 1934), Life Insurance Corporation of India (formed under LIC Act, 1956).

Registered Or Incorporated Companies

All the other companies which are incorporated under the companies act passed by the government comes under this head. These companies come under existence only after they register themselves under the act and the certificate of incorporation is passed by the Registrar of companies. Google India Pvt Ltd is an example of incorporated companies.

Types Of Companies Based On The Number Of Members

Public Limited Company

The legal existence of a Public Limited Company is separate from its members (shareholders) and the liability of its members is also limited. Its existence is thus not affected by the retirement or death of its shareholders. A minimum of 7 members is needed to form a Public Limited company but there is no maximum limit on this. The company collects its capital by the sale of its shares to the shareholders. The shareholders of a company do not have the right to participate in the day-to-day management of the company, thus separating ownership from management. All the major decisions of the company are taken by the Board of Directors.

Private Limited Company

Private Limited (Pvt Ltd) companies have more than 2 and less than 50 members and their liability is limited or unlimited depending on the type of the company it is. Unlike Public Limited companies, here the transfer of shares is limited to its members and the general public cannot subscribe to its shares and debentures. Pvt Ltd companies are exempted from many rules and regulations which are applicable to Public Limited companies, for example,

COPYRIGHT FIMT 2020

the need to file a prospectus with the Registrar, the need to hold the statutory general meeting or maintain annual reports etc. Also, it can start operations after receiving just the certificate of incorporation, whereas a Public Limited company needs a certificate of commencement as well. It is a great option if you want the advantages of limited liability and yet want greater control over your business and maintain its privacy. This is the most popular type of company for start-ups to be registered as.

One Person Company

One Person Company (OPC) as a company type was introduced in the Companies Act of 2013 in India. It is similar to a sole proprietorship but the owner shall have limited liability and thus his personal assets would not be at risk if losses need to be recovered or if the company is liquidated.

Types Of Companies Based On The Liability Of The Members

In case of liquidation, the members of a company can either be liable to pay even from their personal assets or to the extent of the face value of shares held by them. It all depends on how the company is registered as. Companies can be classified into three types based on the liability of the members. These are –

Companies Limited By Shares

The liability of the shareholders is limited to the extent of the face value of shares held by them. Most Pvt Ltd companies are of this type.

Companies Limited By Guarantee

In these companies, in case of liquidation, the shareholders promise to pay a certain fixed amount to cover the liabilities of the company.

Unlimited Companies

There is no limit on the liability of the shareholders. In case of liquidation, they might have to pay even from their personal assets to cover the liabilities of the company. This type of company is quite uncommon today due to obvious reasons.

Ques 15: Discuss types of shares.

Ans: types of share:

COPYRIGHT FIMT 2020

1 *Ordinary shares*

These carry no special rights or restrictions. They rank after preference shares as regards dividends and return of capital but carry voting rights (usually one vote per share) not normally given to holders of preference shares (unless their preferential dividend is in arrears).

Some companies create more than one class of ordinary shares – e.g. “A Ordinary Shares”, “B Ordinary shares” etc. This gives flexibility for different dividends to be paid to different shareholders or, for example, for pre-emption rights to apply to some shares but not others.

In some cases, different classes of ordinary share may be of different nominal values – for example, there may be £1 Ordinary shares and £0.01 Ordinary shares. If each share had the right to one vote (and assuming the shares were issued at their nominal value), then the £0.01 Ordinary shareholders would get 100 votes per £1 paid while the £1 Ordinary shareholders would get 1 vote for paying the same amount.

2 *Deferred ordinary shares*

A company can issue shares which will not pay a dividend until all other classes of shares have received a minimum dividend. Thereafter they will usually be fully participating. On a winding up they will only receive something once every other entitlement has been met.

3 *Non-voting ordinary shares*

Voting rights on ordinary shares may be restricted in some way – e.g. they only carry voting rights if certain conditions are met. Alternatively, they may carry no voting rights at all. They may also preclude the shareholder even attending a General Meeting. In all other respects they will have the same rights as ordinary shares.

4 *Redeemable shares*

The terms of redeemable shares give the company the option to buy them back in the future; occasionally, the shareholder may (also) have the option to sell them back to the company, although that’s much less common.

The option may arise at or after a specific date, between two dates or be effective at any time the shares are in issue. The redemption price is usually the same as the issue price, but can be set differently. A company can only redeem shares out of profits or the proceeds of a new share issue, which may restrict its ability to redeem shares even if the directors would like to exercise the option.

COPYRIGHT FIMT 2020

If a company chooses to have redeemable shares, it must also have non-redeemable shares in issue. At no point can all of its share capital be made up of redeemable shares.

We've written a dedicated article covering the features and processes related to redeemable shares.

5 Preference shares

These shares are called preference or preferred since they have a right to receive a fixed amount of dividend every year. This is received ahead of ordinary shareholders. The amount of the dividend is usually expressed as a percentage of the nominal value. So, a £1, 5% preference share will pay an annual dividend of 5p. The full entitlement will be paid every year unless the distributable reserves are insufficient to pay all or even some of it. On a winding up, the holders of preference shares are usually entitled to any arrears of dividends and their capital ahead of ordinary shareholders. Preference shares are usually non-voting (or only have a vote only when their dividend is in arrears).

In another article, you can read in more detail about preference shares.

6 Cumulative preference shares

If the dividend is missed or not paid in full then the shortfall will be made good when the company next has sufficient distributable reserves. It follows that ordinary shareholders will not receive any dividends until all the arrears on cumulative preference shares have been paid.

By default, preference shares are cumulative but many companies also issue non-cumulative preference shares.

7 Redeemable preference shares

Redeemable preference shares combine the features of preference shares and redeemable shares. The shareholder therefore benefits from the preferential right to dividends (which may be cumulative or non-cumulative) while the company retains the ability to redeem the shares on pre-agreed terms in the future.

Most companies start by just having one type of shares in the form of an ordinary share class. These will typically carry equal rights to voting, capital and dividends. The issue of new shares after company incorporation will generally be allotments of these ordinary shares, unless circumstances suggest a need for flexibility or varied rights.

COPYRIGHT FIMT 2020

Just as a company may issue shares in multiple share classes, there's also nothing to stop a shareholder holding more than one class of share in the same company and thereby benefiting from the differing rights (e.g. voting or dividend entitlement) that each class offers.

Ques 16: Explain negotiable instrument and its types.

Ans: **Negotiable instruments are a type of document that guarantees the payment of a particular amount of money at a set time or on-demand and the payer's name is generally mentioned on the document and its most common types are checks, promissory notes, bills of exchange, customer receipts, delivery orders, etc.**

Negotiable Instrument is generally a signed document that is freely transferable in nature and once it is transferred, a transferee or the holder of an instrument will get legal right to use it in whatsoever manner as he deems appropriate.

- Negotiable Instruments are a written order which guarantees the payment of money on a pre-determined date or on demand of the party name on it or to any other person in order or the bearer of an instrument.
- It has characteristics of a valid contract like consideration should be transferred from one party to another.
- Negotiable Instruments is nothing but an evidence of indebtedness, as the holder of the instrument has an unconditional right to recover the amount of money stated in the instrument from its maker. These Instruments are used as a substitute of money to safely transfer the payments between the merchants and have a risk free business transactions.
- There are so many types of negotiable instruments that are primarily in use such as Promissory Notes, Cheques, Bills of Exchanges, Currencies, etc.
- In India, The Negotiable Instruments Act, 1881 was originally enforced to govern the practices of using the above instruments in an effective way including rights, duties, and obligations of parties involved in the transactions.
- People face ease in doing business due to the availability of various types of negotiable instruments which are very reliable and having different unique features.
-
- TYPES:

COPYRIGHT FIMT 2020

Currencies

Currencies i.e. Bank Notes and Coins are a very common type of Negotiable Instruments which we all use in our daily life as a medium of exchange to settle our trades. The government guarantees and promises to pay a sum of rupees mentioned on the currency note to the bearer thereof. This is a safe medium of exchange against the value of something. We can freely transfer the currencies from one person to another in consideration of something. The bearer of the banknote is a legal owner of the amount mentioned on it and he obtains a promise to receive goods, services or any other things in consideration of the amount of note he possessed. This is a very safe and most liquid type of asset or property and generally has no expiry date, hence stored for the emergency. However, the currencies have the greatest risk of stolen by the thefts or damage in use, so these have to be handled with proper care.

Cheques

The Cheques are the substitute of the currencies and a very safe mode of transfer of payments among the merchants. It can either be a bearer cheque and one who possesses that will get the amount mentioned on it or an account payee cheque endorsed in the name of the particular entity. Unlike currencies, it generally has a specific expiry date and hence can't be stored for a longer time period. It has no risk of stolen unless it is a bearer cheque. A Cheque generally takes time to transfer funds in the accounts of the beneficiary and hence it is considered as the less liquid form of transfer.

Promissory Notes

A Promissory Note means one party (the maker) promises to pay a sum of rupees to a person whose name is mentioned on the note on a fixed future date. Generally, it is used as short-term trade credit and the maker will pay the due amount on or before the expiry of the note. It is also a very safe mode of transferring money and business people frequently use it to have smooth business transactions. One can claim his fund in the court of law on mere non-delivery of promised money to him after the expiry of the term. It is also considered and used as a debt instrument and corporations who need to finance their short-term projects will issue the promissory notes.

Bills of Exchanges

COPYRIGHT FIMT 2020

Bills of Exchanges are similar to promissory notes where one party promises to pay the sum of money to another party or to any other person in his order on a fixed future date. Just like a promissory note, business people use it to provide short-term trade credits to their business partners. The person on whose name it is endorsed (the Drawee) will have a valid claim on the bill writer (the Drawer) for the amount mentioned on the bill. In case of urgency of a fund, the Drawee can discount his bill before the due date from any bank and get the bill amount from the bank after deducting some discount on it and thereafter bank will collect the full billing amount from the Drawer on the due date and this entire transaction is called as Bill Discounting.

Bearer Bonds

These are the unregistered bonds issued by the Government or Corporate and as the name suggests the holder of the bond is entitled to get a coupon and principal payment thereon. The issuer doesn't keep the record of the original owner of the bond. Whoever has the physical possession of the bond will be treated as the legal owner of it. Therefore, there is a huge risk of loss, theft or otherwise destruction of these bonds.

Conclusion

The Negotiable Instruments are very effective business channels in the financial market of any country. Negotiable Instruments helps in smoothing secured commercial and other transactions for money or monies worth. The unique features like transferability, the legality of documents, safety, liquidity, etc make them more popular in having businesses domestically and globally as well.

However, in today's modern world technology bring the businesses at a very high level and the use of above Negotiable Instruments is reducing day-by-day. There are so many effective banking channels are established now that will reduce the time and cost of execution of commercial transactions worldwide. Now a day people are more comfortable to do transactions through Internet Banking, NEFT, RTGS, Debit & Credit Cards, Virtual Cards, and availability of so many modern instruments that may cause the end of traditional Negotiable Instruments

Ques 17: Explain endorsement and its types.

COPYRIGHT FIMT 2020

Ans: Endorsement: The act of a person who is a holder of a negotiable instrument in signing his or her name on the back of that instrument, thereby transferring title or ownership is an endorsement. An endorsement may be in favour of another individual or legal entity. An endorsement provides a transfer of the property to that other individual or legal entity. The person to whom the instrument is endorsed is called the endorsee. The person making the endorsement is the endorser. Let us discuss the Endorsement of Instruments here in detail

Types:

- **1. Blank Endorsement or General Endorsement:** An endorsement is blank or general where the endorser signs his name only, and it becomes payable to bearer. Thus, where a bill is payable to “Ram or order”, and he writes on its back “Ram”, it is an endorsement in blank by Ram and the property in the bill can pass by a mere presentation

- **2. Special or Full Endorsement:** An endorsement “in full” or a special endorsement is one where the endorser puts his signature on the instrument as well as writes the name of a person to whom order the payment is to be made. A bill made payable to Ram or order, and endorsed “pay to the order of Shyam” would be specially endorsed and Shyam endorses it further. We can turn a blank endorsement into a special one by adding an order making the bill payable to the transferee.

- **3. Restrictive Endorsement:** An endorsement is restrictive which restricts the further negotiation of an instrument. Example of restrictive endorsement: “Pay to Mrs. Geeta only” or “Pay to Mrs Geeta for my use” or “Pay to Mrs Geeta on account of Reeta” or “Pay to Mrs. Geeta or order for collection”.

- **4. Partial Endorsement:** An endorsement partial is one which allows transferring to the endorsee a part only of the amount payable on the instrument. This does not operate as a negotiation of the instrument. Example: Mr. Mohan holds a bill for Rs. 5,000 and endorses it as “Pay Sohan or order Rs. 2500”. The endorsement is partial and invalid.

COPYRIGHT FIMT 2020

- **5. Conditional or Qualified Endorsement:** Where the endorser puts his signature under such writing which makes the transfer of title subject to fulfillment of some conditions of the happening of some events, it is a conditional endorsement.

- **Negotiation Back:** Where an endorser negotiates an instrument and again becomes its holder, we know it as negotiation back to that endorser. After negotiation back, none of the intermediary endorsees are then liable to him. For example, Ram, the holder of a bill endorses it to Bala, Bala endorses to Kala, and Kala to Lala, and endorses it again to Ram. Ram, being a holder in due course of the bill by the second endorsement by Lala, can recover the amount thereof from Bala, Kala, or Lala and himself being a prior party is liable to all of them.

Ques 18: Explin holder and holder in due course under negotiation instrument act 1881. Compare.

Ans: Holder refers to a person; we mean the payee of the negotiable instrument, who is in possession of it. He/She is someone who is entitled to receive or recover the amount due on the instrument from the parties thereto. On the other hand, the **holder in due course** i.e. **HDC** implies a person who obtains the instrument bonafide for consideration before maturity, without any knowledge of defect in the title of the person transferring the instrument.

Comparison Chart

BASIS FOR COMPARISON	HOLDER	HOLDER IN DUE COURSE (HDC)
Meaning	A holder is a person who legally obtains the negotiable instrument, with his name entitled on it, to receive the payment from the parties liable.	A holder in due course (HDC) is a person who acquires the negotiable instrument bonafide for some consideration, whose payment is still due.

COPYRIGHT FIMT 2020

BASIS FOR COMPARISON	HOLDER	HOLDER IN DUE COURSE (HDC)
Consideration	Not necessary	Necessary
Right to sue	A holder cannot sue all prior parties.	A holder in due course can sue all prior parties.
Good faith	The instrument may or may not be obtained in good faith.	The instrument must be obtained in good faith.
Privileges	Comparatively less	More
Maturity	A person can become holder, before or after the maturity of the negotiable instrument.	A person can become holder in due course, only before the maturity of negotiable instrument.

Ques19: Rights or Privileges of holder in due course. Explain.

Ans: A holder, to be a holder in due course must not only have acquired the bill, note or cheque for a valid consideration but should have acquired the cheque without having sufficient cause to believe that any defect existed in the title of the person from whom he derived his title. This condition requires that he should act in good faith and with reasonable caution. However, mere failure to prove bona fide or absence of negligence on his part would not negative his claim. But in a given case it is left to the court to decide whether the negligence on part of the holder is so gross an extraordinary as to presume that he had sufficient cause to believe that such title was defective.

Holder in due course acquiring the instrument for consideration and in good faith gets the following rights under the act:

COPYRIGHT FIMT 2020

1) Holder in due course can file a suit in his own name against the parties liable to pay. He is deemed prima facie to be holder in due course (Sec 118)
2) The holder is due course gets a good title even though the instruments were originally stamped but was an inchoate instrument (Sec 20). The person who has signed and delivered an inchoate instrument cannot plead as against the holder in due course that the instrument has not been filled in accordance with the authority given by him. However, a holder who himself completes the instrument is not a holder in due course.
3) Every prior party to the instruments is liable to a holder in due course until the instrument is duly satisfied (Sec 36).
4) Acceptor cannot plead against a holder in due course that the bill is drawn in a fictitious name (Sec 42). In Bank of England v Vagliano Bros (1891 – Ac 107) it was held that the acceptor should consider whether the bill was genuine of false before signing his acceptance in it.
5) The other parties liable to pay cannot plead that the delivery of the instrument was conditional or for a specific purposes only (Sec 46).
6) He gets a good title to the instrument even though the title of the transferor or any price party to the instrument is defective (Sec 53) He can recover the full amount unless he was a party to fraud; or if the instrument is negotiated by means of a forged endorsement.
7) Even if the negotiable instrument is made without consideration, if it get into the hands of the holder in due course, he can recover the amount on it from any of the prior parties thereto.
8) The person liable cannot plead against the holder in due course that the instrument had been lost or was obtained by means of an offence of fraud or for an unlawful consideration (sec 58).
9) The validity of the instrument as originally made or dawn cannot be denied by the maker of drawer of a negotiable instrument or by acceptor of a bill of exchange for honor of the drawer (Sec 120).
10) The maker of a note or an acceptor of a bill payable to order cannot deny the payee’s capacity to indorse the same at the date of the note or bill (sec 121).
11) Endorser is not permitted as against the holder in due course to deny the signature or capacity to contract of any prior party to the instrument (Sec 122).

It will therefore be observed that the title of the holder in due course of a negotiable instrument is free from equities and other defenses which could be pleaded against the prior parties.

COPYRIGHT FIMT 2020

Liability of prior parties to holder in due courses

Every prior party to negotiable instruments is liable thereon to a holder in due course until instrument is duly satisfied (Sec 36).

The prior parties to an instrument are maker, drawer acceptor and endorser. The instrument is duly satisfied when the parties to the instrument are discharged by payment or when the liabilities of the parties are extinguished. Till then all the prior parties to the instrument continue to remain liable to the holder in due course.

Holder deriving title from holder in due course

A holder of a negotiable instrument who derives title from a holder in due course has the rights thereon of that holder in due course. The law presumes that every holder is a holder in due course until the contrary is proved [sec 118(g)]

The instrument once reaching the hands of a holder in due course is cleansed of all defects. It becomes pure and passes also to subsequent parties as an instrument immune from any defect. However, where holder in due course himself is a party to fraud or illegality he does not acquire the rights of a holder in due course.

Ques 20: Explain Bouncing of Cheques.

Ans: **Introduction**

The most common offence in today's financial world is the bouncing of cheques. According to the Supreme Court of India, there are close to 40 lakhs of cheque bounce cases pending in the court. Lack of funds in the account is one of the main reasons for dishonour of cheques. This guide helps you know your rights in the event of the dishonour of a cheque.

Meaning of cheque bounce or dishonour of cheques

A cheque is written by a drawer. A cheque is said to be bounced or dishonoured when it is returned by the drawer's bank unpaid. , including but not limited to insufficient funds in the account, mismatch of signatures, the Dishonour of cheques may occur due to a variety of

COPYRIGHT FIMT 2020

reasonsexpiry of cheque, closure of the account, overwriting in cheque, the mismatch in the account number, death or insolvency of the customer and doubt in the genuineness of the cheque.

The law in India relating to the bouncing of cheques

Bouncing of cheques is considered to be a criminal offence in India and you can file a criminal complaint under Section 138 of the Negotiable Instruments Act. You can also file for a civil suit for recovery of the cheque amount, along with the cost borne and the lost interest.

What are the ingredients necessary to constitute a criminal offence under the Negotiable Instruments Act?

The following ingredients are necessary to constitute an offence under Section 138 of the Act -

1. There must be drawn a cheque on an account maintained by a person in a bank for payment of a certain amount of money to another person from out of that account
2. the cheque should have been issued for the discharge, in whole or in part, of any debt or other liability
3. that cheque should have been presented to the bank within a period of six months from the date on which it is drawn or within the period of its validity whichever is earlier
4. that cheque was returned by the bank unpaid, either because of insufficient funds in the account or that it exceeds the amount arranged to be paid from that account by an agreement made with the bank
5. the payee or the holder in due course of the cheque makes a demand for the payment of the said amount of money by giving a notice in writing, to the drawer of the cheque, within 15 days of the receipt of information by him from the bank regarding the return of the cheque as unpaid
6. the drawer of such cheque fails to make payment of the said amount of money to the payee or the holder in due course of the cheque within 15 days of the receipt of the said notice

Where and who can file a cheque bounce case?

COPYRIGHT FIMT 2020

A cheque bounce case should be filed where the cheque was submitted by you to be honoured. Generally, the payee of the cheque is supposed to file the cheque bounce case, but the case can also be filed through a power of attorney.

The penalty I can be subject to if my cheque bounces:

Under the Negotiable Instruments Act, you may be subject to imprisonment for a term, which may extend to two years or with fine which may extend to twice the amount of cheque, or with both. The punishment depends on the severity of the case and the judgement. The bank may also have the right to stop the chequebook facility and close the account for repeat offences of bounced cheques.

the law for post- dated cheques:

As mentioned above, the cheque has to be presented to the bank within a period of six months from the date on which it is drawn. In case of post-dated cheques, the 6 months period in which cheque must be submitted in bank is only applicable from the date written on it.

NAAC ACCREDITED
INSTITUTE OF MANAGEMENT & TECHNOLOGY
FAIRFIELD
तेजस्वि नावधीतमस्तु
ISO 9001:2015 & 14001:2015

COPYRIGHT FIMT 2020

NAAC ACCREDITED

MICRO ECONOMICS-106

Unit 1

1. What is microeconomics?

Ans. Microeconomics is the study of decisions made by people and businesses regarding the allocation of resources and prices of goods and services. The government decides the regulation for taxes. Microeconomics focuses on the supply, that determines the price level of the economy. It uses the bottom-up approach strategy to analyze the economy. In other words, microeconomics tries to understand human choices and resource allocation. Microeconomics does not decide what are the changes taking place in the market, instead, it explains why there are changes happening in the market.

The main key role of microeconomics is to examine how a company could maximize its production and capacity so that it could lower prices and better compete in its industry. A lot of microeconomic information can be gleaned from the financial statements.

The important key factors of microeconomics are :

Demand, Supply, and Equilibrium

Production Theory

Costs of Production

Labor Economics

Examples: Individual Demand, Price of a product.

ISO 9001:2015 & 14001:2015

COPYRIGHT FIMT 2020

2. What is Macroeconomics?

Ans. Macroeconomics is a branch of economics that depicts a substantial picture. It scrutinizes itself with the economy at a massive scale, several issues of an economy are considered. The issues confronted by an economy and the headway that it makes are measured and apprehended as a part and parcel of Macroeconomics.

Macroeconomics studies the association between various countries regarding how the policies of one nation have an upshot on the other. It circumscribes within its scope, analysing the success and failure of government strategies.

In macroeconomics we normally clarify the survey of how the nation's total manufacture and the degree of employment are associated with features (called 'variables') like :

Cost prices

Wage rates

Rate of interest

Profits etc.,

The important concepts covered under microeconomics are :

A Capitalist Nation

Investment expenditure

Revenue

Examples: Aggregate Demand, National Income.

NAAC ACCREDITED
तेजस्वि नावधीतमस्तु
ISO 9001:2015 & 14001:2015

3.Explain circular flow in two and threesector economy?

Ans.circular flow of income model is a simplified representation of an economy.

In the basic two-sector circular flow of income model, the economy consists of two sectors: (1) households and (2) firms.The model assumes that there is no financial sector, no

COPYRIGHT FIMT 2020

government sector, and no foreign sector. In addition, the model assumes that (a) through their expenditures, households spend all of their income on goods and services or consumption and (b) through their expenditures, households purchase all output produced by firms. This means that all household expenditures become income for firms. The firms then spend this all of this income on factors of production such as labor, capital and raw materials, "transferring" all of their income to the factor owners (which are households). The factor owners (households), in turn, spend all of their income on goods, which leads to a circular flow of income.

Three-sector model

The three-sector model adds the government sector to the two-sector model.Thus, the three-sector model includes (1) households, (2) firms, and (3) government. It excludes the financial sector and the foreign sector. The government sector consists of the economic activities of local, state and federal governments. Flows from households and firms to government are in the form of taxes. The income the government receives flows to firms and households in the form of subsidies, transfers, and purchases of goods and services.Every payment has a corresponding receipt; that is, every flow of money has a corresponding flow of goods in the opposite direction. As a result, the aggregate expenditure of the economy is identical to its aggregate income, making a circular flow.

4.Explan four sector model?

Ans. The four-sector model adds the foreign sector to the three-sector model.(The foreign sector is also known as the "external sector," the "overseas sector,"or the "rest of the world.") Thus, the four-sector model includes (1) households, (2) firms, (3) government, and (4) the rest of the world. It excludes the financial sector. The foreign sector comprises (a) foreign trade (imports and exports of goods and services) and (b) inflow and outflow of capital (foreign exchange).Again, each flow of money has a corresponding flow of goods (or services) in the opposite direction.Each of the four sectors receives some payments from the

COPYRIGHT FIMT 2020

other in lieu of goods and services which makes a regular flow of goods and physical services. The addition of the foreign sector transforms the model from a closed economy to an open economy!

5.National income notes.

Goods :In economics a goods is defined as any physical object, manmade, that could command a price in the market and these are the materials that satisfy human wants and provide utility

Consumption Goods : Those final goods which satisfy human wants directly. ex- ice-cream and milk used by the households.

Capital Goods :Those final goods which help in production. These goods are used for generating income. These goods are fixed assets of the producers.ex- plant and machinery.

Final Goods are those goods which are used either for final consumption or for investment.

Intermediate Goods refers to those goods and services which are used as a raw material for further production or for resale in the same year.

These goods do not fulfill needs of mankind directly.

Investment :Addition made to the physical stock of capital during a period of time is called investment. It is also called capital formation.

COPYRIGHT FIMT 2020

capital formation:- Change in the stock of capital is also called capital formation.

Depreciation :means fall in value of fixed capital goods due to normal wear and tear and expected obsolescence. It is also called consumption of fixed capital.

Gross Investment :Total addition made to physical stock of capital during a period of time. It includes depreciation. OR Net Investment + Depreciation

Net Investment :Net addition made to the real stock of capital during a period of time. It excludes depreciation.

Net Investment = Gross investment – Depreciation.

Stocks :Variables whose magnitude is measured at a particular point of time are called stock variables. Eg. National Wealth, Inventory etc.

Flows :Variables whose magnitude is measured over a period of time are called flow variable. Eg. National income, change in stock etc.

Circular flow of income :It refers to continuous flow of goods and services and money income among different sectors in the economy. It is circular in nature. It has neither any end and nor any beginning point. It helps to know the functioning of the economy.

Leakage :It is the amount of money which is withdrawn from circular flow of income. For eg. Taxes, Savings and Import. It reduces aggregate demand and the level of income.

COPYRIGHT FIMT 2020

Injection :It is the amount of money which is added to the circular flow of income. For e.g. Govt. Exp., investment and exports. It increases the aggregate demand and the level of income.

Economic Territory :Economic (or domestic) Territory is the geographical territory administrated by a Government within which persons, goods, and capital circulate freely.

Scope of Economic Territory :

(a) Political frontiers including territorial waters and airspace.

(b) Embassies, consulates, military bases etc. located abroad.

(c) Ships and aircraft operated by the residents between two or more countries.

(d) Fishing vessels, oil and natural gas rigs operated by residents in the international waters.

Normal Resident of a country: is a person or an institution who normally resides in a country and whose Centre of economic interest lies in that country.

Exceptions:- (a) Diplomats and officials of foreign embassy.

(b) Commercial travellers, tourists students etc.

COPYRIGHT FIMT 2020

(c) People working in international organizations like WHO, IMF, UNESCO etc. are treated as normal residents of the country to which they belong.

The related aggregates of national income are:-

(i) Gross Domestic Product at Market price (GDPMP)

(ii) Gross Domestic Product at Factor Cost (GDPFC)

(iii) Net Domestic Product at Market Price (NDPMP)

(iv) Net Domestic Product at FC or (NDPFC)

(v) Net National Product at FC or National Income (NNPFC)

(vi) Gross National Product at FC (GNPFC)

(vii) Net National. Product at MP (NNPMP)

(viii) Gross National Product at MP (GNPMP)

(i) Gross Domestic Product at Market Price : It is the money value of all the final goods and services produced within the domestic territory of a country during an accounting year.

GDPMP = Net domestic product at FC (NDPFC) + Depreciation + Net Indirect tax.

(ii) Gross Domestic Product at FC : It is the value of all final goods and services produced within domestic territory of a country which does not include net indirect tax.

GDPFC = GDPMP – Indirect tax + Subsidy

COPYRIGHT FIMT 2020

or GDPFC = GDPMP – NIT

(iii) Net Domestic Product at Market Price : It is the money value of all final goods and services produced within domestic territory of a country during an accounting year and does not include depreciation.

NDPMP = GDPMP – Depreciation

(iv) Net Domestic Product at FC : It is the value of all final goods and services which does not include depreciation charges and net indirect tax. Thus it is equal to the sum of all factor incomes (compensation of employees, rent, interest, profit and mixed income of self employed) generated in the domestic territory of the country.

NDPFC = GDPMP – Depreciation – Indirect tax + Subsidy

(v) Net National Product at FC (National Income) : It is the sum total of factor incomes (compensation of employees + rent + interest + profit) earned by normal residents of a country in an accounting year

or

NNPFC = NDPFC + Factor income earned by normal residents from abroad – factor payments made to abroad.

(vi) Gross National Product at FC: It is the sum total of factor incomes earned by normal residents of a country along with depreciation, during an accounting

COPYRIGHT FIMT 2020

year.

GNPFC = NNPFC + Depreciation OR

GNPFC = GDPFC + NFIA

(vii) Net National Product at MP : It is the sum total of factor incomes earned by the normal residents of a country during an accounting year including net indirect taxes.

NNPMP = NNPFC + Indirect tax – Subsidy

(viii) Gross National Product at MP : It is the sum total of factor incomes earned by normal residents of a country during an accounting year including depreciation and net indirect taxes.

GNPMP = NNPFC + Dep + NIT

Domestic Aggregates

Gross domestic Product at Market Priceis the market value of all the final goods and services produced by all producing units located in the domestic territory of a country during an accounting year. It includes the value of depreciation or consumption of fixed capital.

Net Domestic Product at Market PriceDepreciation (consumption of Fixed capital). It is the market value of final goods and services produced within the domestic territory of the country during a year exclusive of depreciation.

COPYRIGHT FIMT 2020

It is the factor income accruing to owners of factors of production for suppling factor services with in domestic territory during an accounting year.

NATIONAL AGGREGATES

Gross National Product at Market Price) is the market value of all the final goods and services produced by normal residents (in the domestic territory and abroad) of a country during an accounting year.

National Income :It is the sum total of all factors incomes which are earned by normal residents of a country in the form of wages. rent, interest and profit during an accounting year.

Methods of Estimation of National Income:

National Income at Current Prices : It is also called nominal National income. When goods and services produced by normal residents within and outside of a country in a year valued at current years prices i.e. current prices is called national income at current prices.

$Y = Q \times P$

Y = National income at current prices

COPYRIGHT FIMT 2020

Q = Quantity of goods and services produced during an accounting year

P = Prices of goods and services prevailing during the current accounting year

National Income at Constant Prices :It is also called as real national income. When goods and services produced by normal residents within and outside of a country in a year valued at constant price i.e. base year's price is called National Income at Constant Prices.

$$Y' = Q \times P'$$

Y' = National income at constant prices

Q = Quantity of goods and services produced during an accounting year

P' = Prices of goods and services prevailing during the base year

Value of Output :Market value of all goods and services produced by an enterprise during an accounting year.

Value added :It is the difference between value of output of a firm and value of inputs bought from the other firms during a particular period of time.

Problem of Double Counting :Counting the value of a commodity more than once while estimating national income is called double counting. It leads to overestimation of national income. So, it is called problem of double counting.

COPYRIGHT FIMT 2020

Ways to solve the problem of double counting.

(a) By taking the value of only final goods.

(b) By value added method.

Components of Added by all 3 sectors

1. Value Added by Primary Sector(=VO-IC)

2. Value Added by Secondary Sector(=VO-IC)

3. Value Added by Tertiary Sectors(=VO-IC)

Hints

VO=Value of output

IC=Intermediate Consumption

VO=Price X quantity OR

COPYRIGHT FIMT 2020

Sales + Change in stock

(Change in stock = Closing Stock – Opening Stock)

Components of Final Expenditure:

1. Final Consumption Expenditure

a. Private Final Consumption Expenditure(C)

b. Government Final Consumption Expenditure(G)

2. Gross Domestic Capital Formation

a. Gross Domestic Fixed Capital Formation

i. Gross business Fixed Investment

ii. Gross Residential Construction Investment

iii. Gross public Investment

b. Change in Stock or Inventory Investment

COPYRIGHT FIMT 2020

3. Net Export(X-M)

a. Export(X)

b. Import(M)

Components of Domestic Income :

1. Compensation of Employees

a. Wages and salaries(Cash/or kinds)

b. Employers Contribution of Social security Schemes

2. Operating surplus

a. Rent

b. Interest

c. Profit

i. Corporate Tax

NAAC ACCREDITED
तेजस्वि नावधीतमस्तु
ISO 9001:2015 & 14001:2015

COPYRIGHT FIMT 2020

ii. Dividend

iii. Undistributed corporate profit

3. Mixed Income for self-Employed person

Net Factor Income from Abroad NFIA = It is difference between factor income received/earned by normal residents of a country and factor income paid to non-residents of the country.

Components of NFIA :

1. Net Compensation of Employees

2. Net Income from Property and entrepreneurship

3. Net Retained earning of resident companies abroad

Hints :NFIA : Net Factor Income Earned from Abroad.

NFIA = Factor Income Received from Abroad.

–Factor Income Paid to Abroad.

COPYRIGHT FIMT 2020

OR

NFIA = Net compensation of Employees

Net income from property and entrepreneurship.

+ Net retained earning of resident companies abroad.

Net National Disposable Income (NNDI): It is defined as net national product at Market price plus net current transfer from rest of the world.

NNDI = NNPMP

+ Net current transfers from rest of the world.

=National income + net indirect tax + net current transfers from the rest of the world.

Gross National Disposable Income (Gross NDI + Net current Transfers from rest of the world.

Net National Disposable Income (Net NDI) + Net current Transfers from rest of the world.

COPYRIGHT FIMT 2020

OR

= Gross NDI – Depreciation.

NAAC ACCREDITED

Concept of Value Added of One Sector or One Firm

1. Value output = Sales + Change in Stock. or value of output = price × qty. sold + ΔS.

2. Gross value added at market price = Value of output – Intermediate consumption.

3. Net value added at market price = – Depreciation.

4. Net value added at factor cost = – Net indirect tax.

Note: By adding up of all the sectors, we get or Domestic Income.

Personal Disposable Income from National Income

Private Income :Private income is estimated income of factor and transfer incomes from all sources to private sector within and outside the country.

Personal Income :It refers to income received by house hold from all sources. It includes factor income and transfer income.

Personal Disposable Income :It is that part of Personal income which is available to the households for disposal as they like.

GDP and Welfare :

COPYRIGHT FIMT 2020

In general GDP and Welfare are directly related with each other. A higher GDP implies that more production of goods and services. It means more availability of goods and services. But more goods and services may not necessarily indicate that the people were better off during the year. In other words, a higher GDP may not necessarily mean higher welfare of the people. There are two types of GDP:

Real GDP : When the goods and services are produced by all producing units in the domestic territory of a country during an a/c. year and valued these at base year's prices or constant price, it is called real GDP or GDP at constant prices. It changes only by change in physical output not by change price level. It is called a true indicator of economic development.

Nominal GDP : When the goods and services are produced by all producing units in the domestic territory of a country during an a/c. year and valued these at current year's prices or current prices, it is called Nominal GDP or GDP at current prices. It is influenced by change in both physical output and price level. It does not consider a true indicator of economic development.

Price index plays the role of deflator deflating current price estimates into constant price estimates. In this way it may be called GDP deflator.

Welfare mean material well being of the people. It depends on many economic factors like national income, consumption level quality of goods etc and non-economic factor like environmental pollution, law and order etc. the welfare which depends on economic factors is called economic welfare and the welfare which depends on non-economic factor is called non-economic welfare. The sum total of economic and non-economic welfare is called social welfare. Conclusion thus GDP and welfare directly related with each other but this relation is incomplete because of the following reasons.

COPYRIGHT FIMT 2020

Limitation of percapita real GDP/GDP as a indicator of Economic welfare :

Non-monetary exchange

Externalities not taken into GDP but it affects welfare.

Distribution of GDP.

All product may not contribute equally to economic welfare.

Contribution of some products may be negative.

Inflation may give falls impression of growth of GDP.

Unit -2

1. Classical Theory of full employment and income?

Ans.The lower the wage rate, the more the workers will be employed. This is why it is downward sloping. The supply curve of labour is upward sloping for obvious reasons. The higher the wage rate, the greater the supply of labour.

Full employment level

The graph actually shows the short-run production function which may be expressed as Q =f (KL), where Q is output, K is the fixed quantity of capital and L is the variable factor labour. Total output is OQ0 when OL0 units of labour are employed.

According to classical economists this equilibrium level of employment is the 'full employment' level. So, the existence of unemployed workers was a logical impossibility. Any unemployment which existed at the equilibrium wage rate (OW0) was attributable to frictions or restrictive practices in the economy or was voluntary in nature.

COPYRIGHT FIMT 2020

The classical economists assumed flexibility of wages and prices (or of real wages). They believed that if the wage rate was flexible a competitive economy would always be able to maintain full employment. In other words, aggregate demand would be sufficient to absorb the full capacity output OQ1.

In fact, "whatever the full employment level of output, the income created in producing it will necessarily lead to spending which will be sufficient to purchase the goods produced". In other words, the classical economists denied the possibility of under-spending or overproduction.

Say's Law. Say's Law is the simple notion that the supply of goods and services creates its own demand, i.e., the very act of producing goods and services generates an amount of income equal to the value of the goods produced. That is, the production of any good would automatically provide the wherewithal to take the output off the market.

The essence of the Law—that supply creates its own demand—can be envisaged most easily in terms of a simple barter economy. A farmer, for example, produces or supplies wheat as a means of buying (or demanding) the shoes, shirts and other things produced by shoe-makers and craftsmen. The farmer's supply of wheat is equivalent to his demand for other goods.

This is true for other producers and for the whole economy. Demand must be the same as supply. In fact, the circular flow model of the economy and national accounting both suggest this sort of relationship. For instance, "the income generated from the production of any level of total output would, when spent, be just sufficient to provide a matching demand".

Say's Law is equally applicable in a modern economy which uses money as a medium of exchange and store of value. Here any excess supply of money possessed by an individual

COPYRIGHT FIMT 2020

implies excess demand for goods and vice versa. So, for the economy to be in equilibrium the sum of the excess supply functions must be zero.

If the composition of output is in accord with the tastes and preferences of consumers, all markets would be cleared of their outputs. Thus all that businessmen need to do to sell a full-employment output is to produce that output; "Say's Law guarantees that there will be sufficient consumption spending for its successful disposal".

However, the classical economists ruled out this possibility by suggesting that saving would not really in a deficiency of total demand, because each and every rupee saved would be automatically invested by business firms. That is, investment would occur to fill any consumption 'gap' caused by saving leakage.

In fact, businessmen produce not only consumption goods for sale to households but investment (capital) goods for sale to other firms (or to one another). The latter constitute a considerable portion of society's total output. In other words, investment spending by business will add to the income-expenditure stream.

This may fill any consumption gap arising from saving. Thus, if private business firms as a group intend to invest as much as households want to save, Say's Law will hold and the levels of national income and employment will remain constant.

Part of this income is spent on consumption goods, the balance is saved. Thus consumption demand falls short of the total value of production (GNP) by the amount of saving, which is made up by demand for capital goods (i.e., investment demand). Thus so long as investment and saving are equal, aggregate demand (i.e., consumption demand plus investment demand) will always be equal to the total value of production.

Thus, "weather or not the economy could achieve and sustain a level of spending sufficient to provide a full-employment level of output and income therefore would depend upon whether businesses were willing to invest enough to offset the amount households want to save".

The classical economists thought that & decline in product demand would automatically be translated into a fall in demand for labour and other resources. The immediate result would be an excess supply in the labour market, i.e., unemployment at the existing wage

COPYRIGHT FIMT 2020

rate. The wage rate will fall.

The producers who were reluctant to employ all workers at the original wage rate will now find it profitable to employ extra workers at lower wage rate. And competition among unemployed workers would force them to accept lower wages rather than remain unemployed. The process would come to a halt only when the wage rate falls enough to clear the labour market. So a new lower equilibrium wage rate would be established.

Conclusion:

So to sum up, however, the classical system depends upon three central propositions:

(a) S and I depend on the rate of interest;

(b) Wages, prices and interest rates are flexible; and

(c) The economy is characterised by competitive forces in both product and resource markets. Given these conditions, there would be neither deficiency of aggregate demand nor over-production. The end result would be full employment.

The Classical Theory Summed Up:

In truth, the classical economists maintained that the economy would operate at its full employment output level without the need for continually falling wages and prices. Say's law

COPYRIGHT FIMT 2020

assumed that the unfettered forces of free markets and laissez faire capitalism would guarantee full employment with price stability.

If there were disturbances that caused investment or saving curves to shift, or shifts in demand and supply curves in any other market, adjustments in wages, prices and the interest rate would always return the economy to a position of full employment equilibrium.

Keynes' Criticism:

Keynes criticised the classical theory on three main grounds:

(a) Saving depends on national income and is not affected by changes in interest rates. Investment may, of course, be influenced by it, although it depends on future profit expectations. Thus S-I equality through adjustment in interest rate is ruled out. So, Say's Law will no longer hold.

(b) The labour market is far from perfect because of the existence of trade unions and government intervention in the form of imposition of minimum wage laws. Thus, wages are unlikely to be flexible. Trade unions may succeed in raising wages even when there is no excess demand for labour, rather there is excess supply.

Wages are more inflexible downward than upwards. So, a fall in demand (when S exceeds I) will lead to fall in production and employment. The problem is not one of involuntary idle-ness of resources including manpower.

(c) Keynes also argued that' even if wages and prices were flexible a free enterprise economy would not always be able to achieve automatic full employment. In a depression economy

COPYRIGHT FIMT 2020

monetary policy would lose its effectiveness and would be unable to influence the rate of interest and thus the volume of investment and the level of income. The interest inelasticity of investment has been a subject matter of much debate and controversy.

2.Explain Keynesian consumption function?

Ans.level of income or employment is determined by the level of aggregate demand; the greater the aggregate demand, the greater the level of income and employment and vice versa.

Keynes was not interested in the factors determining the aggregate supply since he was concerned with the short run and the existing productive capacity. We will also not explain in detail the factors which determine the aggregate supply and will confine ourselves to explaining the determinants of aggregate demand.

Aggregate demand consists of two parts—consumption demand and investment demand. In this article we will explain the consumption demand and the factors on which it depends and how it changes over a period of time. Consumption demand depends upon the level of income and the propensity to consume. We shall explain below the meaning of the consumption function and the factors on which it depends.

The Concept of Consumption Function:

As the demand for a good depends upon its price, similarly consumption of a community depends upon the level of income. In other words, consumption is a function of income. The consumption function relates the amount of consumption to the level of income. When the income of a community rises, consumption also rises.

Linear Consumption Function

Consumption function should be carefully distinguished from the amount of consumption. By consumption function is meant the whole schedule which shows consumption at various levels of income, whereas amount of consumption means the amount consumed at a specific level of income. The schedule described above reflects the consumption function of a community i.e., it indicates how the consumption changes in response to the change in income.

COPYRIGHT FIMT 2020

Consumption demand depends on income and propensity to consume. Propensity to consume depends on various factors such as price level, interest rate, stock of wealth and several subjective factors. Since Keynes was concerned with short-run consumption function he assumed price level, interest rate, stock of wealth etc. constant in his theory of consumption. Thus with these factors being assumed constant in the short run, Keynesian consumption function considers consumption as a function of income. Thus

C= f(Y)

In a specific form, Keynesian function can be written as:

C = a + f(Y)

where a and b are constants. While a is intercept term of the consumption function, b stands for the slope of the consumption function and therefore represents marginal propensity to consume.

It is so because at lower levels of income, a nation may draw upon its accumulated savings to maintain its consumption standard or it may borrow from others. As income increases, consumption also increases and at the income level , consumption is equal to income.

COPYRIGHT FIMT 2020

Average and Marginal Propensity to Consume:

There are two important concepts of propensity to consume, the one being average propensity to consume and the other marginal propensity to consume. They should be carefully distinguished, for they are equal in some cases but different in others.

Now, how much consumption changes in response to a given change in income depends upon the average and marginal propensity to consume. Thus, propensity to consume of a community can be known by the average and marginal propensity to consume. Average propensity to consume is the ratio of the amount of consumption to total income. Therefore, average propensity to consume is calculated by dividing the amount of consumption by the total income. Thus,

APC = C/Y, where

APC stands for average propensity to consume,

C for amount of consumption, and

F for the level of income.

COPYRIGHT FIMT 2020

Consumption Function: Declining Average Propensity to Consume

Average propensity to consume at a point on the consumption function curve can be obtained by measuring the slope of the ray from the origin to that point.

Non-Linear Consumption Function: Average and Marginal Propensity to Consume:

In the consumption function though average propensity to consume (C/Y) declines, marginal propensity to consume which equals $\Delta C/\Delta Y$ remains constant since consumption function curve CC' is a straight line and therefore its slope ($\Delta C/\Delta Y$) is constant.

But it is not necessary that marginal propensity to consume should be the same at all levels of income. We have constructed below another schedule of consumption function in which marginal propensity to consume declines with the increase in income.

Non-Linear Consumption Function: Average and Marginal Propensity to Consume

Marginal Propensity to Consume:

The concept of marginal propensity to consume is very important, because from it we can know how much part of the increment in income is consumed and how much saved. Marginal propensity to consume is the ratio of change in consumption to the change in income.

Thus:

$$MPC = \Delta C/\Delta Y$$

COPYRIGHT FIMT 2020

where, MPC stands for marginal propensity to consume,

ΔC for change in consumption, and

ΔY for change in income.

Marginal propensity to consume needs to be carefully distinguished from average propensity to consume. Whereas average propensity to consume is the ratio of total consumption to total income, i.e., C/Y, the marginal propensity to consume is the ratio of change in consumption to the change in income, i.e. $\Delta C/\Delta Y$.

Saving Function:

As mentioned above, consumption increases as income increases but less than the rise in income. We will now explain what happens to saving when income increases. Saving is defined as the part of income which is not consumed because disposable income is either consumed or saved.

Thus,

$$Y = C + S$$

$$S = Y - C$$

COPYRIGHT FIMT 2020

where Y = Disposable income, C = Consumption, S = Saving

Like consumption, saving is also a function of income. Thus, saving function can be written as

$$S= f(Y)$$

Saving function is a counterpart of a consumption function, Therefore, given a particular consumption, function, we can derive the corresponding saving function. Let us take the Keynesian consumption, namely, C = a + bY. We can derive saving function corresponding to it.

Since $Y = C + S$

$S = Y – C$

Now, substituting the above Keynesian function for C in (i) we have

$S = Y – (a + bY)$

$= Y – a – bY$

$= – a + Y – bY$

COPYRIGHT FIMT 2020

$= -a + (1 - b) Y$

APS = Savings/Disposable Income = S/Y

Like the average propensity to consume (APC) average propensity to save also generally varies as income increases. As seen above, average propensity to consume (APC) falls as income increases. This implies that average propensity to save will increase as income rises.

Let us derive an important relationship between average propensity to consume and average propensity to save.

Restating below the relation that income is either consumed or saved:

$C + S = Y$

Dividing both sides by disposable income Y we have

$C/Y + S/Y + Y/Y = 1$

Since C/Y is average propensity to consume and S/Y is average propensity to save, we have

$APC + APS = 1$

or $APS = 1 - APC$

COPYRIGHT FIMT 2020

Marginal Propensity to Save (MPS):

Whereas average propensity to save indicates the proportion of income that is saved, marginal propensity to save represents how much of the additional disposable income is devoted to saving. The marginal propensity to save is therefore change in savings induced by a change in the disposable income.

Thus,

MPS = $\Delta S / \Delta Y$

Since the additional income is either consumed or saved, the sum of marginal propensity to consume and marginal propensity to save is equal to one.

MPC + MPS = 1

This can be mathematically proved as under

From C + S = Y, it follows that any change in income (AF) must induce either change in consumption (AC) or change in saving (AS). Thus.

$\Delta C + \Delta S = \Delta Y$

COPYRIGHT FIMT 2020

Dividing both sides by ΔY we have

$$\Delta C/\Delta Y + \Delta S/\Delta Y = \Delta Y/\Delta Y = 1$$

$$MPC + MPS = 1$$

Keynes's Theory of Consumption:

Keynes in his "General theory", published in 1936, laid the foundations of modern macroeconomics. The concept of consumption function plays an important role in Keynes' theory of income and employment. Keynes mentioned several subjective and objective factors which determine consumption of a society. However, according to Keynes, of all the factors it is the current level of income that determines the consumption of an individual and also of society.

Since Keynes laid stress on the absolute size of current income as a determinant of consumption, his theory of consumption is also known as absolute income theory of consumption. Further, Keynes put forward a psychological law of consumption, according to which, as income increases consumption increases but not by as much as the increase in income. In other words, marginal propensity to consume is less than one.

$$1 > \Delta C/\Delta Y > 0$$

COPYRIGHT FIMT 2020

While Keynes recognized that many subjective and objective factors including interest rate and wealth influenced the level consumption expenditure, he emphasised that it is the current level of income on which the consumption spending of an individual and the society depends.

The amount of aggregate consumption depends mainly on the amount of aggregate income. The fundamental psychological law, upon which we are entitled to depend with great confidence both a priori from our knowledge of human nature and from (the detailed facts of experience is that men (and women, too) are disposed, as a rule and on an average to increase their consumption as their income increases, but not by as much as the increase in their income."

In the above statement about consumption behaviour, Keynes makes three points. First, he suggests that consumption expenditure depends mainly on absolute income of the current period, that is, consumption is a positive function of the absolute level of current income. The more income in a period one has, the more is likely to be his consumption expenditure in that period. In other words, in any period the rich people tend to consume more than the poor people do. Secondly, Keynes points out that consumption expenditure does not have a proportional relationship with income.

According to him, as the income increases, a smaller proportion of income is consumed. The proportion of consumption to income is called average propensity to consume (APC). Thus, Keynes argues that average propensity to consume (APC) falls as income increases.

The Keynes' consumption function can be expressed in the following form

$C = a + bYd$

where C is consumption expenditure and Yd is the real disposable income which equals gross national income minus taxes, a and b are constants, where a is the intercept term, that is, the

COPYRIGHT FIMT 2020

NAAC ACCREDITED
तेजस्वि नावधीतमस्तु
ISO 9001:2015 & 14001:2015

amount of consumption expenditure at zero level of income. Thus, a is autonomous consumption. The parameter b is the marginal propensity to consume (MPC) which measures the increase in consumption spending in response to per unit increase in disposable income. Thus

$MPC = \Delta C/\Delta Y$

The assumption of diminishing average propensity to consume is a significant part of Keynesian theory of income and employment. This implies that as income increases, a progressively larger proportion of national income would be saved. Therefore, to achieve and maintain equilibrium at full-employment level of income, increasing proportion of national income is needed to be invested.

If sufficient investment opportunities are not available, the economy would then run into trouble and in that case it would not be possible to maintain full-employment because aggregate demand will fall short of full-employment output. On the basis of this increasing proportion of saving with the increase in income and consequently, the emergence of the problem of demand deficiency, some Keynesian economists based the theory of secular stagnation on the declining propensity to consume.

3.What is consumption funtion?

Ans.The classic consumption function suggests consumer spending is wholly determined by income and the changes in income. If true, aggregate savings should increase proportionally as gross domestic product (GDP) grows over time. The idea is to create a mathematical relationship between disposable income and consumer spending, but only on aggregate levels.

The stability of the consumption function, based in part on Keynes' Psychological Law of Consumption, especially when contrasted with the volatility of investment, is a cornerstone of

COPYRIGHT FIMT 2020

Keynesian macroeconomic theory. Most post-Keynesians admit the consumption function is not stable in the long run since consumption patterns change as income rises.

C = A + MD

where:

C=consumer spending

A=autonomous consumption

M=marginal propensity to consume

D=real disposable income

Much of the Keynesian doctrine centers around the frequency with which a given population spends or saves new income. The multiplier, the consumption function, and the marginal propensity to consume are each crucial to Keynes' focus on spending and aggregate demand.

The consumption function is assumed stable and static; all expenditures are passively determined by the level of national income. The same is not true of savings, which Keynes called "investment," not to be confused with government spending, another concept Keynes often defined as investment.

For the model to be valid, the consumption function and independent investment must remain constant long enough for national income to reach equilibrium. At equilibrium, business expectations and consumer expectations match up. One potential problem is that the consumption function cannot handle changes in the distribution of income and wealth. When these change, so too might autonomous consumption and the marginal propensity to consume.

COPYRIGHT FIMT 2020

4.What is Saving function ?

Ans. Saving is that part of income which is not spent on current consumption. The relationship between saving and income is called saving function.

Simply put, saving function (or propensity to save) relates the level of saving to the level of income. It is the desire or tendency of the households to save at a given level of income. Thus, saving (S) is a function (f) of income (Y).

Symbolically,

S = f (Y)

Two noteworthy features of saving function are:

(i) Saving can be negative (-) at zero or low level of income and (ii) As Income increases, savings also increase but more than the increase in income

Remember, saving is residual income of households that is left after consumption.

Algebraically:

S = Y-C

Saving function equation:

As saving function is corollary of consumption function, we can derive the corresponding saving function from consumption function equation C = C + bY by substituting it in the equation S = Y – C as shown below.

COPYRIGHT FIMT 2020

Where C = Autonomous consumption (- C represents dissaving which is needed to finance autonomous consumption. Clearly, at zero level of income, amount of autonomous consumption = Amount of dissaving.), b = MPC (so that 1 – b represents MPS, i.e.. Marginal propensity to save), Y = Income.

NAAC ACCREDITED

5.Write a short note on three sector multiplier.

Ans. Multiplier in 3-Sector Model (NX=0)

The Multiplier:

The concept of multiplier is derived from the concept of MPC.

It refers to effect of change in Autonomous spending on aggregate income through induced consumption expenditure.

It is the amount by which equilibrium output level changes when autonomous spending (A) changes by 1 unit. It is the ratio of change in equilibrium output level to a change in Autonomous Spending (A)

$\alpha = \Delta Y/\Delta A$

Increase in autonomous spending (ΔA) causes multiple increase in the equilibrium output and income level and the value of its multiple is given by multiplier. However, the value of multiplier depends on MPC. Greater the value of MPC, greater is the value of multiplier because a larger fraction of additional income will be consumed. This will lead to an increase in demand.

The multiplier theory recognizes the fact that change in income due to change in investment is not instantaneous. It is a gradual process by which income changes. The process of change in income involves a time lag. Thus, the multiplier is a stage by stage computation of change

COPYRIGHT FIMT 2020

in income resulting from a change in investment till the full effect of multiplier is not realized.

This is because high MPC implies that a greater fraction of additional increase in income will be consumed. Therefore, in every successive rounds (period), there will be greater increase in induced spending.

NAAC ACCREDITED

Unit -3

1. Explain money .

Ans. Money is derived from a Latin word, Moneta, which was another name of Goddess Juno in Roman history.

The term money refers to an object that is accepted as a mode for the transaction of goods and services in general and repayment of debts in a particular country or socio-economic framework.

Traditionally, economists considered four main functions of money, which are a medium of exchange, a measure of value, a standard of deferred payment, and a store of value.

In simple words, money can be defined as a medium for transaction of goods and services.

Some of the popular definitions of money are as follows:

Robertson has defined money as “Anything which is widely accepted in payment for goods, or in discharge of other kinds of obligations.”

ISO 9001:2015 & 14001:2015

According to Hawtrey, “Money is one of those concepts which like a teaspoon or an umbrella, but unlike an earthquake or buttercup are definable primarily by the use or purpose which they serve.”

Money can be in various forms, such as notes, coins, credit and debit cards, and bank checks. Traditionally, economists considered four main functions of money, which are a medium of exchange, a measure of value, a standard of deferred payment, and a store of value.

COPYRIGHT FIMT 2020

However, in modern days, only three functions of money, such as a medium of exchange, measure of value, and a store of value are taken into consideration.

2. Explain Functions of Money.

Ans. Economists considered four main functions of money, which are a medium of exchange, a measure of value, a standard of deferred payment, and a store of value.

Primary Functions

Refer to the basic or original functions of money. The primary functions of money include:

(a) Medium of Exchange

Refers to a function of money in which money is considered as a mode of exchanging goods. The medium of exchange function is considered as the main and unique function of money as it has solved the main problem of barter system of double coincidence of wants.

Double coincidence of wants refers to the condition when one person receives the commodity provided by the other person in exchange. For example, a butcher would not get the cloth unless the weaver does not require meat.

In such a case, it is essential that both the parties require goods that they are receiving from each other. Therefore, it was difficult to obtain required goods. However, with the introduction of money, goods are easily made available without dependence on any other good.

This is due to the fact that money is generally acceptable throughout an economy. Apart from this, money is also considered as medium of exchange as it is easily portable and divisible as well as authenticated by the government.

(b) Measure of Value

COPYRIGHT FIMT 2020

Refers to a function of money that helps in determining the value of goods and services. The value of all goods and services are expressed in terms of money. Money is taken as the common denominator while measuring the value of goods and services in monetary terms.

The measure of value function of money has the following advantages:

NAAC ACCREDITED

Helps in comparing and calculating the exchange rates between two goods

Provides more meaningful accounting systems

Helps in determining and comparing national income of different countries

Helps in comparing the cost incurred on production and distribution and the revenue generated from the consumption of goods and services

Secondary Functions

Refer to important functions of money that are obtained from primary functions.

The secondary functions of money are as follows:

(a) Store of Value

तेजस्वि नावधीतमस्तु

Refers to a secondary function that has been derived from the medium of exchange function of money. Generally, individuals store their wealth in the form of money. Therefore, money acts as an asset that sustains value over a period of time.

In barter system, there used to be only one transaction, which was a simultaneous sale and purchase of goods and services. However, in money economy, the sale and purchase are considered as two separate functions. It can be possible when money not only serves as a

COPYRIGHT FIMT 2020

medium of exchange, but also store of value. For example, salary drawn by an individual is not spent simultaneously rather it is consumed gradually for purchasing different goods and services.

(b) Standard of Deferred Payments

NAAC ACCREDITED

Refers to one of the most important functions of money. Deferred payments refer to payments made on loans, salaries, pensions, insurance premium, interests, and rents. The necessary condition for deferred payment is that the amount of repaid money should be the same as it was at the time of purchase.

In barter system, it was not possible to find out whether the amount returned in the form of commodity is same as it was at the time of purchase. For example, the price of one quintal rice purchased today would not be same after one year. However, the standard of deferred payment function of money is not free from limitations as the value of money has always remained a subject of fluctuations due to inflation.

Different economists have given different viewpoints on money. They treated money as a concept rather than a commodity. The definition of money has always been a controversial issue. Therefore, a universally accepted definition of money has not been provided.

तेजस्वि नावधीतमस्तु

ISO 9001:2015 & 14001:2015

3.Write different form of money.

Ans.different forms of money are classified into the following:

(a) Commodity Money

COPYRIGHT FIMT 2020

Refers to a form of money as per the classical approach. The commodity form of money involves commodities, such as cattle, grains, leather, skins, utensils, and weapons. However, in the present time, commodity money is not preferable as it lack certain important characteristics of money, such as uniformity, homogeneity, standard size and weight, portability, and divisibility.

(b) Metallic Money

Includes money made up of metals, such as copper, brass, silver, gold, alloys, and aluminium. The need for metallic money was realized due to the limitations of commodity money. However, the exact period when metallic money was invented is unknown.

It is supposed that metallic coins were traded in India around 2500 years ago. Initially, the pieces of metals, such as gold, silver, copper, and aluminum, served the purpose of money. However, in later years, these pieces took the form of coins.

(c) Paper Money

Refers to the form of money printed, authenticated, and issued by the government of a country. Paper money is regarded as the most common form of money and constitutes a large part in the money supply of a country. Some of the countries adopted the dual system of currency notes.

For example, in India, both, five rupees notes and coins are issued by Reserve Bank of India (RBI). The currency notes issued by RBI are promissory notes, but they get a status of legal

COPYRIGHT FIMT 2020

money. For example, on every currency note, it is written, “I promise to pay the bearer a sum of…. Rupees.”

Paper money was invented as the supply of metallic coins, such as silver and gold, was very less as compared to its demand. In addition, a large amount of metallic money is not easily portable and the value of metallic coins depreciates with time.

(d) Bank Deposits

Refers to money that is in the form of current account deposits, saving account deposits, and time deposits. This form of money was invented with the evolution of the banking system. Unlike metallic money and paper money, this form of money cannot be passed hand to hand for purchasing goods and services.

Deposit money is considered as entries in the ledger of the bank to the credit of the holder. These deposits can only be transferred through checks.

Since time immemorial, money has retained some value; therefore has demand.

4.Write short note on inflation.

Ans. Inflation is a quantitative measure of the rate at which the average price level of a basket of selected goods and services in an economy increases over a period of time. It is the constant rise in the general level of prices where a unit of currency buys less than it did in prior periods. Often expressed as a percentage, inflation indicates a decrease in the purchasing power of a nation’s currency.

COPYRIGHT FIMT 2020

As prices rise, a single unit of currency loses value as it buys fewer goods and services. This loss of purchasing power impacts the general cost of living for the common public which ultimately leads to a deceleration in economic growth. The consensus view among economists is that sustained inflation occurs when a nation's money supply growth outpaces economic growth.

To combat this, a country's appropriate monetary authority, like the central bank, then takes the necessary measures to keep inflation within permissible limits and keep the economy running smoothly.

Inflation is measured in a variety of ways depending upon the types of goods and services considered and is the opposite of deflation which indicates a general decline occurring in prices for goods and services when the inflation rate falls below 0 percent.

Inflation is the rate at which the general level of prices for goods and services is rising and, consequently, the purchasing power of currency is falling.

Inflation is classified into three types: Demand-Pull inflation, Cost-Push inflation, and Built-In inflation.

Most commonly used inflation indexes are the Consumer Price Index (CPI) and the Wholesale Price Index (WPI).

Inflation can be viewed positively or negatively depending on the individual viewpoint.

Those with tangible assets, like property or stocked commodities, may like to see some inflation as that raises the value of their assets.

People holding cash may not like inflation, as it erodes the value of their cash holdings.

COPYRIGHT FIMT 2020

Ideally, an optimum level of inflation is required to promote spending to a certain extent instead of saving, thereby nurturing economic growth.

Causes of Inflation

Rising prices are the root of inflation, though this can be attributed to different factors. In the context of causes, inflation is classified into three types: Demand-Pull inflation, Cost-Push inflation, and Built-In inflation.

(i) Demand-Pull Effect

Demand-pull inflation occurs when the overall demand for goods and services in an economy increases more rapidly than the economy's production capacity. It creates a demand-supply gap with higher demand and lower supply, which results in higher prices. For instance, when the oil producing nations decide to cut down on oil production, the supply diminishes. It leads to higher demand, which results in price rises and contributes to inflation.

Additionally, an increase in money supply in an economy also leads to inflation. With more money available to individuals, positive consumer sentiment leads to higher spending. This increases demand and leads to price rises. Money supply can be increased by the monetary authorities either by printing and giving away more money to the individuals, or by devaluing (reducing the value of) the currency. In all such cases of demand increase, the money loses its purchasing power.

(ii) Cost-Push Effect

Cost-push inflation is a result of the increase in the prices of production process inputs. Examples include an increase in labor costs to manufacture a good or offer a service or

COPYRIGHT FIMT 2020

increase in the cost of raw material. These developments lead to higher cost for the finished product or service and contribute to inflation.

5.what do you understand by deflation.

Ans. Deflation

Deflation is a general decline in prices for goods and services, typically associated with a contraction in the supply of money and credit in the economy. During deflation, the purchasing power of currency rises over time.

Deflation causes the nominal costs of capital, labor, goods, and services to fall, though their relative prices may be unchanged. Deflation has been a popular concern among economists for decades. On its face, deflation benefits consumers because they can purchase more goods and services with the same nominal income over time.

However, not everyone wins from lower prices and economists are often concerned about the consequences of falling prices on various sectors of the economy, especially in financial matters. In particular, deflation can harm borrowers, who can be bound to pay their debts in money that is worth more than the money they borrowed, as well as any financial market participants who invest or speculate on the prospect of rising prices.

Causes of Deflation

By definition, monetary deflation can only be caused by a decrease in the supply of money or financial instruments redeemable in money. In modern times, the money supply is most influenced by central banks, such as the Federal Reserve. When the supply of money and credit falls, without a corresponding decrease in economic output, then the prices of all goods

COPYRIGHT FIMT 2020

tend to fall. Periods of deflation most commonly occur after long periods of artificial monetary expansion. The early 1930s was the last time significant deflation was experienced in the United States. The major contributor to this deflationary period was the fall in the money supply following catastrophic bank failures. Other nations, such as Japan in the 1990s, have experienced deflation in modern times.

World-renowned economist Milton Friedman argued that under optimal policy, in which the central bank seeks a rate of deflation equal to the real interest rate on government bonds, the nominal rate should be zero, and the price level should fall steadily at the real rate of interest. His theory birthed the Friedman rule, a monetary policy rule.

However, declining prices can be caused by a number of other factors: a decline in aggregate demand (a decrease in the total demand for goods and services) and increased productivity. A decline in aggregate demand typically results in subsequent lower prices. Causes of this shift include reduced government spending, stock market failure, consumer desire to increase savings, and tightening monetary policies (higher interest rates).

Falling prices can also happen naturally when the output of the economy grows faster than the supply of circulating money and credit. This occurs especially when technology advances the productivity of an economy, and is often concentrated in goods and industries which benefit from technological improvements. Companies operate more efficiently as technology advances. These operational improvements lead to lower production costs and cost savings transferred to consumers in the form of lower prices. This is distinct from but similar to general price deflation, which is a general decrease in the price level and increase in the purchasing power of money.

Unit -4

1. Describe IS-LM model in your words.

COPYRIGHT FIMT 2020

Ans. The IS-LM (Investment Savings-Liquidity preference Money supply) model focuses on the equilibrium of the market for goods and services, and the money market. It basically shows the relationship between real output and interest rates.

IS curve: The market for goods and services

In a closed economy, the equilibrium condition in the market for goods is that production (Y), is equal to the demand for goods, which is the sum of consumption, investment and public spending. This relationship is called IS. If we define consumption (C) as C = C(Y-T) where T corresponds to taxes, the equilibrium would be given by:

$$Y = C(Y - T) + I + G$$

We consider that investment is not constant, and we see that it depends mainly on two factors: the level of sales and interest rates. If the sales of a firm increase, it will need to invest in new production plants to raise production; it is a positive relation. With regard to interest rates, the higher they are, the more expensive investments are, so that the relationship between interest rates and investment is negative. The new relationship is expressed as follows (where i is the interest rate):

$$Y = C(Y - T) + I(Y, i) + G$$

If we keep in mind the equivalence between production and demand, which determines the equilibrium in the market for goods, and observe the effect of interest rates, we obtain the IS curve. This curve represents the value of equilibrium for any interest rate.

COPYRIGHT FIMT 2020

An increasing interest rate will cause a reduction in production through its effect on investment. Therefore, the curve has a negative slope. The adjacent graph shows this relationship.

LM curve: The market for money

NAAC ACCREDITED

The LM curve represents the relationship between liquidity and money. In a closed economy, the interest rate is determined by the equilibrium of supply and demand for money: M/P=L(i,Y) considering M the amount of money offered, Y real income and i real interest rate, being L the demand for money, which is function of i and Y.

The equilibrium of the money market implies that, given the amount of money, the interest rate is an increasing function of the output level. When output increases, the demand for money raises, but, as we have said, the money supply is given. Therefore, the interest rate should rise until the opposite effects acting on the demand for money are cancelled, people will demand more money because of higher income and less due to rising interest rates.

The slope of the curve is positive, contrary to what happened in the IS curve. This is because the slope reflects the positive relationship between output and interest rates.

IS-LM model

तेजस्वि नावधीतमस्तु

At any point of these curves the equilibrium condition in the corresponding market is true, but only at the point where the two curves intersect, both equilibrium conditions are satisfied.

ISO 9001:2015 & 14001:2015

The IS and LM curves undertake changes due to many factors, such as different kinds of economic policies. These variations will explain the changes in the values of production and of interest rates taking place in the economies.

For instance, if there is an increase in government spending, which is considered a fiscal policy, the IS curve will shift to the right, as seen in the graph in the left. This happens because more government spending means more production for any interest rate.

COPYRIGHT FIMT 2020

On the other hand, if we consider a monetary policy, such as an increase in the money supply, the curve that shifts will be the LM curve, as seen in the graph in the right. An increase in the money supply will decrease the interest rate, shifting the LM curve to the right, thus increasing output.

2.Monetarists' views on the IS-LM model

Ans. Monetarists greatly criticized the IS-LM model, highlighting some different views regarding the elasticity (and therefore the slope) of both curves. In their opinion, the LM curve is very inelastic, while the IS curve is very elastic. The most important thing we derive from these different views is the different consequences and effectiveness of expansionary fiscal and monetary policies.

3. short note on monetary policy.

Monetary policy and fiscal policy refer to the two most widely recognized tools used to influence a nation's economic activity. Monetary policy is primarily concerned with the management of interest rates and the total supply of money in circulation and is generally carried out by central banks such as the U.S. Federal Reserve. Fiscal policy is the collective term for the taxing and spending actions of governments. In the United States, the national fiscal policy is determined by the executive and legislative branches of the government.

MONETARY POLICY

Central banks have typically used monetary policy to either stimulate an economy or to check its growth. The theory is that, by incentivizing individuals and businesses to borrow and spend, monetary policy can spur economic activity. Conversely, by restricting spending and incentivizing savings, monetary policy can act as a brake on inflation and other issues associated with an overheated economy.

COPYRIGHT FIMT 2020

The Federal Reserve, also known as the “Fed,” has frequently used three different policy tools to influence the economy: opening market operations, changing reserve requirements for banks and setting the discount rate. Open market operations are carried out on a daily basis where the Fed buys and sells U.S. government bonds to either inject money into the economy or pull money out of circulation. By setting the reserve ratio, or the percentage of deposits that banks are required to keep in reserve, the Fed directly influences the amount of money created when banks make loans. The Fed can also target changes in the discount rate (the interest rate it charges on loans it makes to financial institutions), which is intended to impact short-term interest rates across the entire economy.

4.explain fiscal policy.

Ans. Generally speaking, the aim of most government fiscal policies is to target the total level of spending, the total composition of spending, or both in an economy. The two most widely used means of affecting fiscal policy are changes in government spending policies or in government tax policies.

If a government believes there is not enough business activity in an economy, it can increase the amount of money it spends, often referred to as “stimulus” spending. If there are not enough tax receipts to pay for the spending increases, governments borrow money by issuing debt securities such as government bonds and, in the process, accumulate debt; this is referred to as deficit spending.

By increasing taxes, governments pull money out of the economy and slow business activity. But typically, fiscal policy is used when the government seeks to stimulate the economy. It might lower taxes or offer tax rebates, in an effort to encourage economic growth. Influencing economic outcomes via fiscal policy is one of the core tenets of Keynesian economics.

COPYRIGHT FIMT 2020

When a government spends money or changes tax policy, it must choose where to spend or what to tax. In doing so, government fiscal policy can target specific communities, industries, investments, or commodities to either favor or discourage production – and sometimes, its actions based on considerations that are not entirely economic. For this reason, the numerous fiscal policy tools are often hotly debated among economists and political observers.

NAAC ACCREDITED

5.Which is More Effective: Monetary or Fiscal Policy?

Ans. In terms of improving the real economy, expansionary fiscal policy is more effective. In terms of the financial economy, expansionary monetary policy is the better choice. Both types work through different channels and impact individuals and corporations in different ways.

Fiscal policy affects consumers positively for the most part, as it leads to increased employment and income. Essentially, it is targeting aggregate demand. Companies also benefit as they see increased revenues.

However, if the economy is near full capacity, expansionary fiscal policy risks sparking inflation. This inflation eats away at the margins of certain corporations in competitive industries that may not be able to easily pass on costs to customers; it also eats away at the funds of people on a fixed income. Fiscal policy can also have the effect of creating asset bubbles if the market and incentives become too distorted.

ISO 9001:2015 & 14001:2015

Monetary policy has less impact on the real economy. Case in point: the Great Depression, during which the Federal Reserve was particularly aggressive on a historical scale. Its actions prevented deflation and economic collapse but did not generate significant economic growth to reverse the lost output and jobs.

COPYRIGHT FIMT 2020

Expansionary monetary policy can have limited effects on growth by increasing asset prices and lowering the costs of borrowing, making companies more profitable. In addition, it has the psychological benefits of taking worse-case economic scenarios off the table. As with fiscal policy, extended periods of low borrowing costs can create asset bubbles that are only apparent in hindsight.

Another crucial difference between the two is that fiscal policy can be targeted, while monetary policy is more of a blunt tool in terms of expanding and contracting the money supply to influence inflation and growth.

COPYRIGHT FIMT 2020

Cost Accounting (108)

1) What is Cost Accounting? Write objectives of Cost Accounting.

It is a process via which we determine the costs of goods and services. It involves the recording, classification, allocation of various expenditure, and creating financial statements. This data is generally used in financial accounting.

This helps us calculate the costs of the various goods. It also involves a suitable presentation of this data for the purposes of cost control and guidance to the management. It deals with the cost of every unit, job, process, order, service, etc., whichever is applicable and includes the cost of production, cost of selling and cost of distribution.

Objectives

i. **Ascertainment of Cost:** This is the key objective of cost accounting to track and analyze the per unit cost of the product produced by the company. It helps to ascertain cost of each activity such as process, operation, job etc.

ii. **Fix Selling Price:** Cost accounting provides base for determination of selling price of company's product by ascertaining the cost of each product. It helps the management to fix the selling price of products and services.

iii. **Cost Control:** Cost accounting helps the organization to control the cost of production by taking necessary steps to reduce wastage of materials, time and expense while carrying out the operation.

iv. **Assisting In Decision Making:** Cost accounting helps management in decision making such as make or buy decision, drop or continue decision, future expansion policies etc. It helps to make a choice out of two or more courses of action.

v. **Ascertainment of Profit: C**ost accounting helps in tracking and ascertaining profitability of the product by preparing profit and loss account and balance sheet periodically.

vi. **Formulating Policies:** Cost accounting plays important role to formulate policies of the organization. It provides necessary information and data to the top level management which are essential for framing marketing policies of the company.

COPYRIGHT FIMT 2020

vii. **Basis of Financial Statement:** Cost accounting is the foundation for the preparation of different financial statements (profit and loss account, balance sheet, trial balance etc.) of the company.

2) Write short on job costing.

Job costing is defined as a method of recording the costs of a manufacturing job, rather than process. With **job costing systems**, a project manager or accountant can keep track of the cost of each job, maintaining data which is often more relevant to the operations of the business.

Job costing, generally, means a specific accounting methodology used to track the expense of creating a unique product. Due to the fact that certain projects, such as construction, require different operations, accountants use this methodology to trace the expenses of each job in order to use this information for analysis and tax needs. **Job costing forms** have spaces to include direct labor, direct materials, and overhead.

Costs stay in the work-in-process account throughout the job. When the job is finally completed, they are transferred to the finished goods account. By using this method, accountants can make sense of complicated jobs which are moving towards the process of completion

3) Write short note on Job Costing.

Job costing systems determine manufacturing costs systematically by dividing them in overhead, direct material, and direct labor costs and estimating them at their actual value. Manufacturing firms are using job costing to control the use of raw materials, labor hours and equipment by allocating the cost of each customer order separately. Especially, when a firm's products are not identical, job costing in an effective tool to allocate the cost of each product and keep track of the order expenses. Nowadays, most businesses are using computerized job costing systems to improve cost control and boost their profitability.

4) What is process costing?

COPYRIGHT FIMT 2020

Process Costing is defined as a branch of **operation costing** that determines the cost of a product at each stage, i.e. process of production. It is an accounting method which is adopted by the factories or industries where the standardized identical product is produced, as well as it passes through multiple processes for being transformed into the final product.

In simple words, **process costing is a cost accounting technique, in which the costs incurred during production are charged to processes and averaged over the total units manufactured**. For this purpose, process accounts are opened in the books of accounts, for each process and all the expenses relating to the process for the period is charged to the respective process account.

Features

i. The plant has various divisions, and each division is a stage of production.
ii. The production is carried out continuously, by way of the simultaneous, standardized and sequential process.
iii. The output of a process is the input of another.
iv. The production from the last process is transferred to finished stock.
v. The final product is homogeneous.
vi. Both direct and indirect costs are charged to the processes.

5) Write the difference between financial accounting and cost accounting.

Basis for comparison	Cost Accounting	Financial Accounting
Meaning	Cost accounting is an accounting system that aspires to capture an enterprise‘s costs of manufacturing by evaluating the input costs of each step of manufacturing as well as fixed costs, such as the depreciation of capital	Financial accounting is the procedure of documenting, encapsulating and reporting the multiple transactions resulting from trading operations over a timeframe.

COPYRIGHT FIMT 2020

	equipment.	
Information	Documents the data associated with the labour and material which are utilized in the manufacturing procedure.	Documents the data that are in monetary terms.
Estimation of Stock	At cost	Net Realizable value or Cost, which is less between these both factors.
Profit Analysis	Normally, the gains are investigated for a specified job, batch, product and procedure.	Profits, Income and expenditure are investigated together for a specific period of the entire trading concern.
Aim	Controlling and reducing cost.	Maintaining the complete record of the financial transactions.
Mandatory	No, Except for manufacturing firms it is mandatory	Yes for all firms
Purpose	Reducing and controlling cost	Keeping complete record of the financial transaction
Time of reporting	Details provided by cost accounting are frequently prepared and reported to the management	Financial statements are reported at the end of the accounting periods, which is normally 1 year

6) Write a short note on time wage system.

Under this system, the worker is paid for the amount of time spent on the job. This is the oldest and most common system and the wages are based on a certain period of

COPYRIGHT FIMT 2020

time during the course of work. The period of time may be an hour, a day, a week, a fortnight or a month and the wage rate will depend upon the period of time. It must be remembered here that wages are paid after the time fixed for work is completed irrespective of output or completion of the work.

Wages can be determined by the following formula:

Wages = Number of Hours worked × Rate per hour

Suppose that a worker is paid at the rate of Rs.8.00 per hour and he has spent 200 hours at work during a particular month. His wages for the month will be Rs. 1.600/.

Under this system, wages are paid on the basis of time spent on the job irrespective of the amount of work done. The unit of time may be a day, a week a fortnight or a month.

In the past, daily wages have been the most common basis and, therefore, it came to be known as the 'Day Wage System'.

Advantages of Time wage system

i. This method also avoids wasteful handling of materials and tools. In the absence of rough handling of machinery, repairs and maintenance expenditure is low. Workers can adjust the pace of work so that there is no injury to the health.

ii. Learners can concentrate on learning the best methods of work and their earnings are not dependent on the amount of work.

iii. It is the simplest and the oldest method. It is easy to understand and workers can easily compute their own remuneration.

iv. Unions prefer time wage as it does not differentiate between efficient and inefficient workers. A sense of equality and solidarity is created among them.

v. Where work done is of an intangible nature, e.g. mechanics, designer engineers, service, etc. it is difficult to measure output accurately and standards of output cannot be laid down.

vi. As there is no pressure to speed up production, the quality of work can be kept high. A worker can show his skill.

7) Write short note on Time wage system.

COPYRIGHT FIMT 2020

It is based on the amount of work performed, i.e., on the basis of output or productivity and not on the basis of time spent. Piece work is one of the simplest and most commonly used of all incentive plans. The standard is expressed in terms of certain sum of money for every unit produced, such as Rs.2/- per piece or Rs.4/- per kilo or Rs.6/- per dozen.

The earnings of the employee are directly proportional to his out-put or performance. It is called a 1 for 1 plan for each 1 per cent increase in production the worker is paid a 1 per cent increase in wages.

Features of Piece wages System:

i. It can offer direct connection between effort and reward. Hence, a worker has incentive to produce more. Merit, talent, skill and efficiency all these are at a premium. Hence, it is the best method to ensure higher productivity.
ii. It can ensure adequate planning and close control over labour costs. Wage cost determination is easy. Labour cost per unit of output is measurable. Both these features are conscious by their absence under the time wage system but they are duly available under the piece wage system.

Advantages of Piece Wages system

i. Direct connection between effort and reward gives incentive to produce more.
ii. It is simple and easy to understand.
iii. It is fair in its rewards, since earnings are directly proportional to output.
iv. Cost accounting and control by management is facilitated as labour cost is constant for output easy estimate of labour cost and control over unit cost of labour. Under time wage, we have fluctuating output for the same wage.

Disadvantages of piece wage system

i. Danger of overwork in temptation to earn more. This leads to excessive fatigue, ill health and risk of accident.
ii. If quality is given top preference, it is an ineffective method.
iii. In the absence of mutual confidence, fixation of piece wage rate is difficult.
iv. Under piece wage system we require a lot of supervision to maintain the quality and standard of work. Workers are tempted to ignore quality.

8) Calculate the Total Earning under Halsey premium method:

COPYRIGHT FIMT 2020

Standard Time: 10 hours

Actual Time Taken: 8 hours

Hour wage rate: Rs 5

Solution:

Formula: Time taken * Rate + 30% (Standard time – Actual Time)* rate

= 8*5 + 30%(10-8)*5

= 40 + 3

= 43

9) Write the format of cost sheet.

COPYRIGHT FIMT 2020

Particulars	Details	Total Cost	Cost/ Unit
Direct Material (Raw Material Consumed):			
Opening Stock of Raw Material	X		
Add: Material Purchased	X		
Add: Carriage Inward	X		
	X		
Less: Closing Stock of Raw Material	(X)	X	X
Direct Labour		X	X
Direct Expenses		X	X
Prime Cost		**X**	**X**
Add: Factory Overhead:			
Indirect Material	X		
Indirect Labour (Wages)	X		
Factory Rent and Rates	X		
Power and Fuel	X		
Factory Lighting and Supervision	X		
Factory/Works Manager Salary	X		
Factory Water Supply	X		
Factory Insurance	X		
Factory Stationery	X		
Factory Cleaning			
Drawing Office Expenses	X		
Depreciation of Plant and Machinery	X		
Cost of Research and Equipment	X		
Other Factory Expenses	X		
	X		
Less: Sale of Scrap	(X)	X	X
		X	X
Add: Opening Stock of Work-in-Progress		X	X
		X	X
Less: Closing Stock of Work-in-Progress		(X)	X
Works Cost		**X**	**X**
Add: Office or Administration Overhead:			
Office Rent and Rates	X		
Office Lighting	X		
Office Stationery	X		
Depreciation and Repairs of Office Furniture	X		
Office Salaries	X		
Management Expenses	X		
Office Telephone and Postage Charges	X		
Legal Charges	X		
Bank Charges and Commission	X		
Office Cleaning	X		
Audit Fees	X		
Office Insurance	X		
Other Office Expenses	X	X	X
Cost of Production		**X**	**X**

COPYRIGHT FIMT 2020

Cost of Production		**X**	**X**
Add: Finished Goods (Opening)		X	
		X	
Less: Finished Goods (Closing)		(X)	
Cost of Production of Goods Sold		X	**X**
Add: Selling and Distribution Overhead:			
Salesmen Salaries	X		
Salesmen Commission	X		
Showroom Expenses	X		
Showroom Rent and Rates	X		
Advertisement	X		
Sales Office Rent and Rates	X		
Travelling Expenses	X		
Warehouse Rent and Rates	X		
Warehouse Staff Salaries	X		
Depreciation and Repairs of Delivery Vehicle	X		
Carriage Outwards	X		
Debt Collection Charges	X		
Other Selling and Distribution Expenses	X	X	X
Total Cost / Cost of Goods Sold		**X**	**X**
Profit / Loss (difference of Sales and COGS)		X / (X)	X
Sales		X	X

10) What is contract Costing?

Contract costing is the method of costing which is applied in a business where separate contracts of non-repetitive nature are undertaken. According to Sharie, "Contract or terminal cost accounts are applicable to a concern which makes specific contracts and requires to know the cost of each."

A contract is a job of large size may extend even beyond one accounting period. The person executing the contract is known as a Contractor and the person for whom it is executed is known as Contractee.

Contract costing is a special form of job costing wherein big jobs are involved which requires considerable time to complete and comprises a lot of activities. Herein a separate account is opened for each contract in the Contract Ledger (or in General Ledger). The account is debited with all direct and indirect expenses and is credited with the amount of contract price on completion of the contract. The balance of this account is transferred to Profit and Loss Account. However, if the contract is not completed before the end of the accounting period, a reasonable amount of profit (or logs) is transferred to Profit and Loss Account.

COPYRIGHT FIMT 2020

11) The Contract Ledger of a company showed the following particulars in respect of Contract No. 50 which was commenced on 1st April 2019:

Material Issued	76000
Direct Wages	80,000
Cost of special plant	20,000
Chargeable Expense	7,000
Establishment Charges	5,000

The contract was completed by 31st March 2020 and the contract price was 2,00,000. The value of materials and plant returned to store on 31st March 2020 was 6,000 and 12,000 respectively. The contract price was received in full on 31st March.

Prepare Contract Account

Solution

Contract A/C

Particular	Amt	Particular	Amount
To Material	76,000	By Material to store	6,000
To Direct Wages	80,000	By Value of plant returned to store	12,000
To Cost of Special Plant	20,000	By Contractee's A/c	2,00,000
To chargeable Expenses	7,000		
To establishment charges	5,000		
To profit n loss a/c	30,000		
	2,18,000		2,18,000

12) Find out the closing stock under FIFO method.

COPYRIGHT FIMT 2020

Date	Particular	
April 1	Opening stock	300units @10
April 5	Receipt	200 units @5
April 10	Issue	100 units
April 15	Receipt	50units @ 20
April 20	Issue	150 units
April 25	Issue	50 units

Solution

particular	Receipt	Issue	Balance
Opening Stock			300*10=3000
Receipt	200*5=1000		300*10=3000 200*5=1000
issue		100*10=1000	200*10=2000 200*5=1000
Receipt	50*20=1000		200*10=2000 200*5=1000 50*20=1000
Issue		150*10=1500	50*10=500 200*5=1000 50*20=1000
Issue		50*10=500	200*5=1000 50*20=1000

13) What is EOQ .

Economic order quantity (**EOQ**) is the order size that minimizes the sum of ordering and holding costs related to raw materials or merchandise inventories. In other words, it is the optimal inventory size that should be ordered with the supplier to minimize

COPYRIGHT FIMT 2020

the total annual inventory cost of the business. Other names used for economic order quantity are optimal order size and optimal order quantity.

The economic order quantity is computed by both manufacturing companies and merchandising companies. Manufacturing companies compute it to find the optimal order size of raw materials inventory and merchandising companies compute it to find the optimal order size of ready to use merchandise inventory.

EOQ Formula

$$EOQ = \sqrt{\frac{2DP}{C}}$$

- D = Demand in units for specified period
- P = Relevant ordering costs per PO
- C = Relevant carrying costs of one unit in stock for the time period used for D

14) Write a short note on normal loss and abnormal loss.

Normal Loss: Normal loss means that loss which is inherent in the processing operations. It can be expected or anticipated in advance i.e. at the time of estimation. The cost of normal loss is considered as part of the cost of production in which it occurs. If normal loss units have any realisable scrap value, the process account is f credited by that amount. If there is no abnormal gain, then there is no necessity to maintain a separate account for normal loss.

Abnormal Loss: Abnormal loss means that loss which is caused by unexpected or abnormal conditions such as accident, machine breakdown, substandard material etc. From accounting point of view we can say that abnormal loss is that loss which occurred over and above normal loss. These losses are segregated from process costs and investigated to prevent their occurrence in future.

Process account is to be credited by abnormal loss account with cost of material, labour and overhead equivalent to good units and the loss due to abnormal is transferred to Costing Profit and Loss Account

COPYRIGHT FIMT 2020

Abnormal Gain: If the actual loss of a Process is less than that of expected loss then the difference between the two will be treated as abnormal gain. In another way we can define it as the difference between actual production and expected production. The value of abnormal gain is transferred to the debit side of the relevant process and ultimately closed by crediting it to the Costing Profit and Loss Account.

15) Write the techniques of Inventory Control.

i. **Just in time (JIT)**: In Just in Time method of inventory control, the company keeps only as much inventory as it needs during the production process. With no excess inventory in hand, the company saves the cost of storage and insurance. The company orders further inventory when the old stock of inventory is close to replenishment. This is a little risky method of inventory management because a little delay in ordering new inventory can lead to stock out situation. Thus this method requires proper planning so that new orders can be timely placed.

ii. **VED (vital essential and desirable)**: VED stands for Vital Essential and Desirable. Organizations mainly use this technique for controlling spare parts of inventory. Like, a higher level of inventory is required for vital parts that are very costly and essential for production. Others are essential spare parts, whose absence may slow down the production process, hence it is necessary to maintain such inventory. Similarly, an organization can maintain a low level of inventory for desirable parts, which are not often required for production.

16) Describe ABC Technique.

It is 'Management by exception' system of Inventory control. In this Always Better Control (ABC) technique of inventory control, the materials are classified and controlled according to value of the materials involved. It is also called proportional parts value analysis. Thus, high value items are paid more attention than low value items. The materials are classified under 'A', 'B' or 'C' designation on the basis of their value and importance.

'A' category consists of a few items of high value. Category 'B' includes more items of medium value and category 'C' includes all other materials of small value.

COPYRIGHT FIMT 2020

17) Describe the stock levels.

Timing of the purchase is important in order to achieve objectives like avoiding overstocking, ensuring that the material is ordered at right time and also avoiding shortage of materials

i. Maximum Level :
A level beyond which inventory is not allowed to rise. Purpose is to avoid overstocking. It is fixed like this :Reorder level+ Reorder Quantity □ (Minimum Consumption * Minimum re-order period)

ii. Minimum Level:
Inventory is not allowed to fall beyond this limit. Purpose is to avoid shortage of raw materials. It is calculated like this : Reordering level-(Average/Normal consumption * Normal Re-order period)

(a)	Reorder Level or R.L	=	Maximum Consumption × Maximum reorder period
		=	M.C. × M.R.P.
(b)	Minimum Level or Min.L.	=	Reorder level – (Normal consumption × Normal reorder period)
		=	R.L.–(N.C. × N.R.P.)
(c)	Maximum Stock Level or Max.L	=	Reorder Level + Reorder Quantity – (Minimum Consumption × Minimum Reorder period)
		=	R.L. + R.Q – (Min C. × Min.R.P.)
(d)	Average Level	=	Minimum level + $\frac{1}{2}$ of reorder quantity or $\frac{1}{2}$ (Maximum level + Minimum level)
(e)	Danger Level	=	Average Consumption × Maximum reorder period for emergency purchases

18) Write short note on FSND.

Under FSND analysis the stores items are divided under four categories. The basis of classification is their usage rate. Descending order of usage is followed where by 'F' stands for fast moving items that are consumed quickly. 'N' stands for normal moving

COPYRIGHT FIMT 2020

items which are exhausted over a period of a year or so. 'S' stands for slow moving items which are not consumed frequently but are expected to be exhausted over a period of two years or more. 'D' stands for dead items and the consumption of such items is nil.

Stock control under FNSD is done by continuous monitoring of all the four categories of items. Fast moving items are properly ordered to avoid 'Stock-out' of such items. Normal moving items are reviewed at regular intervals and orders for restoring shall be made as per a planned schedule.

Stock of slow moving items of stores are reviewed very carefully to avoid over stocking of such items. Dead stock items are taken as obsolete items which have become outmoded and have no further use. Alternative uses should be found for dead stock items or else they should be disposed of at the earliest so that their value may not deteriorate further.

19) What is overhead? What are the different types of overhead.

Overhead cost are those cost that is not related directly on the production activity and are therefore considered as indirect costs that have to be paid even if there is no production; and examples include rent payable, utilities payable, insurance payable, salaries payable to office staff, office supplies, etc.

Types of overhead

i. **Fixed Overhead**: Such Overhead expenses are the ones which are fixed in nature and don't get impacted by the increase or decrease in production activity or volume of output manufactured by the business. These Overheads are fixed within a specified limit and are not influenced by managerial actions up to such limits. Fixed Overhead Examples include Rent and Depreciation.
ii. **Variable Overhead**: Such Overhead expenses are the ones which vary in direct proportion to the volume of output. These overhead expenses are directly affected by business activity. Variable Overhead Examples include Shipping expenses, Advertising Costs etc
iii. **Semi Variable Overhead**: Semi-Variable Overhead Expenses are the ones which are partly fixed and party variable in nature. As such they contain both fixed and variable element and therefore don't fluctuate in direct proportion to

COPYRIGHT FIMT 2020

business output. Semi-variable overhead examples include Telephone Charges etc.

20) Write the element of Cost?

i. **Direct Material Cost**: Direct material cost is "The cost of materials entering into and becoming constituent elements of a product or saleable service". Thus, materials which can be identified with units of output or service are known as direct materials. Cotton used in production of cloth, leather used in the case of production of leather goods and lime in the production of chalk, etc., are the examples of direct materials. Any materials purchased and used for a specific job are also direct materials.

ii. **Indirect material:** "Materials used for the product other than the direct materials are called indirect materials. In other words, materials cost which cannot be identified with a specific product, job, process is known as indirect material cost. Small tools, stationery used in works, office stationery, advertising posters, and materials used in maintenance of plant and machinery are a few examples of indirect materials.

iii. **Labour:** Labour is the remuneration paid for physical or mental effort expended in production and distribution. "The labour cost is the cost of remuneration (wages, salaries, commissions, bonus, etc.) of the employees of an undertaking" – I.C.M.A.

iv. **Expenses:** The cost of service provided to an undertaking and the notional cost of the use of owned assets".there are 2 types of expenses.

   a) **Direct Expenses:** These are the expenses which can be directly identified with a unit of output, job, process or operation. They are specifically incurred for a job, or unit or process and in no way they are connected with other jobs or processes. The direct expenses are also known as chargeable expenses.

   b) **Indirect Expenses:** Indirect expenses are expenses other than indirect material and indirect labour, which cannot be directly identified with units of output, job, process or operation. These expenses are incurred commonly for jobs and processes. E.g., rent, power, lighting, depreciation, bank charges, advertising, etc.

COPYRIGHT FIMT 2020

Business Studies B.COM (110)

UNIT 1

Ques1. Discuss the various activities under corporate social responsibility.

CONCEPT OF SOCIAL RESPONSIBILITY

Social responsibility is a voluntary effort on the part of business to take various steps to satisfy the expectation of the different interest groups. As you have already learnt, the interest groups may be owners, investors, employees, consumers, government and society or community. But the question arises, why the business should come forward and be responsible towards these interest groups. Let us consider the following points:

i. Public Image - The activities of business towards the welfare of the society earn goodwill and reputation for the business. The earnings of business also depend upon the public image of its activities. People prefer to buy products of a company that engages itself in various social welfare programs. Again, good public image also attracts honest and competent employees to work with such employers.
ii. Government Regulation - To avoid government regulations businessmen should discharge their duties voluntarily. For example, if any business firm pollutes the environment it will naturally come under strict government regulation, which may ultimately force the firm to close down its business. Instead, the business firm should engage itself in maintaining a pollution free environment.
iii. Survival and Growth -Every business is a part of the society. So for its survival and growth, support from the society is very much essential. Business utilizes the available resources like power, water, land, roads, etc. of the society. So it should be the responsibility of every business to spend a part of its profit for the welfare of the society.
iv. Employee satisfaction - Besides getting good salary and working in a healthy atmosphere, employees also expect other facilities like proper accommodation, transportation, education and training. The employers should try to fulfill all the expectation of the employees because employee satisfaction is directly related to productivity and it is also required for the long-term prosperity of the

COPYRIGHT FIMT 2020

organization. For example, if business spends money on training of the employees, it will have more efficient people to work and thus, earn more profit.

v. Consumer Awareness - Now-a-days consumers have become very conscious about their rights. They protest against the supply of inferior and harmful products by forming different groups. This has made it obligatory for the business to protect the interest of the consumers by providing quality products at the most competitive price.

Ques2. Explain the component of business environment?

Business environment:-

The success of every business depends on adapting itself to the environment within which it functions. For example, when there is a change in the government polices, the business has to make the necessary changes to adapt itself to the new policies. Similarly, a change in the technology may render the existing products obsolete, as we have seen that the introduction of computer has replaced the typewriters; the colour television has made the black and white television out of fashion. Again a change in the fashion or customers' taste may shift the demand in the market for a particular product, e.g., the demand for jeans reduced the sale of other traditional wear. All these aspects are external factors that are beyond the control of the business. So the business units must have to adapt themselves to these changes in order to survive and succeed in business. Hence, it is very necessary to have a clear understanding of the concept of business environment and the nature of its various components.

The term 'business environment' connotes external forces, factors and institutions that are beyond the control of the business and they affect the functioning of a business enterprise. These include customers, competitors, suppliers, government, and the social, political, legal and technological factors etc. While some of these factors or forces may have direct influence over the business firm, others may operate indirectly. Thus, business environment may be defined as the total surroundings, which have a direct or indirect bearing on the functioning of business. It may also be defined as the set of external factors, such as economic factors, social factors, political and legal factors, demographic factors, and technical factors etc., which are uncontrollable in nature and affects the business decisions of a firm.

FEATURES OF BUSINESS ENVIRONMENT

COPYRIGHT FIMT 2020

On the basis of the above discussion the features of business environment can be summarized as follows.

(a) Business environment is the sum total of all factors external to the business firm and that greatly influences their functioning.

(b) It covers factors and forces like customers, competitors, suppliers, government, and the social, cultural, political, technological and legal conditions.

(c) The business environment is dynamic in nature, that means, it keeps on changing.

(d) The changes in business environment are unpredictable. It is very difficult to predict the exact nature of future happenings and the changes in economic and social environment. .

(e) Business Environment differs from place to place, region to region and country to country. Political conditions in India differ from those in Pakistan. Taste and values cherished by people in India and China vary considerably.

IMPORTANCE OF BUSINESS ENVIRONMENT

There is a close and continuous interaction between the business and its environment. This interaction helps in strengthening the business firm and using its resources more effectively. As stated above, the business environment is multifaceted, complex, and dynamic in nature and has a far-reaching impact on the survival and growth of the business.

To be more specific, proper understanding of the social, political, legal and economic environment helps the business in the following ways:

(a) Determining Opportunities and Threats: The interaction between the business and its environment would identify opportunities for and threats to the business. It helps the business enterprises for meeting the challenges successfully.

(b) Giving Direction for Growth: The interaction with the environment leads to opening up new frontiers of growth for the business firms. It enables the business to identify the areas for growth and expansion of their activities.

(c) Continuous Learning: Environmental analysis makes the task of managers easier in dealing with business challenges. The managers are motivated to continuously update their knowledge, understanding and skills to meet the predicted changes in realm of business.

COPYRIGHT FIMT 2020

(d) Image Building: Environmental understanding helps the business organizations in improving their image by showing their sensitivity to the environment within which they are working. For example, in view of the shortage of power, many companies have set up Captive Power Plants (CPP) in their factories to meet their own requirement of power.

(e) Meeting Competition: It helps the firms to analyze the competitors' strategies and formulate their own strategies accordingly.

(f) Identifying Firm's Strength and Weakness: Business environment helps to identify the individual strengths and weaknesses in view of the technological and global developments.

Types of business environment:-

Confining business environment to uncontrollable external factors, it may be classified as

(a) Economic environment; and

(b) Non-economic environment.

The economic environment includes economic conditions, economic policies and economic system of the country. Non-economic environment comprises social, political, legal, technological, demographic and natural environment.

All these have a bearing on the strategies adopted by the firms and any change in these areas is likely to have a far-reaching impact on their operations.

ECONOMIC ENVIRONMENT The survival and success of each and every business enterprise depend fully on its economic environment. The main factors that affect the economic environment are:

(a) Economic Conditions: The economic conditions of a nation refer to a set of economic factors that have great influence on business organisations and their operations. These include gross domestic product, per capita income, markets for goods and services, availability of capital, foreign exchange reserve, growth of foreign trade, strength of capital market etc. All these help in improving the pace of economic growth.

(b) Economic Policies: All business activities and operations are directly influenced by the economic policies framed by the government from time to time. Some of the important economic policies are:

COPYRIGHT FIMT 2020

(i) Industrial policy (ii) Fiscal policy (iii) Monetary policy (iv) Foreign investment policy (v) Export –Import policy (Exim policy)

The government keeps on changing these policies from time to time in view of the developments taking place in the economic scenario, political expediency and the changing requirement. Every business firm has to function strictly within the policy framework and respond to the changes therein.

(c) Economic System: The world economy is primarily governed by three types of economic systems, viz., (i) Capitalist economy; (ii) Socialist economy; and (iii) Mixed economy. India has adopted the mixed economy system which implies co-existence of public sector and private sector.

NON-ECONOMIC ENVIRONMENT

The various elements of non-economic environment are as follow:

(a) Social Environment:- The social environment of business includes social factors like customs, traditions, values, beliefs, poverty, literacy, life expectancy rate etc. The social structure and the values that a society cherishes have a considerable influence on the functioning of business firms. For example, during festive seasons there is an increase in the demand for new clothes, sweets, fruits, flower, etc. Due to increase in literacy rate the consumers are becoming more conscious of the quality of the products. Due to change in family composition, more nuclear families with single child concepts have come up. This increases the demand for the different types of household goods. It may be noted that the consumption patterns, the dressing and living styles of people belonging to different social structures and culture vary significantly.

(b) Political Environment:- This includes the political system, the government policies and attitude towards the business community and the unionism. All these aspects have a bearing on the strategies adopted by the business firms. The stability of the government also influences business and related activities to a great extent. It sends a signal of strength, confidence to various interest groups and investors. Further, ideology of the political party also influences the business organization and its operations. You may be aware that Coca-Cola, a cold drink

COPYRIGHT FIMT 2020

widely used even now, had to wind up operations in India in late seventies. Again the trade union activities also influence the operation of business enterprises. Most of the labour unions in India are affiliated to various political parties. Strikes, lockouts and labour disputes etc. also adversely affect the business operations. However, with the competitive business environment, trade unions are now showing great maturity and started contributing positively to the success of the business organization and its operations through workers participation in management.

(c) Legal Environment:- This refers to set of laws, regulations, which influence the business organizations and their operations. Every business organization has to obey, and work within the framework of the law.

(d) Technological Environment:- Technological environment include the methods, techniques and approaches adopted for production of goods and services and its distribution. The varying technological environments of different countries affect the designing of products. For example, in USA and many other countries electrical appliances are designed for 110 volts. But when these are made for India, they have to be of 220 volts. In the modern competitive age, the pace of technological changes is very fast. Hence, in order to survive and grow in the market, a business has to adopt the technological changes from time to time. It may be noted that scientific research for improvement and innovation in products and services is a regular activity in most of the big industrial organisations. Now a days infact, no firm can afford to persist with the outdated technologies.

(e) Demographic Environment:- This refers to the size, density, distribution and growth rate of population. All these factors have a direct bearing on the demand for various goods and services. For example a country where population rate is high and children constitute a large section of population, then there is more demand for baby products. Similarly the demand of the people of cities and towns are different than the people of rural areas. The high rise of population indicates the easy availability of labour. These encourage the business enterprises to use labour intensive techniques of production. Moreover, availability of skill labour in certain areas motivates the firms to set up their units in such area. For example, the business units from America, Canada, Australia, Germany, UK, are coming to

COPYRIGHT FIMT 2020

India due to easy availability of skilled manpower. Thus, a firm that keeps a watch on the changes on the demographic front and reads them accurately will find opportunities knocking at its doorsteps.

(f) Natural Environment:- The natural environment includes geographical and ecological factors that influence the business operations. These factors include the availability of natural resources, weather and climatic condition, location aspect, topographical factors, etc. Business is greatly influenced by the nature of natural environment. For example, sugar factories are set up only at those places where sugarcane can be grown. It is always considered better to establish manufacturing unit near the sources of input. Further, government's policies to maintain ecological balance, conservation of natural resources etc. put additional responsibility on the business sector.

Ques3. Discuss the impact of new economic policy on business.

Impact of Government Policy Changes on Business and Industry

1. The policy of liberalization, privatization and globalization of the Government has made a significant impact on the working of enterprises in business and industry.

These challenges can be explained as follows:

(i) Increasing competition: As a result of changes in the rules of industrial licensing and entry of foreign firms, competition for Indian firms has increased especially in service industries like telecommunications, airlines, banking, insurance, etc. which were earlier in the public sector.

(ii) More demanding customers: Customers today have become more demanding because they are well-informed. Increased competition in the market gives the customers wider choice in purchasing better quality of goods and services.

COPYRIGHT FIMT 2020

(iii) Rapidly changing technological environment: Increased competition forces the firms to develop new ways to survive and grow in the market. New technologies make it possible to improve machines, process, products and services. The rapidly changing technological environment creates tough challenges before smaller firms.

(iv)Need for developing human resource: Indian enterprises have suffered for long with inadequately trained personnel. The new market conditions require people with higher competence and greater commitment. Hence the need for developing human resources.

(v) Market orientation: Earlier firms used to produce first and go to the market for sale later. In other words, they had production oriented marketing operations.

In a fast changing world, there is a shift to market orientation in as much as the firms have to study and analyze the market first and produce goods accordingly.

Ques4. Discuss the nature and scope of business.

According to B.O Wheeler "Business is an institution organized & operated to provide goods and services to society under the incentive of private gain."

Business is an economic activity which involves regular production and/or exchange of goods and services with the main purpose of earning profits through the satisfaction of human wants.

<u>Characteristics of Business</u>

Business is an economic activity having some feature and characteristics. Following are some important characteristics of Business

1. Production or Acquisition of Goods:-Every business whether small or large scale deals with goods and services. The goods may produce, manufacture or procure. Business is either to produce, manufacture or procure and then to supply for a price to those who are in need of the goods so produced, manufactured or procured.

COPYRIGHT FIMT 2020

2. Profit – The basic motive of business:-Profit is an essential part of business, infact **profit** is the motivation factor behind a business one carries on. Profit is stimulus and a guarantee to continue the business. Profit is the factor which ensures the survival of the business. Profit is the reward of all those individuals engaged in a particular business. The efficiency of a businessman depends on the profit which he is able to make during the business operation. He renders singular service to the continuity by satisfying the needs of the people. He expected a reward for such a service rendered and if he gets the double and redoubles his efforts and plans his future in such manner so as to render best possible service to the community**.**

3. Risk – Uncertainty of future:- Every business involves risk and uncertainty while carrying on its operations. Future is uncertain and business activity focuses on future. This focus on future and uncertainty of future naturally entails risk. It is risk which every businessman takes when he embarks upon a business activity.

4. Dealing in Goods and Services:-Business refers to goods and services dealt with a view to supply to those who need them and are ready to make payment for the same. Dealing in goods and services is business. The goods may either be consumers' goods (Cloth, books, electronics appliances, medicine etc.) or Producer goods (machinery, tools etc) or services (courier or transport services etc.).

5. Regular Dealings:- One of important characteristics of business is regularity and recurrences. Business is not a single operation. A single operation would never constitute a business. It should a regular and continuous entity. Recurrence of dealing is a must to constitute a business. On selling furniture of his household with a view to replace it with new one is not business. But if the same person procures a variety of furniture, keeps the stock and sells them to the consumers, he carries on a business dealing in furniture.

Nature and Purpose of Business

Nature of Business: The nature of business is best understood on the basis of its characteristics or features which are as follows:

1. Business is an economic activity

2. It includes the activities of production or purchase and distribution.

3. It deals in goods and services.

COPYRIGHT FIMT 2020

4. It implies regularity of transactions.

5. It aims at earning profits through the satisfaction of human wants.

6. It involves risk; it is not certain that adequate profit will be earned.

7. It creates utilities.

8. It serves a social purpose by improving people’s standard of living.

Scope of Business

Business activities are undertaken to satisfy human wants by producing goods or rendering services.

We may classify business activities on the basis of functions into two broad categories

(a) Industry and

(b) Commerce.

Industry is concerned with the production and processing of goods. This type of business units is called ‘industrial enterprises’ which produce consumer goods as well as machinery and equipment.

On the other hand, ‘commerce’ includes all those activities which are necessary for the storage and distribution of goods. Such units are called ‘commercial enterprises’ which include trading and service activities like transport, banking, insurance and warehousing

Ques5. Discuss the concept of business as system.

Concept of business as a system:-

- Business operates in an ever changing, dynamic social & economic environment.
- It affects the environment and is in turn, affected by it.
- The continuous interaction of business and its environment views business as a unified and purposeful system composed of different parts which bear relationship with each other and also with the larger external environment.
- The best example that can help us understand the concept of system is a human body. It is systems composed of different parts (sub system) which are so closely

तेजस्वि नावधीतमस्तु
ISO 9001:2015 & 14001:2015

COPYRIGHT FIMT 2020

interrelated with each other that together help the human body (system) carry out its various functions.

important features (or concepts) of a business system are as follows:

1. Purpose:

A system is purposeful, goal-oriented entity. Purpose is the basic reason for a system's existence.

Purpose provides a sense of direction to a system. The purpose of a business system, for instance, is to earn profits through provision of goods and services to the society.

2. Environment:

Each system is a part of its environment, called 'suprasystem'. Environment includes all those factors external to a system that affect it and are uncontrollable to a large extent. There is a constant interaction between a system and the environment. The impact of these environmental factors is so powerful on the functioning of a system that it is almost impossible for a system to exist and grow without taking them into account.

The environment of a business system, for instance, includes all those economic, legal, technological, political, and social factors which influence its functioning, but are outside its control purview to a great extent.

3. Sub-systems:

Sub-system constitutes the operating level of a system. The parts that make up the structure of a system are called sub-systems. And each sub-system, a system in itself, in turn, may be a sub-system of a still larger whole. Thus, a department is a subsystem of a company, which may be a sub-system of a conglomerate (group of companies), which is a sub-system of the national economy as a whole, which is a sub-system of the world system.

4. System boundary:

Each system has a boundary, this means choosing which entities are inside the system and which are outside-part of the environment. In a closed system this boundary is rigid and solid; in an open system, the boundary is more flexible and porous. In the context of a business

COPYRIGHT FIMT 2020

organization, it has many boundary contacts or 'interfaces' with many external systems like suppliers, creditors, customers, government agencies, etc.

5. Input-output conversion process:

A business system involves 'input-output conversion' process. The essence of this process lies in the fact that a business system imports inputs (like materials, equipment, human effort, technology, and information) from external environment, transforms them (through the organizational and managerial processes adopted by the sub-systems), and exchanges or exports output (like goods and services) to the external environment.

The whole process is a source of energy for the organization. The output is worth more than the input — some value is added by the transformation process. The output exported into the environment provides the source of energy for the organization to recycle the process continuously. The organization renews itself, survives, and grows by the recycling of energy on a sustained basis.

6. Feedback:

Feedback is the key to system enrols. As operations of the system proceed, information is fed back to the appropriate people or perhaps to mechanical devices so that the work can be assessed and, if necessary, corrected.

7. Synergy:

Synergy means that the whole is greater than the sum of its parts. It means 2 + 2 = 5. In organizational terms, synergy means that as separate departments within an organization cooperate and interact, they become more productive than if each had acted in isolation.

The enumeration of the various basic concepts (or features) of a business system unmistakably suggests that a business enterprise is an open, adaptive, goal-oriented system with its environment acting as supra-system.

Business objectives:-

Business objectives can be classified as:-

Economic objectives & Non Economic objectives

COPYRIGHT FIMT 2020

Economic objectives:-

- Profit maximization
- Increase industrial productivity
- Optimum allocation of resources
- Customer creation
- Innovation

Non Economic objectives:-

- Survival
- Growth
- goodwill

Human objectives

- effective utilization of manpower
- development of human resources
- participation in management
- training and motivation

Social objectives

- customer satisfaction
- fair trade practices
- employment opportunities

National objectives

- development of backward areas

COPYRIGHT FIMT 2020

- contributions of R & D
- development of small enterprise

NAAC ACCREDITED

UNIT-2

Ques6. Discuss the process involved in setting up of business enterprises.

PROCESS OF SETTING UP A BUSINESS ENTERPRISE

The major steps involved in the process of setting up a new business enterprise include the following.

1. Identification of business opportunity
2. Generation of business idea
3. Feasibility study
4. Preparation of business plan
5. Launching the enterprise

Step 1: Identification of Business Opportunity

Business opportunity refers to a business idea which can be converted to a profitable business. The world of business offers a number of business opportunities, but not many people can identify them. An entrepreneur should be able to identify such business ideas which can be converted to profitable business ventures. While choosing an idea to work with, an entrepreneur has to be very careful about the line of business (manufacturing, trading or service) as any mistake made in taking such a decision may prove to be very costly. Moreover, the entrepreneur should also ensure that there is an adequate market for the product or service that he wants to offer in the market and that the rate of return on the investment is sufficient.

Step 2: Generation of Business idea

COPYRIGHT FIMT 2020

This stage requires generation of an idea that can be converted into a business. The idea should be able to yield a reasonable return on investment i.e. it should be worthwhile for implementation. A business idea may be discovered from the following sources.

1. **Observing Markets:** The promoter should study the market to find out the demand and supply position for various products. He should then estimate the future demand after taking into account the anticipated changes in income levels, fashions etc. market surveys can also reveal competition and price trends. From the data collected through market surveys, the promoter should try to identify those products and industries where demand exists and supply needs to be increased.

2. **Prospective Consumers:** Contacts with prospective consumers can give an idea of the features that should be built into the product/service. It is also important to collect data on customer needs and preferences before choosing the product to be manufactured. A market test of the prototype product can be conducted before launching the product in the market.

3. **Study of Project Profiles:** Various publications of public and government agencies on various projects and industries is an important source of business ideas. Such project profiles describe in detail the prevailing market situation and the technical and financial requirements of different projects. A careful analysis of such details can bring out the most promising projects which can then be taken up for further evaluation.

4. **Developments in Other Nations:** An entrepreneur can discover good business ideas by keeping good knowledge about developments in advanced nations of the world. Underdeveloped and developing countries prove to be a good market for those products which are the 'in things' in developed nations. An entrepreneur can also visit foreign markets to explore the possibility of a foreign collaboration and to discover other types of business ideas.

5. **Trade Fairs and Exhibitions:** A visit to national and international trade fairs and exhibitions can provide information about various products. It is also a good place to explore possibilities of collaboration and dealership and gives a fair idea of the existing competition in the market.

While selecting the business idea, the following points need to be considered.

1. There must be sufficient demand for the proposed product or service.

COPYRIGHT FIMT 2020

2. The idea should require such capital, technical know how, raw material and other inputs which the entrepreneur can arrange for.
3. The idea must ensure a reasonable return on investment.

Step 3: Feasibility Study

Feasibility study is a detailed study done by an entrepreneur to ensure that the project is viable. The feasibility study should contain an analysis of the following.

a. Technical Aspect

b. Commercial Aspect

c. Financial Aspect

d. Socio-economic Aspect

Technical aspect: The technical feasibility of a project involves a critical study of the factors such as location, size of the plant, raw materials and labour, machinery and equipment, infrastructure etc. Here the entrepreneur should ensure that the location of plant and the site selected is such that it permits cost-effective operations of business. Also, in determining the size of the plant, it should be remembered that if the plant size is smaller than the optimum size, cost of production increases. An entrepreneur must also examine whether the required raw material, machinery and equipment and infrastructure is available for carrying out the operations.

Commercial Aspect: Technical feasibility of a project has no meaning if the project is not commercially viable. Commercial viability of a project requires a study of the present and potential demand for firm's product in national and international markets. It also requires an analysis of margin of profit, degree of competition, market stability etc. Sometimes the services of an expert may be required to find out the commercial viability of the project.

Financial Aspect: Financial viability of the project can be judged on factors like total estimated cost of the project, projected cash flow and profitability, financing of the project with reference to the capital structure, promoter's contribution to the total project cost etc.

Socio-economic Aspect: A social cost-benefit analysis should be made to judge the national viability of the project. Every project entails some costs to the nation and produces certain benefits. The contribution of the project to social objectives such as employment generation,

COPYRIGHT FIMT 2020

development of infrastructure, development of backward areas, earning foreign exchange, import substitution etc. is evaluated.

Once the feasibility study is completed, an indepth analytical study of the project is made to decide selection or rejection of the project. Such an analysis is known as **project appraisal**. Once the project is selected, the findings of the feasibility study are presented in the form of a **Project Report**. This project report is needed to get sanction for the project from the concerned authorities, including financial institutions. The project report should comprise the following information.

- Name, address and other details of the entrepreneur
- Brief summary of the project
- Inputs for the proposed project like land, building, plant, machinery and equipment, materials etc.
- Financial aspects like sources of finance, cost of fixed assets, working capital, assets and liabilities
- Market potential in relation to estimated present and potential demand, market survey
- Importance of project to national economy

Step 4: Preparation of Business Plan

Business plan is an important document prepared by the entrepreneur that describes various elements involved in starting a new enterprise. It is often an integration of functional plans such as marketing, finance, production, personnel etc. Business plan serves the following objectives:

a. It indicates the actions to be taken to implement the project.

b. It helps the entrepreneur in raising necessary funds.

c. It helps in measuring the progress of the venture at successive stages

d. It informs investors, suppliers, creditors and other stakeholders about the programme of the entrepreneur.

Contents of a Proposed Business Plan

COPYRIGHT FIMT 2020

1. General Introduction- name and address of business and entrepreneurs, nature of business

2. Description of Venture- products and services to be offered, scale of business operations, type of technology to be used

3. Organizational Plan- form of ownership (sole proprietorship, partnership or joint stock company), identification of business partners, roles and responsibilities of members of the organization

4. Production Plan- details of manufacturing process, type of plant and machinery, raw material to be used

5. Marketing Plan- products and services offered, pricing polices, distribution channels, promotional strategies

6. Financial Plan- fixed and working capital requirements, sources of capital, cash flow projections, break even analysis

7. Appendix- market research report, price lists from suppliers, contingency plans

Step 5: Launching the Enterprise

After preparing the business plan, the entrepreneur assembles the necessary resources to launch the enterprise. He collects the required funds and acquires land and buildings, plant and machinery, furniture and fixtures, raw materials, employees etc. Once this is achieved, it is necessary to ensure that the project is implemented properly and it has smooth and uninterrupted operation.

Ques7. Discuss the merits and demerits of sole proprietorship.

Sole proprietorship

Thus, 'Sole Proprietorship' from of business organization refers to a business enterprise exclusively owned, managed and controlled by a single person with all authority, responsibility and risk.

CHARACTERISTICS OF SOLE PROPRIETORSHIP FORM OF BUSINESS ORGANISATION

COPYRIGHT FIMT 2020

(a) **Single Ownership**: The sole proprietorship form of business organisation has a single owner who himself/herself starts the business by bringing together all the resources.

(b) **No Separation of Ownership and Management**: The owner himself/herself manages the business as per his/her own skill and intelligence. There is no separation of ownership and management as is the case with company form of business organisation.

c) **Less Legal Formalities**: The formation and operation of a sole proprietorship form of business organisation does not involve any legal formalities. Thus, its formation is quite easy and simple.

d) **No Separate Entity**: The business unit does not have an entity separate from the owner. The businessman and the business enterprise are one and the same, and the businessman is responsible for everything that happens in his business unit.

(e) **No Sharing of Profit and Loss**: The sole proprietor enjoys the profits alone. At the same time, the entire loss is also borne by him. No other person is there to share the profits and losses of the business. He alone bears the risks and reaps the profits.

(f) **Unlimited Liability**: The liability of the sole proprietor is unlimited. In case of loss, if his business assets are not enough to pay the business liabilities, his personal property can also be utilised to pay off the liabilities of the business.

(g) **One-man Control**: The controlling power of the sole proprietorship business always remains with the owner. He/she runs the business as per his/her own will.

MERITS OF SOLE PROPRIETORSHIP FORM OF BUSINESS ORGANISATION

a) Easy to Form and Wind Up: It is very easy and simple to form a sole proprietorship form of business organisation. No legal formalities are required to be observed. Similarly, the business can be wind up any time if the proprietor so decides.

(b) Quick Decision and Prompt Action: As stated earlier, nobody interferes in the affairs of the sole proprietary organisation. So he/she can take quick decisions on the various issues relating to business and accordingly prompt action can be taken.

(c) Direct Motivation: In sole proprietorship form of business organizations. The entire profit of the business goes to the owner. This motivates the proprietor to work hard and run the business efficiently.

(d) Flexibility in Operation: It is very easy to effect changes as per the requirements of the business. The expansion or curtailment of business activities does not require many formalities as in the case of other forms of business organization.

COPYRIGHT FIMT 2020

e) Maintenance of Business Secrets: The business secrets are known only to the proprietor. He is not required to disclose any information to others unless and until he himself so decides. He is also not bound to publish his business accounts.

(f) Personal Touch: Since the proprietor himself handles everything relating to business, it is easy to maintain a good personal contact with the customers and employees. By knowing the likes, dislikes and tastes of the customers, the proprietor can adjust his operations accordingly. Similarly, as the employees are few and work directly under the proprietor, it helps in maintaining a harmonious relationship with them, and run the business smoothly.

LIMITATIONS OF SOLE PROPRIETORSHIP FORM OF BUSINESS ORGANISATION

(a) Limited Resources: The resources of a sole proprietor are always limited. Being the single owner it is not always possible to arrange sufficient funds from his own sources. Again borrowing funds from friends and relatives or from banks has its own implications. So, the proprietor has a limited capacity to raise funds for his business.

(b) Lack of Continuity: The continuity of the business is linked with the life of the proprietor. Illness, death or insolvency of the proprietor can lead to closure of the business. Thus, the continuity of business is uncertain.

(c) Unlimited Liability: You have already learnt that there is no separate entity of the business from its owner. In the eyes of law the proprietor and the business are one and the same. So personal properties of the owner can also be used to meet the business obligations and debts.

(d) Not Suitable for Large Scale Operations : Since the resources and the managerial ability is limited, sole proprietorship form of business organization is not suitable for large-scale business.

(e) Limited Managerial Expertise: A sole proprietorship from of business organization always suffers from lack of managerial expertise. A single person may not be an expert in all fields like, purchasing, selling, financing etc. Again, because of limited financial resources, and the size of the business it is also not possible to engage the professional managers in sole proprietorship form of business organizations.

Ques8. Discuss the features of partnership firm.

COPYRIGHT FIMT 2020

Partnership

Partnership is an association of two or more persons who pool their financial and managerial resources and agree to carry on a business, and share its profit. The persons who form a partnership are individually known as partners and collectively a firm or partnership firm.

CHARACTERISTICS OF PARTNERSHIP FORM OF BUSINESS ORGANISATION

Based on the definition of partnership as given above, the various characteristics of partnership form of business organization can be summarized as follows:

(a) Two or More Persons: To form a partnership firm at least two persons are required. The maximum limit on the number of persons is ten for banking business and 20 for other businesses. If the number exceeds the above limit, the partnership becomes illegal and the relationship among them cannot be called partnership.

(b) Contractual Relationship: Partnership is created by an agreement among the persons who have agreed to join hands. Such persons must be competent to contract. Thus, minors, lunatics and insolvent persons are not eligible to become the partners. However, a minor can be admitted to the benefits of partnership firm i.e., he can have share in the profits without any obligation for losses.

(c) Sharing Profits and Business: There must be an agreement among the partners to share the profits and losses of the business of the partnership firm. If two or more persons share the income of jointly owned property, it is not regarded as partnership.

(d) Existence of Lawful Business: The business of which the persons have agreed to share the profit must be lawful. Any agreement to indulge in smuggling, black marketing etc. cannot be called partnership business in the eyes of law.

(**e) Principal Agent Relationship**: There must be an agency relationship between the partners. Every partner is the principal as well as the agent of the firm. When a partner deals with other parties he/she acts as an agent of other partners, and at the same time the other partners become the principal.

(f) Unlimited Liability: The partners of the firm have unlimited liability. They are jointly as well as individually liable for the debts and obligations of the firms. If the assets of the firm are insufficient to meet the firm’s liabilities, the personal properties of the partners can also be utilised for this purpose. However, the liability of a minor partner is limited to the extent of his share in the profits.

COPYRIGHT FIMT 2020

(g) Voluntary Registration: The registration of partnership firm is not compulsory. But an unregistered firm suffers from some limitations which make it virtually compulsory to be registered.

Following are the limitations of an unregistered firm.

(i) The firm cannot sue outsiders, although the outsiders can sue it.

(ii) In case of any dispute among the partners, it is not possible to settle the dispute through court of law.

(iii) The firm cannot claim adjustments for amount payable to, or receivable from, any other parties.

Ques9. Discuss the features of entrepreneurship?

The word "entrepreneur" is derived from the French verb enterprendre, which means 'to undertake'. This refers to those who "undertake" the risk of new enterprises. An enterprise is created by an entrepreneur. The process of creation is called "entrepreneurship".

Entrepreneurship is a process of actions of an entrepreneur who is a person always in search of something new and exploits such ideas into gainful opportunities by accepting the risk and uncertainty with the enterprise.

<u>Characteristics of Entrepreneurship:</u>

Entrepreneurship is characterized by the following features:

1. Economic and dynamic activity:

Entrepreneurship is an economic activity because it involves the creation and operation of an enterprise with a view to creating value or wealth by ensuring optimum utilization of scarce resources. Since this value creation activity is performed continuously in the midst of uncertain business environment, therefore, entrepreneurship is regarded as a dynamic force.

2. Related to innovation:

Entrepreneurship involves a continuous search for new ideas. Entrepreneurship compels an individual to continuously evaluate the existing modes of business operations so that more efficient and effective systems can be evolved and adopted. In other words, entrepreneurship is a continuous effort for synergy (optimization of performance) in organizations.

COPYRIGHT FIMT 2020

3. Profit potential:

"Profit potential is the likely level of return or compensation to the entrepreneur for taking on the risk of developing an idea into an actual business venture." Without profit potential, the efforts of entrepreneurs would remain only an abstract and a theoretical leisure activity.

4. Risk bearing:

The essence of entrepreneurship is the 'willingness to assume risk' arising out of the creation and implementation of new ideas. New ideas are always tentative and their results may not be instantaneous and positive.

An entrepreneur has to have patience to see his efforts bear fruit. In the intervening period (time gap between the conception and implementation of an idea and its results), an entrepreneur has to assume risk. If an entrepreneur does not have the willingness to assume risk, entrepreneurship would never succeed.

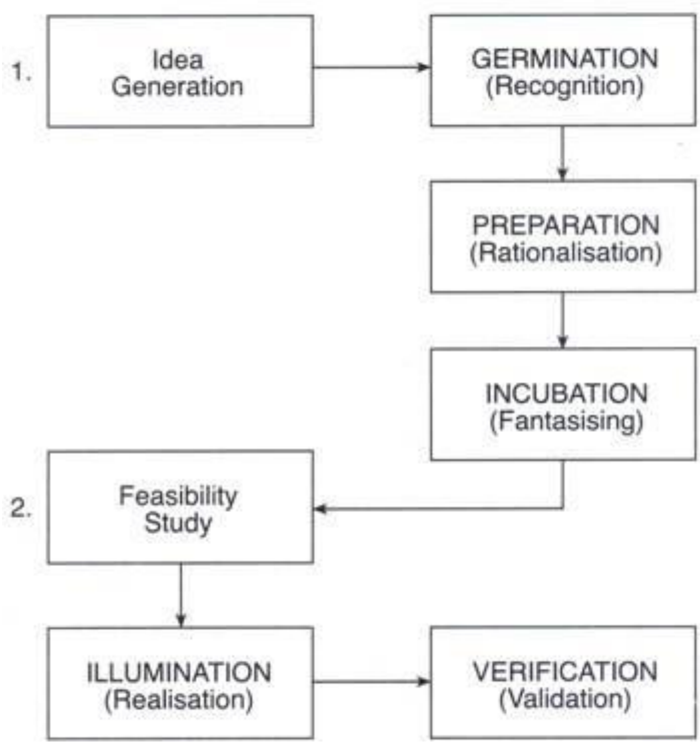
Entrepreneurial Process:

Entrepreneurship is a process, a journey, not the destination; a means, not an end. All the successful entrepreneurs like Bill Gates (Microsoft), Warren Buffet (Hathaway), Gordon Moore (Intel) Steve Jobs (Apple Computers), Jack Welch (GE) GD Birla, Jamshedji Tata and others all went through this process.

To establish and run an enterprise it is divided into three parts – the entrepreneurial job, the promotion, and the operation. Entrepreneurial job is restricted to two steps, i.e., generation of an idea and preparation of feasibility report. In this article, we shall restrict ourselves to only these two aspects of entrepreneurial process.

तेजस्वि नावधीतमस्तु
ISO 9001:2015 & 14001:2015

COPYRIGHT FIMT 2020



1. Idea Generation:

To generate an idea, the entrepreneurial process has to pass through three stages:

a. Germination:

This is like seeding process, not like planting seed. It is more like the natural seeding. Most creative ideas can be linked to an individual's interest or curiosity about a specific problem or area of study.

b. Preparation:

Once the seed of interest curiosity has taken the shape of a focused idea, creative people start a search for answers to the problems. Inventors will go on for setting up laboratories; designers will think of engineering new product ideas and marketers will study consumer buying habits.

c. Incubation:

This is a stage where the entrepreneurial process enters the subconscious intellectualization. The sub-conscious mind joins the unrelated ideas so as to find a resolution.

2. Feasibility study:

Feasibility study is done to see if the idea can be commercially viable.

COPYRIGHT FIMT 2020

It passes through two steps:

a. Illumination:

After the generation of idea, this is the stage when the idea is thought of as a realistic creation. The stage of idea blossoming is critical because ideas by themselves have no meaning.

b. Verification:

This is the last thing to verify the idea as realistic and useful for application. Verification is concerned about practicality to implement an idea and explore its usefulness to the society and the entrepreneur.

<u>Importance of Entrepreneurship:</u>

Entrepreneurship offers the following benefits:

1. Development of managerial capabilities:

The biggest significance of entrepreneurship lies in the fact that it helps in identifying and developing managerial capabilities of entrepreneurs. An entrepreneur studies a problem, identifies its alternatives, compares the alternatives in terms of cost and benefits implications, and finally chooses the best alternative.

This exercise helps in sharpening the decision making skills of an entrepreneur. Besides, these managerial capabilities are used by entrepreneurs in creating new technologies and products in place of older technologies and products resulting in higher performance.

2. Creation of organisations:

Entrepreneurship results into creation of organisations when entrepreneurs assemble and coordinate physical, human and financial resources and direct them towards achievement of objectives through managerial skills.

3. Improving standards of living:

By creating productive organisations, entrepreneurship helps in making a wide variety of goods and services available to the society which results into higher standards of living for the people.

COPYRIGHT FIMT 2020

Possession of luxury cars, computers, mobile phones, rapid growth of shopping malls, etc. are pointers to the rising living standards of people, and all this is due to the efforts of entrepreneurs.

4. Means of economic development:

Entrepreneurship involves creation and use of innovative ideas, maximization of output from given resources, development of managerial skills, etc., and all these factors are so essential for the economic development of a country.

Ques10. **Discuss the factors affecting the choice of form of organization.**

<u>Choice of Business Organization</u>

1. **Liability of Owners:**

The first crucial factor to be kept in view by an entrepreneur while choosing a form of organization is liability of the owner in meeting the business obligations. Generally, an entrepreneur would prefer a form of organization in which the owner's liability is limited only to the capital invested by him in the business. He would not like his personal assets to be utilized under any circumstances to settle the business obligations.

2. **Life of Organization:**

Age of a firm plays crucial role in its growth and success. This is why entrepreneurs prefer a form of enterprise whose life is not linked to the lives of its members so that existence of the organization remains unaffected.

3. **Transferability of Ownership:**

Another variable influencing choice of the form of organization is freedom of the owner to transfer his ownership in the company to someone else as and when desired. This will facilitate the firm to raise funds from the market.

4. **Flexibility:**

Entrepreneurs would like to choose a form of organization which offers the maximum degree of flexibility of making recourse to a variety of sources of funds from the market.

5. **Tax Liability:**

COPYRIGHT FIMT 2020

Tax on earnings is an important cost to an enterprise. An entrepreneur chooses a form of organization which involves lowest tax liability.

6. **Legal Formalities:**

Certain procedures have to be followed and formalities need to be complied with for establishing an enterprise. These formalities, as per legal provisions, differ depending on the type of organization to be set up. Obviously, entrepreneurs would like to select that form of organization which enables them to start business with minimum legal formalities and costs.

7. **Geographical Mobility:**

Another important consideration influencing an entrepreneur's choice of business organization is geographical mobility. Usually, an entrepreneur likes to select a form of organization that provides freedom and right to conduct business in different regions of the country without much legal complications.

8. **Scope of Expansion:**

Entrepreneurs would like that form of organization which provides ample scope for expansion and diversification of business to-exploit emerging market opportunities.

9. **Government Control:**

Entrepreneurs are loath to choose a form of organization to conduct their business where there always remains a great possibility for governmental interference and control

10. **Centralization of Management Control:**

The last but not the least factor that influences the decision of an entrepreneur is the extent of control which he will command over the operations of the business. Generally, entrepreneurs prefer such form of organization as enables them to command exclusive control over the business and thereafter delegate it in an orderly manner.

ISO 9001:2015 & 14001:2015

Ques11. Discuss the advantages of cooperatives society.

Cooperative society

It is a voluntary association of persons who work together to promote their economic interest. It works on the principle of self-help and mutual help. The primary objective is to provide support to the members. People come forward as a group, pool their individual resources, utilise them in the best possible manner and derive some common benefits out of it.

COPYRIGHT FIMT 2020

CHARACTERISTICS OF COOPERATIVE SOCIETY

+Based on the above definition we can identify the following characteristics of cooperative society form of business organization:

(a) Voluntary Association: Members join the cooperative society voluntarily i.e., by their own choice. Persons having common economic objective can join the society as and when they like, continue as long as they like and leave the society and when they want.

(b) Open Membership: The membership is open to all those having a common economic interest. Any person can become a member irrespective of his/her caste, creed, religion, color, sex etc.

(c) Number of Members: A minimum of 10 members are required to form a cooperative society. In case of multi-state cooperative societies the minimum number of members should be 50 from each state in case the members are individuals. The Cooperative Society Act does not specify the maximum number of members for any cooperative society. However, after the formation of the society, the member may specify the maximum member of members.

(d) Registration of the Society: In India, cooperative societies are registered under the Cooperative Societies Act 1912 or under the State Cooperative Societies Act. The Multi-state Cooperative Societies are registered under the Multi-state Cooperative Societies Act 2002. Once registered, the society becomes a separate legal entity and attains certain characteristics.

These are as follows.

(i) The society enjoys perpetual succession

(ii) It has its own common seat

(iii) It can enter into agreements with others

(iv) It can sue others in a court of law

(v) It can own properties in its name

(e) State Control: Since registration of cooperative societies is compulsory, every cooperative society comes under the control and supervision of the government. The cooperative department keeps a watch on the functioning of the societies. Every society has to get its accounts audited from the cooperative department of the government.

(f) Capital: The capital of the cooperative society is contributed by its members. Since, the member’s contribution is very limited, it often depends on the loan from government.

COPYRIGHT FIMT 2020

and apex cooperative institutions or by way of grants and assistance from state and Central Government.

(g) Democratic Set Up: The cooperative societies are managed in a democratic manner. Every member has a right to take part in the management of the society. However, the society elects a managing committee for its effective management. The members of the managing committee are elected on the basis of one-man one-vote irrespective of the number of shares held by any member. It is the general body of the society which lays down the broad framework within which the managing committee functions.

(**h) Service Motive**: The primary objective of all cooperative societies is to provide services to its members.

(**i) Return on Capital Investmen**t: The members get return on their capital investment in the form of dividend.

(j) Distribution of Surplus: After giving a limited dividend to the members of the society, the surplus profit is distributed in the form of bonus, keeping aside a certain percentage as reserve and for general welfare of the society.

TYPES OF COOPERATIVE SOCIETIES

You know cooperative organizations are set up in different fields to promote the economic well-being of different sections of the society. So, according to the needs of the people, we find different types of cooperative societies in India. Some of the important types are given below.

(a) Consumers' Cooperative Societies: These societies are formed to protect the interest of consumers by making available consumer goods of high quality at reasonable price.

(b) Producer's Cooperative Societies: These societies are formed to protect the interest of small producers and artisans by making available items of their need for production, like raw materials, tools and equipment etc.

(c) Marketing Cooperative Societies: To solve the problem of marketing the products, small producers join hand to form marketing cooperative societies. (d) Housing Cooperative Societies: To provide residential houses to the members, housing cooperative societies are formed generally in urban areas.

(e) Farming Cooperative Societies: These societies are formed by the small farmers to get the benefit of large-scale farming.

COPYRIGHT FIMT 2020

(**f) Credit Cooperative Societies**: These societies are started by persons who are in need of credit. They accept deposits from the members and grant them loans at reasonable rate of interest.

MERITS OF COOPERATIVE SOCIETY

The cooperative society is the only form of business organization which gives utmost importance to its members rather than maximizing its own profits. After studying its characteristics and different types, we may now study the merits of this form of business organization.

(a) Easy to Form: Any ten adult members can voluntarily form an association get it registered with the Registrar of Cooperative Societies. The registration is very simple and it does not require much legal formalities.

(b) Limited Liability: The liability of the members of the cooperative societies is limited upto their capital contribution. They are not personally liable for the debt of the society.

(**c) Open Membership**: Any competent like-minded person can join the cooperative society any time he likes. There is no restriction on the grounds of caste, creed, gender, color etc. The time of entry and exit is also generally kept open.

(d) State Assistance: The need for country's growth has necessitated the growth of the economic status of the weaker sections. Therefore, cooperative societies always get assistance in the forms of loans, grants, subsidies etc. from the state as well as Central Government.

(e) Stable Life: The cooperative society enjoys the benefit of perpetual succession. The death, resignation, insolvency of any member does not affect the existence of the society because of its separate legal entity.

(**f) Tax Concession**: To encourage people to form co-operative societies the government generally provides tax concessions and exemptions, which keep on changing from time to time.

(g) Democratic Management: The cooperative societies are managed by the Managing Committee, which is elected by the members. The members decide their own rules and regulations within the limits set by the law.

Unit--3

Ques12. Discuss the types of financial markets.

COPYRIGHT FIMT 2020

Financial market and its types

A financial market is a market in which people and entities can trade financial securities, commodities and other fungible assets at prices that are determined by pure supply and demand principles. Markets work by placing the two counterparts, buyers and sellers, at one place so they can find each other easily, thus facilitating the deal between them.

Financial markets may be viewed as channels through which flow loanable funds directed from a supplier who has an excess of assets toward a demander who experiences a deficit of funds.

There are different types of financial markets and their characterization depends on the properties of the financial claims being traded and the needs of the different market participants. We recognize several types of markets, which vary based on the type of the instruments traded and their maturity. A common breakdown is the following:

Capital market

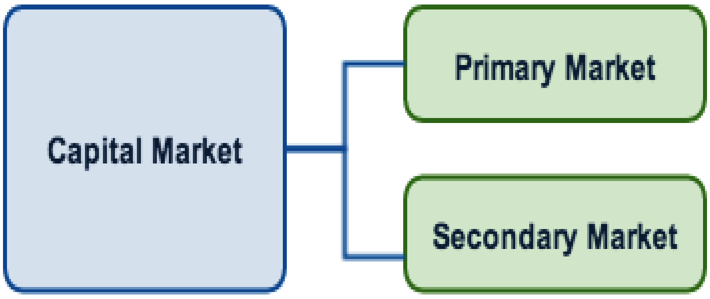
The capital market aids raising of capital on a long-term basis, generally over 1 year. It consists of a primary and a secondary market and can be divided into two main subgroups – Bond market and Stock market.

- The Bond market provides financing by accumulating debt through bond issuance and bond trading
- The Stock market provides financing by sharing the ownership of a company through stocks issuing and trading

A primary market, or the so-called “new issue market”, is where securities such as shares and bonds are being created and traded for the first time without using any intermediary such as an exchange in the process. When a private company decides to become a publicly-traded entity, it issues and sells its stocks at a so-called Initial Public Offering. IPOs are a strictly

COPYRIGHT FIMT 2020

regulated process which is facilitated by investment banks or finance syndicates of securities dealers that set a starting price range and then oversee its sale directly to the investors.



A secondary market or the so-called "aftermarket" is the place where investors purchase previously issued securities such as stocks, bonds, futures and options from other investors, rather from issuing companies themselves. The secondary market is where the bulk of exchange trading occurs and it is what people are talking about when they refer to the "stock market". It includes the NYSE, Nasdaq and all other major exchanges.
Some previously issued stocks however are not listed on an exchange, rather traded directly between dealers over the telephone or by computer. These are the so-called over-the-counter traded stocks, or "unlisted stocks". In general, companies which are traded this way usually don't meet the requirements for listing on an exchange. Such shares are traded on the Over the Counter Bulletin Board or on the pink sheets and are either offered by companies with a poor credit rating or are penny stocks.

Money market

The money market enables economic units to manage their liquidity positions through lending and borrowing short-term loans, generally under 1 year. It facilitates the interaction between individuals and institutions with temporary surpluses of funds and their counterparts who are experiencing a temporary shortage of funds.

Foreign exchange market

The foreign exchange market abets the foreign exchange trading. It's the largest, most liquid market in the world with an average traded value of more than $5 trillion per day. It includes all of the currencies in the world and any individual, company or country can participate in it.

COPYRIGHT FIMT 2020

Commodity market

The commodity market manages the trading in primary products which takes place in about 50 major commodity markets where entirely financial transactions increasingly outstrip physical purchases which are to be delivered. Commodities are commonly classified in two subgroups.

- Hard commodities are raw materials typically mined, such as gold, oil, rubber, iron ore etc.
- Soft commodities are typically grown agricultural primary products such as wheat, cotton, coffee, sugar etc.

Derivatives market

It facilitates the trading in financial instruments such as futures contracts and options used to help control financial risk. The instruments derive their value mostly from the value of an underlying asset that can come in many forms – stocks, bonds, commodities, currencies or mortgages. The derivatives market is split into two parts which are of completely different legal nature and means to be traded.

Insurance market

It helps in relocating various risks. Insurance is used to transfer the risk of a loss from one entity to another in exchange for a payment. The insurance market is a place where two peers, an insurer and the insured, or the so-called policyholder, meet in order to strike a deal primarily used by the client to hedge against the risk of an uncertain loss.

Ques13**. Discuss the objectives and importance of financial planning.**

Definition of Financial Planning

Financial Planning is the process of estimating the capital required and determining it's competition. It is the process of framing financial policies in relation to procurement, investment and administration of funds of an enterprise.

Objectives of Financial Planning

Financial Planning has got many objectives to look forward to:

a. **Determining capital requirements-** This will depend upon factors like cost of current and fixed assets, promotional expenses and long- range planning. Capital

COPYRIGHT FIMT 2020

requirements have to be looked with both aspects: short- term and long- term requirements.

b. **Determining capital structure-** The capital structure is the composition of capital, i.e., the relative kind and proportion of capital required in the business. This includes decisions of debt- equity ratio- both short-term and long- term.
c. **Framing financial policies** with regards to cash control, lending, borrowings, etc.
d. A finance manager **ensures that the scarce financial resources are maximally utilized in the best possible manner**at least cost in order to get maximum returns on investment.

Importance of Financial Planning

Financial Planning is process of framing objectives, policies, procedures, programmes and budgets regarding the financial activities of a concern. This ensures effective and adequate financial and investment policies. The importance can be outlined as-

1. Adequate funds have to be ensured.
2. Financial Planning helps in ensuring a reasonable balance between outflow and inflow of funds so that stability is maintained.
3. Financial Planning ensures that the suppliers of funds are easily investing in companies which exercise financial planning.
4. Financial Planning helps in making growth and expansion programmes which helps in long-run survival of the company.
5. Financial Planning reduces uncertainties with regards to changing market trends which can be faced easily through enough funds.
6. Financial Planning helps in reducing the uncertainties which can be a hindrance to growth of the company. This helps in ensuring stability an d profitability in concern.

ISO 9001:2015 & 14001:2015

Ques14. **Discuss the various sources of finance in business.**

<u>Sources of finance</u>

Internal sources

The main internal sources of finance for a start-up are as follows:

COPYRIGHT FIMT 2020

Personal sources These are the most important sources of finance for a start-up, and we deal with them in more detail in a later section.

Retained profits This is the cash that is generated by the business when it trades profitably – another important source of finance for any business, large or small. **Note that retained profits can generate cash the moment trading has begun.** For example, a start-up sells the first batch of stock for £5,000 cash which it had bought for £2,000. That means that retained profits are £3,000 which can be used to finance further expansion or to pay for other trading costs and expenses.

Share capital – invested by the founder The founding entrepreneur (/s) may decide to invest in the share capital of a company, founded for the purpose of forming the start-up. This is a common method of financing a start-up. The founder provides all the share capital of the company, retaining 100% control over the business.

External sources

Loan capital This can take several forms, but the most common are a **bank loan** or **bank overdraft**.

A bank loan provides a longer-term kind of finance for a start-up, with the bank stating the fixed period over which the loan is provided (e.g. 5 years), the rate of interest and the timing and amount of repayments. The bank will usually require that the start-up provide some security for the loan, although this security normally comes in the form of personal guarantees provided by the entrepreneur. Bank loans are good for financing investment in fixed assets and are generally at a lower rate of interest that a bank overdraft. However, they don't provide much flexibility.

A bank overdraft is a more short-term kind of finance which is also widely used by start-ups and small businesses. An overdraft is really a loan facility – the bank lets the business "owe it money" when the bank balance goes below zero, in return for charging a high rate of interest. As a result, an overdraft is a flexible source of finance, in the sense that it is only used when needed. Bank overdrafts are excellent for helping a business handle seasonal fluctuations in cash flow or when the business runs into short-term cash flow problems (e.g. a major

COPYRIGHT FIMT 2020

customer fails to pay on time). Two further loan-related sources of finance are worth knowing about:

Share capital – outside investors For a start-up, the main source of outside (external) investor in the share capital of a company is **friends and family** of the entrepreneur. Opinions differ on whether friends and family should be encouraged to invest in a start-up company. They may be prepared to invest substantial amounts for a longer period of time; they may not want to get too involved in the day-to-day operation of the business. Both of these are positives for the entrepreneur. However, there are pitfalls. Almost inevitably, tensions develop with family and friends as fellow shareholders.

Personal sources

As mentioned earlier, most start-ups make use of the personal financial arrangements of the founder. This can be personal savings or other cash balances that have been accumulated. It can be personal debt facilities which are made available to the business. It can also simply be the found working for nothing! The following notes explain these in a little more detail.

Savings and other "nest-eggs" An entrepreneur will often invest personal cash balances into a start-up. This is a cheap form of finance and it is readily available. Often the decision to start a business is prompted by a change in the personal circumstances of the entrepreneur – e.g. redundancy or an inheritance. Investing personal savings maximises the control the entrepreneur keeps over the business. It is also a strong signal of commitment to outside investors or providers of finance. Re-mortgaging is the most popular way of raising loan-related capital for a start-up. The way this works is simple. The entrepreneur takes out a second or larger mortgage on a private property and then invests some or all of this money into the business. The use of mortgaging like this provides access to relatively low-cost finance, although the risk is that, if the business fails, then the property will be lost too. .

Borrowing from friends and family This is also common. Friends and family who are supportive of the business idea provide money either directly to the entrepreneur or into the business. This can be quicker and cheaper to arrange (certainly compared with a standard

COPYRIGHT FIMT 2020

bank loan) and the interest and repayment terms may be more flexible than a bank loan. However, borrowing in this way can add to the stress faced by an entrepreneur, particularly if the business gets into difficulties.

Credit cards This is a surprisingly popular way of financing a start-up. In fact, the use of credit cards is the most common source of finance amongst small businesses. It works like this. Each month, the entrepreneur pays for various business-related expenses on a credit card. 15 days later the credit card statement is sent in the post and the balance is paid by the business within the credit-free period. The effect is that the business gets access to a free credit period of aroudn30-45 days!

Ques14.Discuss the various tools of money markets.

Money Market

Definition: Money Market can be understood as the market for short term funds, wherein lending and borrowing of funds varies from overnight to a year. It is an important part of the financial system that helps in fulfilling the short term and very short term requirements of the companies, banks, financial institution, government agencies and so forth.

Salient Features of Money Market

- It is a wholesale market, as the transaction volume is large.
- Trading takes place over the telephone, after which written confirmation is done by way of e-mails.
- Participants include banks, mutual funds, investment institutions and Central Banks.
- There is an impersonal relationship between the participants in the money market, and so, pure competition exists.
- Money market operations focus on a particular area, which serves a region or an area. On the basis of the market size and needs, the area may differ.

There are five major segments of money market which are Certificate of Deposits (CD), Commercial Paper, Swaps, Repo and Government treasury securities.

COPYRIGHT FIMT 2020

Money Market Instruments/Tools

In this market, only those financial instruments are traded which are immediate substitutes for money, which includes:

1. **Call/Notice Money**: When the money raised or borrowed on demand for a very short term which ranges from one day to 14 days, then it may be called as notice money, and when it exceeds 14 days it is termed as call money.
2. **Treasury Bills**: These are short term, negotiable financial assets issued by the central bank, on behalf of the government, for overcoming liquidity shortfalls.
3. **Commercial Bills**: A commercial bill is a negotiable, self-liquidating instrument that is less risky in nature. When goods are bought on credit, these bills improve the liability to make payment at the specified date.
4. **Commercial Paper**: It alludes to an unsecured promissory note, issued by large and creditworthy companies, at a discount on its face value and redeemable at its face value.
5. **Certificate of Deposit**: It is an unsecured, negotiable financial instrument which a bank and financial institution issues to individuals, corporation, trust, funds etc. at a discount on its face value and its maturity vary from 15 days to one year.

The financial assets dealt in the money market possess high liquidity, low transaction cost, less risky and no loss in value. And so, it acts as a whole sale debt market for such instruments.

Ques15. Discuss the role of SEBI.

Securities Exchange Board of India (SEBI)

Securities Exchange Board of India (SEBI) was set up in 1988 to regulate the functions of securities market. SEBI promotes orderly and healthy development in the stock market but initially SEBI was not able to exercise complete control over the stock market transactions.

It was left as a watch dog to observe the activities but was found ineffective in regulating and controlling them. As a result in May 1992, SEBI was granted legal status. SEBI is a body corporate having a separate legal existence and perpetual succession.

- Functions of SEBI:

COPYRIGHT FIMT 2020

- SEBI primarily has three functions-
- Protective Function
- Regulatory Function
- Development Function
- Protective Functions
- As the name suggests, these functions are performed by SEBI to protect the interest of investors and other financial participants.
- It includes-
- Checking price rigging
- Prevent insider trading
- Promote fair practices
- Create awareness among investors
- Prohibit fraudulent and unfair trade practices

Regulatory Functions

- These functions are basically performed to keep a check on the functioning of the business in the financial markets.
- These functions include-
- Designing guidelines and code of conduct for the proper functioning of financial intermediaries and corporate.
- Regulation of takeover of companies
- Conducting inquiries and audit of exchanges
- Registration of brokers, sub-brokers, merchant bankers etc.
- Levying of fees
- Performing and exercising powers

COPYRIGHT FIMT 2020

- Register and regulate credit rating agency

Development Functions

- SEBI performs certain development functions also that include but they are not limited to-
- Imparting training to intermediaries
- Promotion of fair trading and reduction of malpractices
- Carry out research work
- Encouraging self-regulating organizations.

Ques16. Discuss the recent trends in financing.

Recent trends in financing

Venture Capital

It is a private or institutional investment made into early-stage / start-up companies (new ventures). As defined, ventures involve risk (having uncertain outcome) in the expectation of a sizeable gain. Venture Capital is money invested in businesses that are small; or exist only as an initiative, but have huge potential to grow. The people who invest this money are called venture capitalists (VCs). The venture capital investment is made when a venture capitalist buys shares of such a company and becomes a financial partner in the business.

Venture Capital investment is also referred to risk capital or patient risk capital, as it includes the risk of losing the money if the venture doesn't succeed and takes medium to long term period for the investments to fructify.

Venture Capital typically comes from institutional investors and high net worth individuals and is pooled together by dedicated investment firms.

It is the money provided by an outside investor to finance a new, growing, or troubled business. The venture capitalist provides the funding knowing that there's a significant risk

COPYRIGHT FIMT 2020

associated with the company's future profits and cash flow. Capital is invested in exchange for an equity stake in the business rather than given as a loan.

Venture Capital is the most suitable option for funding a costly capital source for companies and most for businesses having large up-front capital requirements which have no other cheap alternatives. Software and other intellectual property are generally the most common cases whose value is unproven. That is why; Venture capital funding is most widespread in the fast-growing technology and biotechnology fields.

Features of Venture Capital investments

- High Risk
- Lack of Liquidity
- Long term horizon
- Equity participation and capital gains
- Venture capital investments are made in innovative projects
- Suppliers of venture capital participate in the management of the company

Methods of Venture capital financing

- Equity
- participating debentures
- conditional loan

Private Equity

The simplest definition of private equity is that it is equity – that is, shares representing ownership of or an interest in an entity – that is not publicly listed or traded. A source of investment capital, private equity actually derives from high net worth individuals and firms that purchase shares of private companies or acquire control of public companies with plans to take them private, eventually become delisting them from public stock exchanges. Most of the private equity industry is made up of large institutional investors, such as pension funds, and large private equity firms funded by a group of accredited investors.

Since the basis of private equity investment is direct investment into a firm, often to gain a significant level of influence over the firm's operations, quite a large capital outlay is required, which is why larger funds with deep pockets dominate the industry. The minimum

COPYRIGHT FIMT 2020

amount of capital required for investors can vary depending on the firm and fund. Some funds have a $250,000 minimum investment requirement; others can require millions of dollars.

The underlying motivation for such commitments is of course the pursuit of achieving a positive return on investment. Partners at private-equity firms raise funds and manage these monies to yield favorable returns for their shareholder clients, typically with an investment horizon between four and seven years.

'Loan Syndication'

Loan syndication is the process of involving several different lenders in providing various portions of a loan. Loan syndication most often occurs in situations where a borrower requires a large sum of capital that may be too much for a single lender to provide or outside the scope of a lender's risk exposure levels. Thus, multiple lenders work together to provide the borrower with the capital needed.

BREAKING DOWN 'Loan Syndication'

Loan syndication is used in corporate borrowing. Companies seek corporate loans for a wide variety of reasons. Loan syndication is commonly needed when companies are borrowing for mergers, acquisitions, buyouts and other capital projects. These types of capital projects often require large loans, thus loan syndication is mainly used in extremely large loan situations.

Loan syndication allows any one lender to provide a large loan while maintaining a more prudent and manageable credit exposure because the lender is not the only creditor on the deal. Large capital projects for corporate borrowers often need very large sums of capital to complete the transaction; therefore, more than one single lender is often relied upon for loan funding. Within the loan syndication process, terms from all of the lenders on the deal are typically the same although they may vary. Collateral requirements by the lenders can often vary considerably. Usually there is only one loan agreement for the entire syndicate.

COPYRIGHT FIMT 2020

UNIT-4

Ques17. How does Government interfere in the functioning of small business?

THE ROLES OF GOVERNMENT IN SMALL BUSINESS

The role of the government should be to facilitate the process of people's involvement in development activities by creating the rights types of institutional infrastructure, particularly in rural areas. Without organized government, individual citizens and business would operate like beasts in jungle.

The Government as Customer: As a customer, the government often causes business firms to set new purchasing procedures. The Government wants to encourage. Competition because it has established its own set of standards for projects and it makes purchases and the basis of performance, not in response to advertising.

The Government as Competitor: Besides meeting government regulations concerning their activates, same business must complete with government owned operations. Deposit insurance home mortgaging insurance, bank loan guarantees, and medical insurance were, undertaken only because private companies would not or could not provide them. Today they have made the government a competitor against many private business firms.

The Government as a tan collector: Most beginning workers are shocked when they look at their first paycheck and see how much of their earnings have been withheld by the government. For business students that experience is an introduction to how federal income tax are collected. This is an important and complex aspect of the relationship between government and business.

Business Responsibilities to Government: Business firms have a number of responsibilities to the government. Business firms must obey the laws of central, state and local governments. Business should look to the government for support, sustenance, encouragement and guidance. Business leaders must follow government as a big brother who is wiser, more matured, more mellowed and less impetuous element in business.

COPYRIGHT FIMT 2020

A few important responsibilities of business towards the government are explained below:

Tax Payment: Taxes paid by business enterprises constitute a major source of revenue to the government firms themselves pay regular taxes and their sales, input and income and also deduct, at source income taxes form salaries and wages at employees and remit the collection to the government.

Voluntary programs: In co-operation with the government, business firms train unemployed and support non-discriminative recruitment of personnel and workmen. Business extends these facilities under the name of social responsibilities.

Providing Information Political leaders, either because of inexperience or over enthusiasm, make certain decisions which may not be in the overall interest of business. Business leaders process the necessary knowledge and experience to place their points of view before the political leaders.

Government Contracts: May business firms bid for government contacts and, if successful, carry out the resulting projects with the required specifications and standards. Housing projects, oil pipelines, turnkey projects and others are executed by private business house for the government.

Government Service: Business offers services of its leaders to the government. It is not unusual for business executives to lead or accompany delegations to foreign countries for exploring trade and industry prospects, similarly, business leaders serve on various advisoy boards constituted by the government.

Political Activity:

Political participation is a much debated subject today. There are arguments for and against participation of business in political activities. Justifying business politics nexus G.D. Birla once said As the Bhagavad Gita says, every man must do his duty which means if you are a wealthy man, you must do your duty by your wealth and his dharma is to provide for general welfare.

COPYRIGHT FIMT 2020

Government responsibilities to Business

Government responsibilities to business are much greater than the obligation of business to the government, Government has the power, will and resources to decide, shape, guide and control business activities. The government responsibilities towards business are as follows.

Establishment and enforcement of laws: Government Establishment and enforces laws and regulations under which the business functions. Laws and regulations covering all aspects of the business enacted by the government. Government is responsible for providing the rules of the game, which make the business systems function smoothly. It is the responsibilities of government to enforce the laws and to provide a system of courts for adjudicating differences between business firms, individuals and government agencies.

Maintenance of order Government has the responsibility of maintaining order and protecting persons and property. It would be impossible to carry as business in the absence of a peaceful atmosphere.

Money and credit: The govt. provides a system of money and credit by means of which transactions can be affected. It is also responsibility of the govt. to regulate money and credit and protect the integrity of the rupee, that is, to grand against rapid fall in its value.

Orderly growth: Orderly growth implies balanced regional development, distributive justice, full employment and protecting the economy against 'booms and bunts' The Government has the resources and capabilities to ensure orderly growth.

Infrastructure: Business needs for its effective functions such Infrastructural facilities as transportation, power, finance, trained persons and civic amenities. It is the responsibilities of the government to provide these facilities.

Information: Government agencies publish and provide a large volume of information which is used extensively by business firms. Included are information services of the departments of commerce and industry, agriculture labours, health, education, banking, atomic energy and host of others. Many state and local governments also provide information highly useful for business leaders in conducting their activities.

COPYRIGHT FIMT 2020

Government Competition: Government often competes with private business firms for the purpose of regulating competition, improving quantity or to supplement private activities with govt. programs. In same cases the govt. regulates the prices which may be charged for buyers.

Inspections and licenses: Government agencies conduct inspection activities foods and drugs, for example assuring quality products to consumers. Government issues licenses to completed business establishment to carry as different activities.

Tariffs and quotas: Tariffs and quotas used by the government to protect business from foreign completions. Incentives and subsidies are granted by the government to encourage the development of home industries.

Transfer of Technology: Government owned research establishments transfer their discoveries to the private industry in order to put them to commercial production more striking success in the technology transfers is in the areas of instruments for processing remote sensing data.

Ques18. Discuss the functions of SIDBI

(i) It provides financial assistance to small industries for:

1. Purchase of machinery and

2. Technological up gradation

It also supplies machinery to small industries on hire-purchase system.

(ii) It provides assistance for working capital requirements to small scale industries.

(iii) It provides assistance for rehabilitation of potentially viable sick units of the small scale sector.

(iv). It provides financial services like:

1. Discounting of bills

COPYRIGHT FIMT 2020

2. Factoring services

3. Leasing services, to the small-scale sector units.

(v) It provides venture capital to innovative small entrepreneurs.

(vi) It provides assistance for the development of marketing infrastructure for marketing products of small-scale sector units.

(vii) It provides direct assistance for the development of industrial estates, for promotion of small-scale business units.

(viii) It provides equity assistance to special target groups like women and ex-servicemen.

(ix) It has formulated a special refinance scheme for acquisition of computers, for improving operational efficiency of small business units.

(x) It extends financial support to various institutions engaged in the promotion of small scale sector business units.

(xi) It has formulated Micro-Credit Schemes to provide loan assistance to Self-Help Groups like institutions and finance companies focusing on banking with poor, Mutually Aided Co-operative Societies etc.

(xii) It has formulated a Credit Guarantee Fund Trust (CGFT) for small industries for guaranteeing loan up to Rs.10 lakhs, to small business units, without collateral security or third party guarantees.

Ques19. Risk Involved in an International Business.

Every country presents its own investment opportunities. Before expanding your company overseas, however, be aware of the additional risks of the foreign trade market. In general, the risks of conducting international business can be segmented into four main categories: country, political, regulatory and currency risk.

Country risk:- Weigh the benefits of your company doing business abroad against the potential pitfalls. Poor infrastructure such as roads, bridges and telecommunications networks

COPYRIGHT FIMT 2020

can make it expensive to operate a business in another country. Economic conditions such as high unemployment or a largely unskilled labor force can be barriers to entry. Rogue nations may have untapped potential, but may also pose risks such as terrorism, internal conflict and civil unrest. Anti-foreign sentiment among citizens, workers and government officials may also make doing business abroad especially challenging. Other country risks include crime and corruption.

Political risk:- Determine the political climate of the country you hope to enter. An unstable or ineffective government will be unable to protect your business interests. Lack of a strong foreign trade policy means that your business will have to navigate through the nuances of allying with government officials who may fall from power. An incoming government may not be business-friendly, and may decide to increase tariffs or impose quotas.

Regulatory risk:- A sudden change in trade laws or a poor legal system exposes your business to regulatory risk. For example, a country without clearly defined intellectual property laws make it difficult for foreign software companies to protect their investments. Changes in banking laws may limit your company's ability to repatriate money to your home country or may limit access to funding.

Currency risk:- Fluctuations of a foreign country's currency can diminish profits when converting back to the home currency. Analyze the risk and rewards of making an investment in another country. The currencies of stable governments are less volatile than those of less-developed countries. Hedging strategies could mitigate some of the currency risk; however, your business is still at the mercy of the vagaries of the local currency market. Sudden changes in monetary policy will also affect currency rates.

Ques20. Notes on FICCI & ASSOCHAM

Federation of Indian Chambers of Commerce and Industry (FICCI), association of Indian business organizations, dedicated to promoting the growth and global competitiveness of Indian businesses. Established in 1927, it is the oldest and largest business association in India, comprising thousands of corporations, chambers of commerce, trade associations, and other groups. FICCI influences the economic policies of India’s government by sponsoring discussion forums for economists, civil servants, and industrialists and through informal consultative arrangements with government planners and policy makers. FICCI also provides practical advice and information, services, and networking opportunities to its business members. It is headquartered in New Delhi and maintains offices in various Indian states and foreign countries.

COPYRIGHT FIMT 2020

FICCI has undertaken policy initiatives to address issues such as opportunities for women entrepreneurs, smuggling and piracy, energy conservation, and business arbitration. To address bilateral issues and to promote foreign trade and investment, FICCI has formed joint business councils with counterpart associations in countries throughout the world, including the United States, China, Australia, and Japan. FICCI also maintains relations with multilateral organizations such as the United Nations Environment Programe (UNEP), the World Trade Organization (WTO), and the World Bank.

ASSOCHAM

The Associated Chambers of Commerce and Industry of India (ASSOCHAM) is one of the apex trade associations of India. The organization represents the interests of trade and commerce in India, and acts as an interface between industry, government and other relevant stakeholders on policy issues and initiatives. The goal of this organization is to promote both domestic and international trade, and reduce trade barriers while fostering conducive environment for the growth of trade and industry of India.

ASSOCHAM was established in 1920 by promoter chambers, representing all regions of India. The Association's head office is located in New Delhi and regional offices are located in the cities of Ahmedabad, Bengaluru, and Kolkata. As of 2012, ASSOCHAM covers a membership of over 4 lakh companies and professionals across the country.

ASSOCHAM members represent the following sectors:

- Trade (national and international)
- Industry (domestic and international)
- Professionals (E.g.: CAs, lawyers, consultants)

NAAC ACCREDITED
FAIRFIELD
तेजस्वि नावधीतमस्तु
ISO 9001:2015 & 14001:2015

COPYRIGHT FIMT 2020