Dececmber 2009

ECO-01 Business Organisation

1. Distinguish between any two of the following. (5+5)

(a) Company form of business organisation and cooperative society form of business organisation.

Ans: A company is an incorporated association. It comes into existence only after registration under the Companies Act. On the other hand, cooperative organisation is a voluntary association. Persons desirous of pursuing a common objective can form themselves into an association leave the same as and when one likes. The primary objective of a company form of organisation is profit making. But in the case of cooperative form of business organisation,its main objective is service and not profit.

A company is formed and registered under the Companies Act. But a co-operative society is formed either under the Co-operative societies Act or under the State Co-operatives Act.

In a company form of organisation,mobilization of large amount of capital is possible. But it is not possible in the case of co-operatives. Since company form of organisations are allowed to have many shareholders, it is possible to raise capital in large amounts. In case of cooperative form of organisation, the capital is procured from its members in the form of share capital. However, the share capital constitutes only a limited source of business finance. The major part is raised either by way of loan from the government or cooperative bank or by way of grants and assistance from the central or state government. In the case of companies, the profit earned is distributed to its members in the form of dividend in proportion to the shares held by them, whereas in co-operatives, after giving a limited dividend to shareholders, the surplus profits are distributed in the form of bonus to the members in proportion to the business transacted by them with the society.

The membership of cooperative societies is open to everybody. Nobody is debarred from joining based on economic position, caste, colour or creed. There is no limit on the maximum number. On the other hand, in the case of a public limited company: the minimum number is seven and there is no maximum limit. In the case of a private limited company, minimum number is two and the maximum is fifty. In tbe case of co-operatives, the shares are not transferable. But a member of the co-operatives can withdraw his capital by giving due notice to the society. In companies the shares are freely transferable. But the withdrawal of capital is not possible as in the case of cooperatives.

(b) Ownership capital and borrowed capital.

Ans: Ownership capital refers to the capital collected by issuing various types of shares. On the other hand, borrowed capital refers to the capital collected by issuing debentures, bonds, taking loans from banks etc. Ownership capital is a permanent capital, as the company is not under obligation to repay the amount during its lifetime. Whereas, borrowed capital is a temporary capital as it is to be repaid after fixed period. Ownership capital is mentioned in capital clause of memorandum of Association. Contrarily, borrowed capital is not mentioned in memorandum of Association. In the case of ownership capital, return on capital is paid in the form of dividend whereas in borrowed capital, return of capital is paid in the form of interest. Ownership capital is not a liability for a company, whereas borrowed capital is a liability for a company. Ownership capital is used for acquiring fixed assets and borrowed capital is used to acquire current assets.

(c) Departmental store and super market.

Ans: A departmental store is a large-scale retail store in which there are several departments each selling a particular type of product. The departments are like separate retail shops operating in the same building. On the other hand, A Super-market is a large-scale retail store which offers for sale a wide P variety of consumer good of regular use.

All kinds of consumer goods are sold in departmental stores. But perishable goods, like vegetables, fruits, bread, butter, milk, etc., are not sold in these stores. To attract customers, the departmental store also provides a few services and facilities like hair-cutting saloon, beauty parlour, restaurant, reading room, telephone, toilets, and even recreation ' - facilities. Contrarily, the articles sold in a super market may include stationery, toiletry, dress materials, ready-made garments, toys, grocery items, crockery, kitchen utensils, medicines, I as well as bread, butter, meat, eggs, fruits! vegetables, etc.

In a super-market the products sold are generally low priced, fast-moving items of daily need. Durable goods like refrigerators, electric fans, radio, television, etc., are not available in super-markets. A departmental store mostly concentrates on consumer' durables and fashion goods.

In a departmental store there are separate counters served by salesmen, whereas super- market operates on a self-service basis.

Customers are not provided with services and facilities like hair-dressing, recreation, etc., in a super-market. These may be available in large departmental stores, although not in every such store.

The items are placed in separate stalls in the same building, or kept on shelves or tables in a hall in the case of super market. Whereas in a departmental store, the departments are like separate retail shops operating in the same building.

(d) Insurable risks and non-insurable risks.

Ans: Those risks which can be covered up by some type of insurance policy are called insurable risk. Whereas those risks which cannot be covered up by some type of insurance policy are called non-insurable risk.

Insurable risks are risks in which the insurance provider can calculate potential future losses or claims. Non-insurable risks are risks which insurance companies cannot insure because the potential losses or claims cannot be calculated.

The risk should be accidental or random in nature. The loss causing factor should not be within the control of the insured in the case of insurable risk. Risks due to war (except cargo at sea) and certain risks such as radio activity arising from nuclear fusion are non-insurable risk.

2. Write short notes on any two of the following: (5+5)

(a) Pricing policy of public utilities:

Ans: Price of a commodity is usually determined by two factors: 1) demand, and 2) supply.This does not apply in the case of all goods and services supplied by the public utility undertakings. There are other considerations which play a more important role in fixing the price. In the case of public utility concerns, price is not fixed on the basis of cost involved in the production or supply of such services i.e., cost of service principle. It is determined on the basis of the purchasing capacity of the consumers, which is called the principle of what the traffic will bear.

The goods and services provided by public utility concerns are essential services or goods. These products or services are used by the poor and the rich alike. The rich can pay higher price to avail of these services, while the poor may not be able to pay for it if prices are fixed on cost basis. Hence the government takes care of and safeguards the interests of the poor by regulating the prices of such goods and services so that the poorer people may also be able to use them. Consumer will pay a fair price.

Determination of a fair price involves a number of considerations like cost of production, cost of supply, a reasonable rate of profit, paying capacity of the customers, changes in the general price level, and so on. Thus, price determination is not a simple matter. It is to be determined after due consideration and consultation with various interests. However, the following three broad aspects of the price policy of public utility undertakings can be kept in mind.

i) Promotional aspect: This aspect is concerned with the promotion of demand of the services provided by the public utility undertakings. Promotional aspect refers to increasing demand for the products or services. Promotion of demand is necessary to ensure full utilisation of the production capacity of the undertaking. This helps in spreading the overhead costs over large output. For example, transport services such as roadways and railways issue monthly tickets (Season tickets) as a concessional rate to a large number of regular passengers.

ii) Price discrimination: The demand for the products of a public utility undertaking is elastic in some markets and inelastic in other markets. For example, in the case of transport services, general public or tourists demand for bus service is elastic (they do not solely depend on public buses, they may also hire auto or taxi). The demand for bus among regular office-goers or students is inelastic (they mainly depend on public buses only. Here the undertakings have lo charge less from the students and office-goers, and more from the tourists and the general public. In some cases, public utilities can demand lower price in one market and  higher price in others, or may charge lower price from one category of consumers and higher price from the other category of consumer.

iii) Social considerations: Some of the public utility undertakings touch everyday life of the people and are "affected with public interests". In such cases the price of the product is not fixed purely on economic basis. Considerations of social welfare play an important role in the price fixation, Consumers with low incomes or poor people get the services at concessional or subsidised rates.

(b) Any five primary functions of stock exchanges.

Primary functions:

1) Marketability and price continuity: The stock exchange provides for easy marketability of securities as securities can be bought and sold conveniently on the

floor of the stock exchange. Since transactions take place regularly, there is continuity in the dealings. Prices quoted are duly recorded and reported in the newspapers for the benefit of investing public. Besides, price fluctuations are also moderated because of the continuity of buying and'selling.

2) Mobilising surplus savings: Stock exchange is an integral part of the capital market of a country. It is because through stock exchanges the savings from all parts of

the country are made available to the industrial and commercial undertakings for meeting their financial requirements.

3) Barometer of economic and business conditions: The intensity of buying and selling of securities and the corresponding rise or fall in the prices of securities reflect the

investors' assessment of the economic and\business conditions. Thus, during periods of economic and business prosperity prices of securities tend to rise.

Conversely, prices tend to fall when there is economic stagnation or when business activities slow down as a result of depression in the markets. Indeed, change in

security prices are known to be highly sensitive to changing economic, social and political conditions.

4) Mobility of capital: Stock exchanges furnish an open and continuous market for securities. Savings invested in securities are converted into cash for reinvestment in other securities. Thus, stock exchanges provide mobility to capital and facilitate sound investment.

5) Contribution to capital formation: Savings are encouraged when people come to know about the avenues of investment. Stock markets educate investors as regards

where and how to invest their savings for a fair return.

6) Shock absorber: Stock exchanges bring about equilibrium in the prices of securities which'are bought and sold by speculators. Speculators generally buy securities in anticipation of rise in the prices. As a result of their buying, prices do not decline as low as might have been the case without their buying. Again when prices are, high, speculators sell securities in anticipation of decline in the prices. Their selling prevents price rising too high. Thus, speculative activities regulate excessive price fluctuations.

7) Sifting process: Investors generally prefer to invest their savings after proper assessment of the relative risks and returns associated with different securities.

(c) Direct mail as a medium of advertising.

Ans: Sending personalised letters by post to the prospective customers is a method of advertising which often pays. These communications are mostly in the form of circulars and sometimes adcompanied by catalogues or price lists. The idea behind mailing circular letters is to approach the customers directly with the advertising message and to arouse his interest in the product or service with detailed explanation in a convincing manner. A mailing list is thus prepared and the letter is carefully draftkd with personalised wordings.

The message having a personal touch is expected to be more effective. Addressed to individual, name, the message can draw the attention of the customer without distraction from competing advertisements.

Direct mail cannot be a suitable medium for advertising products meant for public use on a mass-scale. It is best suited for products where the people to be contacted can be easily identified. For example, a company manufacturing or distributing pharmaceutical products (medicines) may easily identify the doctors or chemists for direct communication of information relating to the products.

It would be expensive and time consuming to undertake direct mailing of circular letters to innumerable consumers of such products who are widely scattered. Booklets, pamphlets, catalogues, etc., sent by post to prospective customers also come under direct mail. These are also suitable only in the case of a selective group of customers.

(d) Bank overdraft as a method of short-term finance.

Ans: The bank overdraft is a form of short-term credit that account holders can take advantage of without entering into a credit agreement by overdrawing their current account. Overdraft is a temporary arrangement with the bank which permits the company to overdraw from its current deposit account with the bank up to a certain limit. This means that if an outgoing payment is higher than the money still available in the account, the payment can still be made. The amount of the bank overdraft is determined by the bank or the lender. The overdraft facility is also granted against securities as in the case of cash credit. Interest is charged only on the amount actually overdrawn. One advantage of the bank overdraft is that it can be used to pay short-term liabilities even if there is not enough money in the account at the time of maturity. If a company needs a short-term loan of a small amount, the bank overdraft is the most uncomplicated option, as it is not necessary to submit a separate loan application to the bank.

The biggest disadvantage of the bank overdraft is that it is very expensive, as banks pay very well for providing this short-term credit. The longer an account is unbalanced, the higher the interest payments.Another disadvantage is that the limit can be adjusted downwards by the bank at will depending on how often the bank overdraft is used and how well the account holder is able to balance the account again afterwards.

## PART – B

Attempt any three of the following questions:

3. Define the term business? Explain its features and objectives. (2+5+3)

Ans: Business refers to the human activities engaged in production and/or exchange of want satisfying goods and services carried with the intention of earning profits.

Any activity carried primarily with the object of earning profit can be called a business activity. This objective of earning profit is achieved by production and/or exchange of want satisfying goods and services. Therefore, we can define business as "any activity concerned with the production and/or exchange of want satisfying goods and services carried with a view of earning profit". Production of soaps, sale of eggs, production of TV sets, transport, etc., are some examples of business.

Five broad features of business are:

* Dealings in goods and services: Business deals with goods and services. The goods may be consumer goods such as sweets, bread, cloth, shoes, etc. They may be producer's goods such as machinery, equipment, etc., which are used to produce further goods for consumption. Business also deals with

services such as transport, warehousing, banking, insurance, etc., which are intangible and invisible goods.

* Production and/or exchange: An economic activity is called a 'business' only when there is production or transfer or exchange or sale of goods or services for value. If goods are produced for self-consumption or presentation as gift, such activities are not to be treated as business. In a business activity, there are two parties i.e., a buyer and a seller. Such activity should concern with the transfer of goods or exchange of goods

between a buyer and a seller. The goods may be bartered or exchanged for money.

* Continuity and regularity in dealings: A single transaction is not treated as business. An activity is treated as business only when it is undertaken continually or at least recurrently. For example, if a person sells his residential house, it is not considered as business. If he repeatedly buys houses and sells to others, such activity comes under business. But how frequently the transaction should occur depends on the nature of the activity.

* Profit motive: Earning profit is the primary motive of business. A business will flourish only when it is able to serve its customers to their satisfaction. Profits are essential to enable the business to survive, to grow, expand, and to get recognition.

* Element of Risk: In every business, there is a possibility of incurring loss. This possibility of incurring loss is termed as risk. The element of risk exists due to a variety of factors which are outside the control of the business enterprise. There are two kinds of risks. (I) Risks whose probability can be calculated and can be insured. Losses due to fire, floods, theft, etc., are some examples. (2) Risks whose probability cannot be calculated and which cannot be insured against, e.g., changing technology, fall in demand, changing fashions, short supply of raw materials, etc. These risks are to be completely born by the enterprise.

Objectives of business:

The primary objective of business is to earn profit. Although profit plays an important role as a criterion of success, business may not exist for long with the sole objective of earning profit. Thus, serving the community is regarded as another important objective of business.

The objectives of business could be listed under three broad headings: (1) economic objectives, (2) social objectives, and (3) human objectives.

Economic Objectives: Basically, being an economic activity, primary objectives of business are economic. Some of the main economic objectives are:

i) Earning of satisfactory profits.

ii) Exploring new markets and creation of more customers.

iii)Growth and expansion of business operations of the firm.

iv)Making innovations and improvements in goods and services so that customers get improved and more economic goods and services.

Social Objectives: Business, being a part of the society, has obligations towards the society also. Some major social objectives are:

i)Providing more and more employment opportunities to the people in the country.

ii) Supply of quality goods to the community.

iii) Providing goods at reasonable prices.

iv) Ensure fair returns to investors.

v) Avoidance of profiteering and unfair practices.

vi) Production of goods in accordance with national interests and priorities.

Human Objectives: Business activity is, generally, carried out through employees who are human beings. In fact, the efficiency and the success of the business enterprise depends on the motivation and ability of its employees. Therefore, business must also have some human objectives to safeguard the interests of its employees. Some of the major human objectives are:

i)Fair deal to employees in terms of wages and incentives.

ii)Providing better working conditions and environment to the employees.

iii)Provide job satisfaction.

iv) Provide the employees more and more' promotional/growth opportunities.

4. Explain various methods of raising long-term capital. (10)

Ans: Long-term finance may be raised by companies from, one or more of the following sources:

i) Capital market which consists of individual investors, financial institutions and investment companies
ii) Special financial institutions consisting of development banks and institutional ' investors.'

iii)Leasing companies

iv)Foreign sources

v)Retained profits

i) Capital market: Transactions involving procurement of funds and supply of funds which take place among individuals and various organisations may be regarded as the capital market. Thus, the capital market is not located in a particular place. There are no fixed categories of investors and dealers in the market. Another type of market in connection with business finance, known as the money market. Money market refers to transactions involving borrowing and lending of money for short periods for which again there is no definite place set aside in a town.

ii) Special financial institutions: After independence many financial institutions have been established in India with the primary objective to provide medium and long-term financial assistance to industrial enterprises. Institutions like Industrial Finance Corporation of India (IFCIs), Industrial Reconstruction Bank of India, State Financial Corporation (SFCs), State Industrial Development Corporation (SIDCs), have been established to provide financial support to set up new enterprises as well expansion and modernisation of the existing enterprises. On the other hand, at the state level there are State Financial Corporations (SFCs) and Industrial Development Corporations (SIDCs). These state level institutions mainly provide long-term finance to relatively smaller companies. These institutions (both national level and state level) are known as 'Development Banks' because their main objective is to provide financial assistance to industrial enterprises for investment projects, expansion or modernisation of plants in accordance with the priorities laid down in the Five Year Plans.

Besides the development banks, there are several other institutions known as investment companies or investment trusts which subscribe to the shares and debentures offered to the public by companies. For example, the Life Insurance Corporation of India (LIC), General Insurance Corporation of India (GIC), the Unit Trust of India (UTI), etc., come under this category.

iii) Manufacturing companies can secure long-term funds from leasing companies. For this purpose, a lease agreement is made whereby plant and machinery and fixed assets may be purchased by the leasing company and allowed to be used by the manufacturing concern for a specified period on payment of an annual rental. At the end of the period the manufacturing company (lessee) may have the option of purchasing the asset at a reduced price. The ownership of the asset remains with the leasing company (lessor) during the lease period. To meet its financial requirements, a manufacturing company may also sell its existing fixed assets to a leasing company at the current market price on the condition that the leasing company would lease the assets back to the seller for a specified period. Such an arrangement is known as 'sale and lease back'. The manufacturing company in this case gets the immediately without having to part with the physical possession of the assets. It continues to use the assets on payment of periodical rent for the lease.

iv)Foreign sources: Funds can also be collected from foreign sources which usually consist of: a) foreign collaborator, b) international financial institutions, and c) non-resident Indians (NRIs)

a) Foreign Collaborators: If approved by the Government of India, large companies may be able to secure long term finance based on collaboration agreements with companies abroad. Foreign collaboration may, thus, enable Indian companies to secure equity capital from abroad through the subscription of foreign collaborator to their share capital, or by way of supply of technical knowledge, patents, drawings and designs of plants or supply of machinery.

International Financial Institutions: There are several international financial institutions which provide long-term funds for industrial development all over the world. The most important among them are: i) The World Bank, and ii) International Finance Corporation.

The World Bank grants loans for specific industrial projects of high priority included in the national development plan. The loans must be guaranteed by the Government of India, and may be given directly to an industrial concern, or through a Government agency, or may be given to the IOBI for refinancing to companies.

b) The International Finance Corporation (IFC) was established in 1956. It is an affiliate of the World Bank. As you know the World Bank grants loans only to governments of member-countries or private enterprises with guarantee of the concerned government and it does not provide risk capital to enterprises in member-countries. s. IFC was set up to assist the private undertakings without the guarantee of the member-countries. It also provides them risk capital. IFC grants loans to industrial firms for a period of 8 to 10 years. Such loans do not require Government guarantee.

c)Non-resident Indians: Persons of Indian origin and nationality living abroad (Non-resident Indians) are also permitted to subscribe to the shares and debentures issued by companies in India. A non-resident or a company controlled by a non-resident can invest up to a maximum of 5% of the paid-up equity capital of an Indian company.

v)Retained profits: An important source of long-term finance for ongoing profitable companies is the amount of profit which is accumulated as general reserve from year to year. To the extent profits are not distributed as dividend to the shareholders, the retained can be reinvested for expansion or diversification of business activities. It be used for renovation of assets or modernisation of plant and equipment. It may be interpreted that the existing shareholders provide the finance. Hence, the company must decide to reinvest profits only when the rate of return is comparable with that of other similar companies. A part of the profits must be distributed as dividend keeping in mind shareholders expectation and the effect of dividend rate on the market price of shares. Retained profit is an internal source of finance. Hence it does not involve any cost of floatation which has to be incurred to raise finance from external sources. Further, the company does not have to face the uncertainties of external financing. The only drawback of this source of long-term finance is that it depends on the availability of adequate profits for retention.

5. State the features of an ideal medium of advertising. Explain briefly the various media of advertising and suggest which of them is ideal in all respects. (3+7)

Ans: Features of an ideal medium of advertising are:

i) Reach: The medium should be such as to reach the largest possible number of the target audience.

ii) Message: It should be possible to convey the message adequately through the medium.

iii) Economy: The medium must be economical from the point of view of cost.

iv) Flexible: It should provide flexibility of size, design, layout colour, etc.

v) Scope of repetition: The medium should provide adequate scope for repeating the message, if necessary, at frequent intervals.

vi) Effective: The use of the medium should result in achieving the goal of sales promotion.

Advertising media may be divided into the following broad categories:

i) Press (Newspapers and Magazines)

ii) Radio

iii) Television

iv) Outdoor media

v) Direct mail

vi) Miscellaneous

i)Press: Press medium is a print medium which comprises of newspapers and magazines. The main difference between newspapers and magazines is the periodicity of their publication. Newspapers are published daily, whereas magazines are published periodically i.e., weekly, fortnightly, monthly, quarterly or biannually. In both cases, however, the message is conveyed through words in print, sometimes along with pictures or photographs. Words and accompanying picture in print can be made as attractive, appealing and informative as possible.

Newspapers can be published in different languages. Newspapers are widely and regularly read by the educated public. Many have become accustomed to advertisements in newspapers and look for them as sources of information. As a medium of advertising, newspapers reach a very large number of people. Newspaper advertising is relatively cheaper than other media like radio and television.

Magazines are also called periodicals as they are published at periodical intervals-weekly, fortnightly, monthly and so on. Different types of magazines are published for different categories of readers. For example, there are popular general magazines containing feature articles, news and stories e.g., India Today, Illustrated Weekly, Dharm Yug, etc. There are magazines for children (e.g., Target, Chandamama, etc.) which include stories of their interest. There are magazines like Business India, Fortune, Commerce, etc., for businessmen and executives. Similarly, there are sports magazines (e.g., Sports Week, Sports Star, etc.), women's magazines (e.g., Femina, Women's Era), professional magazines (e.g., Indian Journal of Marketing, Indian Medical Journal, etc.), film magazines (e.g., Star & Style, Filmfare, etc.) and so on. Magazines are not as widely read as newspapers. Many people read the newspapers in the morning and put them aside afterwards. So, the life of the advertisement in a newspaper is short. Since magazines are generally read over a period of time, they have longer life than newspapers. The cost of advertising in magazines is relatively cheaper compared to other media like radio and T.V.

ii) Radio: Broadcasting as a medium of advertising has become increasingly popular in India due to the availability of radio sets at prices which people of low income can also afford. In India radio sets I are owned by a large number of population. Thus, advertisement appeals can reach the general public in different parts of the country very conveniently through radio broadcasts.

radio broadcasting is well suited for various consumer goods having a mass appeal such as movies, electric fans, refrigerators, sewing machines, leather goods, travelling bags, etc. The advantage of radio advertising is that, being an audio medium, it does not require education to receive the message. The listeners need not be literates. Besides, the message which is orally I communicated may be more impressive than the message in print. The limitations of radio advertising are: 1) it is more expensive than press advertising, 2) the life of the i advertisement is very short, and 3) it is difficult to remember the message in detail.

iii) Television: The importance of television as a medium of mass communication has significantly increased in India over the last 15 years. Its importance as a medium of advertising has grown with the use of satellite transmission and establishment of more relay stations to cover the remote parts of the country.

Individuals who cannot afford to buy TV sets are able to watch TV Programmes in I I community centres and public places. Use of television for advertising is increasing in recent times due to its extensive coverage and the impact of visual communication on the I viewers. Its combination of sound, vision and movement permits the use of advertisement to demonstrate the product and its advantages. For this reason this medium is more i effective than the press and radio. The major limitation of this medium is the heavy cost of I advertising, particularly for advertisement before or after popular programme, known as prime time. Hence, only the large enterprises are in a position to make use of this medium. Another limitation is that the duration of a commercial advertisement is only for a few seconds. Also viewers often find it difficult to assimilate a large number of advertisements within a short span of time.

iv) Outdoor media: Outdoor media of advertising refer to the media used to reach people when they are out of doors or travelling rather than at home or in the office. Pamphlets, posters, hoardings (bill boards), neon signs, and electric displays come under this category of media. Pamphlets (printed handbills) are quite often used as a medium of advertising for sales promotion in a local area. Pamphlets are distributed among passers by at street crossings, railway stations or bus terminals, roadside market places, etc. Posters (message printed on Paper) are generally fixed on walls, roadside pillars lamp posts, etc. Posters are also fixed inside public transport vehicles like trams, buses and railway coaches. In these cases space is provided on payment.

Neon signs and electric displays are usually installed on roof tops or at busy street crossings so as to draw the attention of people. These are visible only in the night. Hoardings (bill boards) refer to large boards carrying the message, sometimes with life size pictures, and installed at public places. Hoardings are specially designed to draw the attention of the public. As the size of the hoardings is normally large, advertisement is visible from a distance.

v) Direct Mail: Sending personalised letters by post to the prospective customers is a method of advertising which often pays. These communications are mostly in the form of circulars and sometimes accompanied by catalogues or price lists. The idea behind mailing circular letters is to approach the customers directly with the advertising message and to arouse his interest in the product or service with detailed explanation in a convincing manner. A mailing list is thus prepared and the letter is carefully drafted with personalised wordings. The message having a personal touch is expected to be more effective.

Direct mail cannot be a suitable medium for advertising products meant for public use on a mass-scale. It is best suited for products where the people to be contacted can be easily identified. For example, a company manufacturing or distributing pharmaceutical products (medicines) may easily identify the doctors or chemists for direct communication of information relating to the products.

It would be expensive and time consuming to undertake direct mailing of circular letters to innumerable consumers of such products who are widely scattered. Booklets, pamphlets, catalogues, etc., sent by post to prospective customers also come under direct mail. These are also suitable only in the case of a selective group of customers.

vi) Miscellaneous: Apart from the media discussed above, there are several other types of media used for advertising. Some such media are slide projection in cinema houses, films, exhibitions, display in show-cases, etc. Calendars, diaries, key-rings, purses, paper weights, etc., imprinted with a message along with the advertiser's name and address are also considered as advertising media. Projection of slides in the cinema theatre before and during the film show is one of the cheaper means of advertising. Projection of short-films before the commencement of feature film is a relatively more expensive medium of advertising.

Exhibitions also provide opportunities for advertising goods. Consumer goods can be displayed and the use of industrial goods like machinery, can be demonstrated in the. exhibition. The limitation of exhibitions is that their duration is restricted to a specified period.

Show cases displaying goods are located in public places like railway stations, airports, bus terminals, etc., to attract the attention of the public. Rent is payable for the space. Attractiveness of the products and the manner they are displayed are the main features of this advertising medium.

6. "The relationship between a banker and the customer is primarily that of a debtor and creditor." Discuss. (10)

Ans: The relation of a banker and customer is primarily that of a debtor and creditor. The relationship between banker and customer is a legal relationship that starts after the formation of a contract. When a person opens a bank account in the bank and banker gives his acceptance for the account, it bind the banker and consumer in the contractual relationship. The person who holds the bank account in the bank and uses its services is called a bank customer. The contractual relationship between bank and customer creates more types of banker and customer relationships.

The bank and customer are two different terms that are related to the bank. The person doing the bank business is called a banker and the person who relates to the bank, either depositing his money or taking a loan from the bank is called a bank customer. The relationship between banker and customer can be of various types because it totally depends upon the activities, products and services provided by the banker to the customer. Although the relationship is totally based on contact, trust is an important part of the relationship between bankers and customers.

The main work of the bank is depositing and lending money. The bank encourages people to save their money into the bank accounts to earn some interest on the money. The bank uses this money to give loans to needy people with an interest rate. In simple words, the bank works as the intermediary between two people where one wants to save his money and others need money. This process also helps the bank to gain some profit and make the relationship between banker and customer. This process creates different rights and duties of bankers against the customer and rights and duties of customers against the bank which make the banker and customer relationship stronger.

The opening of a bank account in the bank of a banker by the person who has the capacity to contract is the basis of the debtor and creditor relationship between banker and customer. By filling the form for opening a bank account bind the banker and customer in the written contract. The customer when deposits his money into his bank account, becomes a creditor because he is giving his money to the bank indirectly. The money deposited by the customer in the bank account becomes the bank's property. The bank can use your money as it likes. By using your money, the bank becomes a debtor because he will take that money into his account to make further transactions with other bank customers. The bank is not liable to inform the customer about the utilization of his money.

This relationship gets opposite at the time when a bank customer takes the loan from the bank, the bank becomes the creditor and the customer becomes a debtor. It means the debtor and creditor relationship works both ways depending on the condition of the transfer of money. The bank usually takes the money of customers to use it to provide loans for other bank customers and it is the most important activity of a bank.

Almost in all types of bank accounts, the customer can withdraw his saved money in to the bank account at any time because there are no restrictions imposed by the bank on the customer. Some bank accounts like fixed deposits etc. Impose minor penalties if a person wants to withdraw his money before the expiration period.

When a customer opens an account with a bank and maintains e credit balance, the banker assumes the position of a debtor and the customer assumes the role of a creditor. Money deposited with the bank becomes a debt due from him to the customer. The banker can use the money deposited with him by the customers in any manner according to his discretion, his only obligation being to repay the debt as and when demanded by the customer.

7. Compare the Departmental form of organisation in public enterprises with statutory corporation form of organisation. Which of these two forms would you prefer for managing public enterprises and why ? (5+5)

Ans: Developmental organisation is created by the government and attached to a particular ministry. Public corporation is corporate body created by the Parliament or State Legislature as the case may be, by a special Act which defines its powers. duties, functions, immunities and the pattern of management.

Statutory form of organisation is a legal entity. It means that a corporation is an 'artificial person' which exists in the eyes of law. Like a living being, it can enter into contracts and can transact any business under its own name. Since it does not have physical existence, it operates through its agents, which is its Board of Directors. Departmental form of organisation has no separate legal status.

In departmental form of organisation responsibility of management rests with the minister under whose ministry the undertaking functions. Statutory form of organisation is managed by the management committee constituted according to the provisions of the Act. It is answerable to the Parliament or State Legislature as the case may be, in other words it is Managed by the Board of Directors nominated by the government.

Departmental organisations are the oldest form of state enterprises, whereas public corporations are the modern form of state enterprises.

The employees in the case of departmental organisation are civil servants. The terms and conditions of service of the employees are also the same as for the other government employees. Although a statutory corporation is owned and managed by the government, its employees are not government servants. The employees are recruited, remunerated and governed by the rules and regulations laid down by the corporation. Their pay and benefits are also different from those of the government servants.

The finances of a departmental form of organisation are not independent of the government. They are financed out of the government treasury through the annual budget appropriations and its revenues are paid into the treasury. These enterprises do not have much flexibility in financial matters, as they are subject to budget, accounting and audit controls. A major source of autonomy of a statutory corporation is its independence in respect of its finances. Unlike departmental form of organisation, a public corporation is not subject to the budget, accounting and audit controls. The corporation shall have its own funds and all receipts of the corporation shall be credited thereto and payments shall be made therefrom. Once the funds are given to a corporation, it manages them on its own. It does not have to go to the Parliament to get its budget approved. A corporation can also borrow money within and outside the country after getting approval from the government.

The public corporations work with the service motive rather than profit motive. This public accountability of the corporation sometimes acts as a stumbling block in the operational efficiency of the enterprise. Departmental undertakings are run with the objective of service motive. So, the commercial principles which are necessary for their very success are neglected. Further, due to lack of competition there is little incentive to improve their operational efficiency.

Departmental undertakings are completely answerable to Parliament even for their day-to-day operations. As a result, there is less scope for any initiative and skill in the departmental organisation. Public corporation is answerable to legislature (Parliament1 State Assembly) which creates it. The way the corporation would be held accountable is mentioned in the Act. Parliament is not expected to interfere in its day-to-day working.

The evils of red-tapism and bureaucracy associated with departmental form of organisation are avoided. Business functions cannot be carried out efficiently in a government set-up, which is marked by rules, regulations and procedures. Compared with a departmental organisation a public corporation can take quick decisions and prompt actions on any matter affecting its business.

8. (a) What are the essentials of a good transport systems ?(5)

Ans: A good transport system is one which should serve the purpose of transportation and satisfy the following requirements:

1. It should be economical. The cost of transport service should be low enough to enable the users to carry their goods at the lowest possible charge so that the ultimate consumer get the products at a reasonable price.

2. It should be capable of carrying goods as speedily as possible. There should not be any delay in reaching the destination except for natural calamities or unavoidable causes.

3. The transport service should be available regularly as and when required. It must ensure the safety of the goods.

4. It should be operated by the properly skilled and efficient persons capable of handling problems in emergency.

5. It should provide for ensuring the risks of loss or damage to goods in transit, and assure payment of due compensation in case of delay causing loss to the owner of goods.

6. There should be proper arrangements for loading and unloading of goods promptly and at minimum cost.

7. As far as possible, delivery of goods should be made at locations convenient to the receiver of the goods.

(b) Write a short note on 'aids to trade'. (5)

Ans: Activities which facilitate the trade are called 'aids to trade'. Thus, all human activities which eliminate the hindrances and facilitate the flow of goods from producers to consumers come under aids to trade. They are also called 'auxiliaries to trade'. The whole range of activities coming under aids to trade may be classified into five categories: 1) transportation, 2) warehousing, 3) insurance, 4) advertising, and 5) banking.

1)Transportation: All the goods are not consumed at the same place where they are produced. In the modern times there is a vast distance between centers of production and the centers of consumption. Therefore, goods are to be moved from the place of production to the place where they are demanded. This difficulty is removed by an important aid to trade known as transport. Thus, transportation eliminates the hindrance of place and creates place utility to goods. Transportation can be of three types: a) Land transportation - road, rail b) Air transportation-aeroplane C) Water transportation-boat, ship

2) Warehousing: Warehousing is an act of carefully storing goods in warehouses to sell or distribute them later. Warehousing is essential because there is a time gap between production and consumption. In other words, goods which are produced at one time, are not consumed at the same time. Hence, it becomes necessary to make arrangements for storage or warehousing. Goods once produced should be preserved properly till they are consumed. Particularly, perishable goods like milk, meat, vegetables, flowers, etc., should be preserved very carefully. Otherwise, they get spoiled and become useless. For this reason warehousing is recognised as yet another aid to trade. Thus, warehousing eliminates the hindrance of time and provides time utility to goods.

3) Insurance: The goods may be destroyed while in production process, or in transit due to accidents, or in storage due to fire or theft, etc. The businessmen would like to cover thcse risks. Insurance companies come to their rescue in this regard. They undertake to compensate the loss suffered due to such risks. For this purpose, the business has to take an 'insurance policy' and pay a certain amount regularly, called 'premium'. Thus, insurance eliminates the hindrance of risk.

4) Advertising: Exchange of goods is possible only when the consumers have the knowledge about the existence of a product. This is the hindrance of knowledge. This hindrance is eliminated through advertising. Through advertisement, producers communicate all information about their goods to the prospective consumers and create in them a strong desire to buy the product. Thus, advertising facilitates the flow of goods between producers and consumers by bringing the knowledge about the

products to the consumers. Advertising is done through TV, radio, newspapers, magazines, hoardings, wallposters, etc.

5) Banking: Banking solves the problem of finance. Banking facilitates the flaw of goods by removing the hindrance of finance and credit. Businessmen receive money and pays money in large amounts. It is risky to carry a large amount of cash from one place to another. Here comes banking as a solution. Banking and financial institutions solve the problem of payment and facilitate a smooth exchange between buyer and seller. The businessmen may also require short-term and long-term funds. Bank provide such finance to businessmen. Banks also advance loans in the form of overdraft, cash-credit and discounting of bills of exchange etc.