December 2012

ECO-01 Business Organisation

PART-A

1. Distinguish between any two of the following : 5+5

(a) Entrepreneur and promoter.

Difference between Entrepreneur and Promoter:

Those who are innovators and risk-bearers are strictly known as 'entrepreneurs' while those who take steps to set up the business and make it operational are known as 'promoters'. The entrepreneur is someone who comes up with the idea/solution and/or develops a business around it. Those who take steps to set up the business and make it operational are known as 'promoters'. Entrepreneurs may or may not be specialists in the field of business. Promoters are basically specialists who work to set up a new business, expand an existing business or combine two or more business firms. An entrepreneur can be a promoter but a promoter may or may not be an entrepreneur. In actual practice, such distinction does not hold well because Entrepreneurship (act of Entrepreneurs) does not remain confined only to identifying a business opportunity and his preparedness to do something new. It does not end with the Iundertaking to bear the risks of business. It also extends to planning for the business and taking necessary steps to put it into operation. After all, a business becomes a business only when it gets going. An entrepreneur is basically someone who has founded the company. A promoter, on the other hand, is someone who promotes the business. An entrepreneur is fully responsible for the company's success or failure. Promoter is responsible for getting others to invest into the business venture.

(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) Intensive distribution and exclusive distribution.

Ans: Intensive distribution (also called Mass Distribution) is where a company supplies their product to all markets (essentially they are found everywhere). These products can be found in almost every place a person shops(grocery stores, gas stations, supermarkets, etc.).Intensive distribution aims to provide saturation coverage of the market by using all available outlets. For many products, total sales are directly linked to the number of outlets used (e.g., cigarettes, beer). Intensive distribution is usually required where customers have a range of acceptable brands to choose from. In other words, if one brand is not available, a customer will simply choose another.

This alternative involves all the possible outlets that can be used to distribute the product. This is particularly useful in products like soft drinks where distribution is a key success factor. Here, soft drink firms distribute their brands through multiple outlets to ensure their easy availability to the customer.

Hence, on the one hand these brands are available in restaurants and five star hotels and on the other hand they are also available through countless soft drink stalls, kiosks, sweetmarts, tea shops, and so on. Any possible outlet where the customer is expected to visit is also an outlet for the soft drink.

Exclusive distribution is, essentially an extreme modification of selective distribution. Companies are far more selective with where their product can be purchased at. Exclusive distribution uses one distributor for entire region.

Exclusive distribution is an extreme form of selective distribution in which only one wholesaler, retailer or distributor is used in a specific geographical area.

When the firm distributes its brand through just one or two major outlets in the market, who exclusively deal in it and not all competing brands, it is said that the firm is using an exclusive distribution strategy. This is a common form of distribution in products and brands that seek a high prestigious image.

Typical examples are of designer ware, major domestic appliances and even automobiles. By granting exclusive distribution rights, the manufacturer hopes to have control over the intermediaries price, promotion, credit inventory and service policies. The firm also hopes to get the benefit of aggressive selling by such outlets.

(d) Time deposits and demand deposits.

Ans: Time deposits are also known as term deposits or fixed deposits. They are deposits in banks or financial institutions for pre-decided or fixed period of time. The depositor is promised a fixed rate of interest for the said period by the financial institution. However, there are some restrictions for the depositors as far as withdrawing money is concerned. In the time deposits, it is not possible to withdraw money before the stipulated time of environment. Time deposits are repayable on the expiry of a fixed period of time.

Demand deposits : In the case of demand deposits, the depositor is free to withdraw his funds from the account which he holds with the bank any time, without giving any notice to the bank for the withdrawal. Though getting back funds fast is the main advantage of demand deposits, the major disadvantage is that fees charged for these accounts are higher and interest rates offered are not good enough. Demand deposits are repayable on demand.

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

(a) Partnership deed

Ans: A partnership is formed by an agreement. Such agreement may be either written or oral. To avoid misunderstanding and unnecessary litigations, it is always desirable to have a written agreement. When the written agreement is duly stamped and registered, it is known as 'Partnership Deed'. After registration, each partner is given a copy of the partnership deed. A partnership deed, generally contains the following particulars:

1. Name of the firm.

2. Nature of the business to be carried out.

3. Names of the partners.

4. The town and the place where business will be carried on.

5.The amount of capital to be contributed by each partner.

6. The profit and loss sharing ratio of each partner.

7. Loans and advances by partners and the interest payable on them.

8. The amount of drawings by each partner and the rate of interest allowed thereon.

9. The rate of interest on capital.

10. Duties, powers, and obligations of partners.

11. Remuneration , if any, payable to the active partner.

12. Maintenance of accounts and arrangements for audit.

13. Settlement in the case of dissolution of partnership.

14. The methods of evaluation of goodwill on admission or death or retirement of a partner.

(b) Factoring

Ans: Factoring is a source of finance for small businesses. Factoring is a financial transaction between a business owner and a third party that provides instant cash to the former in exchange for the account receivables of the business. Account receivables are an asset belonging to the business, but they are generally sold at a discount, since the third party will agree to pay cash only if it is making some profit in the bargain. The discount obviously reduces the profit the small business may have made, but it gets the money needed to continue operations. Factoring is not a loan, but a sale of invoices of the business. It falls in the same category of financial instruments as forfeiting and invoice discounting, all of which enable small business to raise funds. Factoring involves the sale of all the receivables of the business and is a firm based operation.

It helps companies to secure finance against debtors' balances before the debts are due for realisation, and incidentally also helps in saving the effort of collecting the book debts. The bank charges payable for the purpose is treated as the cost of raising funds. Keeping in view the risk of bad debts, the amount to be made available by banks is calculated so as to provide for a margin for non-realisation of debts. The disadvantage of factoring is that customers who are in genuine difficulty do not get the facility of delaying payment which they might have otherwise got from the company.

(c)Speculation and gambling

Ans: Speculation involves entering into futures contracts (contracts where is affected on a future date), whereby one party agrees to buy (sell) and the other party agrees to sell (buy), a specified quantity of a specified asset (share, commodity, etc) at the today agreed upon price. The person who sells now expects the price of the underlying asset to come down by the time the futures contract is due for settlement. He is called the ‘bear’ speculator. If his calculations go right, the other party’s calculations go wrong. The other party is asked to give the difference in prices and wind-up the contract. There is no physical delivery, but only settlement of price difference.

Gambling is wagering. Wagering refers to a game of chance. Gambling is a very short period investment and the results of the so-called. Investments are known by the roll of the dice or the turn of a card or the performance of a sports team or the pace of the racing horse and so on. There are certain strategies betting known as speed betting and odds betting. The former is used in sports games and latter is used for betting on elections, horses, etc.

Difference between speculation and gambling :

* Speculation is based on foresight while gambling does not involve use of foresight.

* In speculation the intention is to gain from difference in prices while gambling is purely based on betting, either winning the bet or losing it.

* The risk of loss is assumed and anticipated in speculation while gambling artificially creates risk of loss.

* Speculation is a rational activity, based on reasoning while gambling is a kind of blind or reckless activity.

* Speculation is a recognised activity, while gambling is a punishable act.

(d) Hire purchase trading

Ans: A trader could sell goods either for cash or for credit. For goods sold on credit, the payments made may be made by the buyer in lump sum on a future date, or in installments spread over for a specified period of time. When goods are sold on credit, for which payment is made by the buyer in installments over a period of time, it is called purchase system or installment system.

Hire purchase system defers to the system wherein, the seller of goods delivers the goods to the buyer without transferring the ownership of goods. The payment for the goods will be made by the buyer in installments. If the buyer pays all the installments, the ownership of the goods will be transferred on payment of the last installment. However, if the buyer does not pay for any installment, the goods will be repossessed by the seller.

3. "Company form of organization is most suitable in the modern times". Do you agree with this view ? Explain. 10

Company form of organisation is most suitable in the modern times. This is because of the following reasons.

i) Large capital: Since company form of organisations are allowed to have a large number of shareholders, it is possible to raise capital in large amounts. Whenever new capital is required, it can issue shares and debentures. For this reason, only the company form of organisation is best suited.

ii) Limited liability: The liability of shareholders, unless and otherwise stated, is limited to the face value of the shares held by them or guarantee given by them. Their private property is not attachable to recover the dues of the company.

iii) Public confidence: Companies are subject to Government controls and regulations. Their accounts are audited by a chartered accountant and are to be published. This creates confidence in the public about the functioning of the company.

iv) Stability of existence: A company has a separate legal entity with perpetual succession. The corporation is not affected by lunacy or insolvency of a shareholder, director or officer. The continuity of the company is desirable in the interest of not only its members but also the society.

v) Economies of scale: As companies operate on a large scale, they can take advantage of large scale buying, selling, production, etc. As a result of these economies of large scale operations, companies call provide goods to consumers at a cheaper price.

vi) Scope for expansion: As there is no limit to the maximum number of shareholders in a public limited company, expansion of business is easy by issuing new shares and debentures. Companies normally keep part of their profits as reserve and use them for expansion.

vii) Professional management: Management of a company is in the hands of the directors who are elected by shareholders. Normally, experienced persons are elected as directors. You also know that day-to-day activities are managed by salaried managers. These managers are the experts in their respective fields. As companies have large scale operations and profits, attracting good professional managers is easy by paying attractive salaries. Thus, company form of organisation gets the services of professionals on the Board of Directors and in various management positions.

viii) Risk diffused: As the membership is very large, the business risk is divided among the several members of the company. This is an advantage for small investors.

ix) Statutory regulations: A company is governed by the Companies Act and it has to follow various provisions of the Act. It has to submit a number of returns to the Government. Accounts of a company must be audited by a Chartered Accountant. Thus, the company form of organisation has to comply with numerous and varied statutory requirements.

x) Rigidity of objects: The scope of the business of a company is limited. The type of business in which the company would participate is mentioned in the 'object clause' of its Memorandum of Association. The company cannot take up any new business without changing the object clause. To change the object clause, the company has to comply with the provisions of the Companies Act.

xi) Transferability of shares: The member of a public limited company enjoys a statutory right to sell his shares to others without the consent of other shareholders. But for transferring the shares he has to follow the procedure laid down in the Companies Act. However, there are restrictions for transferring shares in case of a private limited company.

4. What do you mean by capital structure ? Explain the factors determining the capital structure of a manufacturing company. 2+8

Ans: The proportion of fixed interest-bearing capital in the total capital is known as capital gearing. The capital is, thus, said to be highly geared if borrowed. capital is, proportionately very high in relation to the ownership capital. Correspondingly, low gearing of capital signifies a smaller proportion of borrowed capital compared with the ownership capital. The composition of the total capital consisting partly of long-term funds with fixed charge and partly of ownership funds is known as the capital structure. Thus, capital structure refers to the relative proportion in which various sources of long-term finance are used to meet the total financial requirements, like debentures and long-term loans, preference share capital, and equity capital (including reserves and surplus).

Factors determining the capital structure of a firm are:

1.Nature of the business: If a company is engaged in business activities in which sales are subject to wide fluctuations, it is desirable to have a smaller proportion of borrowed funds. Companies manufacturing televisions, refrigerators, machine tools and capital goods are normally subject to fluctuations in sales from time to time. Companies dealing in essential consumer goods of daily use are products having inelastic demand generally have stable earnings, and thus may depend to a greater extent on borrowed capital.

2. Characteristics of the company: The size of a company as well as its credit standing also determines the extent to which equity or debt capital should be raised. Small firms have to depend more on owners' funds as it is difficult for them to raise long-term loans. This is because investors consider lending to small firms to be riskier. In contrast, large companies must make use of different sources of raising funds as no single source can meet their total financial requirements. Normally investors prefer to lend money to large companies as they believe that their money is safe and the risk is less with big business firms.

3. Cost of finance: Since interest paid on borrowings is chargeable to profits before tax calculation, the cost of debt financing is inevitably lower than the expected rate of earnings (i.e., profitability) on equity capital. Hence, it is always beneficial to raise part of the total financial requirement through long-term loans. With lower cost of debt financing, the overall (average) cost of financing is reduced, and the return on equity capital is higher. This is one of the important determinants of the capital structure.

4. Flexibility of capital structure: The capital structure decision is usually made by management keeping in view their ability to adjust the sources of funds. The scope of changing the capital structure in future happens to be a basic consideration. For instance, in case additional funds are needed, a firm which is already financed with heavy debt may be forced to issue equity shares with a higher cost of finance involved. Or, again if funds raised are to be refunded on account of declining business, a firm may be unable to do so if it earlier relied heavily on equity capital.

5. Availability of cash (cash flow): The ability of a business to discharge its fixed obligations depends essentially on the availability of liquid cash. Profits earned may be adequate to cover the fixed charges arising out of debt, but the firm may not have sufficient cash to pay as the income gets continually invested in the form of more inventory, book debts or even purchase of equipment. Hence, besides profitability, it is necessary to estimate the cash flows before deciding on the proportion of debt in the capital structure.

6. Expected earnings in relation to interest charges: Another factor determining debt-equity ratio is the estimated coverage of interest by profits. If the average earnings of the company are expected to be three to four times the amount of interest payable on borrowed capital, it may be considered safe to raise long-term loans rather than equity capital. Three to four times coverage of interest by earnings is regarded as a reasonable assurance that interest payment would be possible even if profits decline substantially.

7. Effect of debt financing on the earnings per equity share: The effect of debt on the rate of return on equity (or earning per share) is known as 'trading on equity' or 'leverage effect', Thus in business ventures with assured prospect of rising income, there is greater emphasis on debt capital in the capital structure.

8. Management control: Promoters who had major shareholding and control the management of the company take into account the probable effect of raising funds through the Issue of equity shares. Equity shareholders having voting rights can influence the policy decisions of the company or the

selection of directors. But the persons who give loans do not have any right to elect directors or to participate in the management of the company. Hence the existing management group, in order to retain their control over management, prefer to raise additional finance through the issue of debentures and preference shares.

5. What is a stock exchange ? Explain its main functions. 2+8

Ans: Stock exchange can be broken into two words- one is 'Stock' which means a part or fraction of the capital of a company, and the other is 'Exchange' which means a market for purchasing and selling. Stock exchange can be defined as a market or a place where different types of securities are bought and sold.

It not only deals in shares and debentures but also in various other types of securities issued by central, state and local governments as well as institutions like Unit Trust of India, Steel Authority of India, National Thermal Power Corporation, etc. Therefore, it is also called 'securities market' or 'securities exchange'.

This market is open only to members, most of whom are brokers acting as agents of the buyers and sellers of shares, debentures and bonds. The membership of the stock exchange is restricted to a certain number, and new members are admitted only when there are vacancies. Every member has to pay the prescribed membership fee.

Primary functions of stock exchange:

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. The comparative advantages and disadvantages of investment in various types of securities may be grasped by investors from the dealings which take place on the stock exchanges. Hence they can pick and choose from among different securities and make investment decisions on a sound basis.

8) Facilitates resource allocation: As a result of stock market transactions, funds flow from the less profitable to more profitable enterprises. Thus the existence of stock exchange provides for mobility of funds i.e. movement or flow of funds in the economy as a whole. Industries which have potentials of growth are able to attract the savings of people towards their ventures relatively more than those which have no such prospects. Thus, financial resources of the economy are allocated on a reasonable basis.

Secondary Functions:

1) Safety of investment and equity in dealings: The stock exchanges do not allow trading in each and every company's securities. Companies which want their securities to be traded on the floor of a stock exchange have to fulfil certain conditions. The stock exchange satisfies itself about the genuineness and soundness of the company to protect the investors from being cheated. There are a wide variety of securities. The investors have the opportunity to assess the relative advantages of investing in securities of companies dealing in various products (engineering goods, consumer goods, etc.) having wide markets and situated in different parts of the country.

2) Easy liquidity: The investors usually prefer liquidity of their investment i.e.. easy conversion into cash, besides adequate return on their investment. The stock markets provide that assurance to investors. These are markets which facilitate buying and selling of securities. As such the investors readily come forward to subscribe to new issues. Thus, stock exchange assures liquidity of investments which goes to serve the investor's need.

3)Accurate and continuous report regarding sales: All stock exchanges maintain regular record of the securities traded each day and the prices at which deals are finalised. This information is supplied to newspapers and other information media along with the prices of important securities which ruled at closing time. The statistics relating to prices at which securities were traded are published in weekly bulletins for the information of the investors.

4) Full information regarding listed companies: The organised stock exchanges - collect information about the companies listed with them and publish the information in the form of "Official Year Book". This proves very useful to the investors in making investment decisions.

5) Helpful in re-investment decisions: The investors sometimes want to switch their investments from one type of securities to others depending on which will be more rewarding. If shares or debentures of a company are in greater demand there is a rise in their market price indicating that the investors have assumed the company's performance and prospects to be better than others. On the other hand, if

shares or debentures are offered for sale by many, the price tends to fall indicating that investors are not satisfied with the earnings and future prospects of the company. Thus, changes in the prices of securities provide a fair index of demand and supply of securities of particular companies. The investors can make their investment decisions accordingly.

6)Safeguards to investors: Every stock exchange has its own rules and regulations for the control of operations of the exchange. Only members are allowed to deal in securities and make transactions. As the members have to transact their business strictly according to the rules, the investors' interests are safeguarded against dishonesty or malpractices.

6. Explain the merits and demerits of various advertising media. 10

The 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.

Merits of newspapers:

i. A newspaper has large circulation and a single advertisement in a newspaper can reach a large number of people.

ii. newspaper advertising is relatively cheaper than other media like radio and television.

iii. Continuous advertisement is possible because newspaper is published daily. An advertiser can repeat his advertisement either daily or as required by him.

Demerits of newspapers:

i. The life of a newspaper advertisement is very short. Moreover, people devote only an insignificant part of their days time in reading the newspaper. Thus, advertisements are likely to draw the readers attention only casually.

ii. Newspaper advertisement is successful only when the people to be communicated are educated.

Merits of magazine:

i. Magazines are read more carefully and at greater leisure. Advertising through magazines is more effective.
ii. The life of the magazine advertisement is longer. Magazines are preserved for a long period of time and are read time and again.

Demerits of magazine:

i. Timing of publication which is periodical. Although the published advertisement has a longer life, they are published periodically and not daily like newspapers.
ii. lack of flexibility in the choice of size and design of the advertisement. The design cannot be changed as quickly as in the case of a newspaper.
iii. Advertising through magazine is very costly.
iv. The circulation of magazines is very small compared to the newspapers.

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.

Merits of radio:

i. it does not require education to receive the message. The listeners need not be literates.
ii. The message which is orally communicated may be more impressive than the message in print.

Demerits of radio:

i. it is more expensive than press advertising.
ii. The life of the advertisement is very short.
iii. 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.

Merits of Television:

i. Use of television for advertising is increasing in recent times due to its extensive coverage and the impact of visual communication on the viewers.
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Demerits of television:

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ii. Another limitation is that the duration of a commercial advertisement is only for a few seconds.
iii. 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.

Merits of outdoor media:

i. Outdoor advertising is highly flexible and is a low cost medium.
ii. It is very useful for advertising consumer products because posters etc. Can be displayed at various crowded centres.

Demerits of outdoor media:

i. It can't carry long messages as posters, hoardings, etc. are read by the people at a glance.
ii. It has a low retention value because people don't devote special time to read the message.
iii. It distracts the attention of the passersby and may even cause accidents on busy roads.

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.

Merits of direct mail:

i. Mail advertising has a personal appeal since it is addressed to a particular person.
ii. It maintains secrecy in advertising. The competitors do not get the information about the advertised material.
iii. It is the most selective medium of advertisement. The advertiser saves money also by directing his advertisement to the selected people.

Demerits of direct mail:

i. The coverage of direct mail advertisement is limited.
ii. Its effectiveness is doubt fid as it does not create a mass appeal.

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.

7. "Foreign trade is an engine of economic growth in a country". Comment on this statement in Indian context. 10

Ans: Nations, like individuals, do not possess everything they need to fulfil their requirements. Even countries like the USA, USSR and China, which are rich in natural and human resources have to look to other countries for supply of some of their requirements. For instance, consumers in USA obtain their supply of sugar and coffee from other countries. Moreover, different countries possess different types of resources. Those which have a surplus of certain resources find it beneficial to sell the surplus items to some other countries and buy other items which they need. Such exchange of goods and services between people, across national boundaries is called 'foreign trade' or 'international trade*. Foreign trade can ' be bilateral or multilateral. When there is tr3de between people of any two nations, it is bilateral: foreign trade is multilateral when people of any country buy from and sell to people of more than one country.

Production of goods and services requires different resources like men, materials, money, machines and management. If we compare the resources possessed by nations it will be found that no country is self sufficient and there are differences in the quality and quantity of domestic resources available in different countries.

Indeed, it is this difference in the relative abundance or shortage of resources in different countries that has given rise to foreign trade involving exchange of goods and services between countries. Through international trade, it is possible for a country to avail of goods which it cannot produce or cannot produce as economically as other countries. Hence, a country's well-being is determined to a great extent by the nature and extent of its foreign trade. Let us discuss the importance of foreign trade to people in different countries.

Foreign trade is an engine of economic growth in the country because:

i) Specialisation and efficiency of production: Foreign trade leads to specialisation in productive activities undertaken by different countries. Depending on n available natural resources, and development of science and technology, every country can produce only those goods and services for which it has the greatest relative advantage and efficiency. No country has facility and resources within its own boundaries for economical production of all its requirements: Some countries are more suitably placed to produce certain goods/services economically and sufficiently than other countries. Therefore, they can specialise in the production of such goods and get the goods they need in exchange for those goods, For example, India has comparatively greater advantages for the production of agrobased products such as coffee, tea, sugar, textiles, etc. Similarly some developed countries such as USA, Japan, Britain, etc. have greater advantages for the production of industrial machinery, automobiles etc. Some gulf countries such as Iran, Libya, Iraq, Saudi Arabia, etc. produce crude oil, petroleum, etc., in abundance.

ii) Utilisation of resources: Every country possesses some natural resources. The economic development of a country heavily depends upon exploitation of these resources. For example, India has adequate off-shore oil resources. But it requires exploitation through sophisticated machines, technology, etc. which we do not h8ve. Machinery and technology can be imported from the developed countries like USSR, USA, Japan, etc. This leads to best possible use of natural resources.

iii) Facilitates economic development: Rapid economic development and growth of national income can be facilitated on the basis of exports and imports. Indeed, it is on the basis of imports of raw materials and export of manufactured goods that countries like U.K., Japan etc., have achieved a high rate of economic growth.

iv) Equalisation of prices: International trade equalises prices of goods throughout the world. Whenever the prices of commodities tend to rise in a country, it can increase the level, of its imports to check the rise in prices. Similarly, whenever prices of products decline, the trend may be counteracted by exporting the same.

v) Employment opportunities: Foreign trade facilitates the growth of agricultural as well as industrial activities which in turn generates more employment in the country.

vi) Harmonious relationship between countries: Because of foreign trade every country may have access to goods that it does not produce at home. Similarly, a country with a surplus of certain goods can make them available to other countries experiencing shortage of those goods. This promotes harmonious and cordial relationship among various countries.

8. State the essential characteristics of public utility undertakings. Highlight the problems faced by them. 6+4

Characteristics of public utility undertaking are:

1) Indispensability: Public utilities deal with essential services such as water, gas, light, power, transport, telephone, telegraph, postal services, etc. These services are required to meet basic needs of the community and to provide a civilised and comfortable life to every citizen irrespective of caste and creed. Therefore, these services must be made available regularly, uniformly and adequately. That is why these public utilities are indispensable in all modem societies.

2) Field of operation: The field of operation of public utility undertakings is mostly local. Such concerns fulfil the needs of the citizens, usually of a city, town or at the most of a district. Fo; example, Delhi Milk Supply Undertaking or Mother Dairy supplies milk through its booths at various localities to the people living in Delhi only.

3) Monopolistic or semi-monopolistic position: Undertakings supplying essential public services by nature assume the position of a monopoly. They do not have competitors. You can take the example of Delhi Electric Supply Company. It does not have any competitors for supplying electricity to the residents of Delhi. If another undertaking is involved in the same operation in the same town, equal amount of money is required which is a waste. To avoid any such wasteful expenditure, monopoly is given to public utilities. However, some public utilities may have a few competitors. Take the case of milk supply in Delhi. Mother Dairy supplies the milk. But Delhi Milk Supply Undertaking or Nanak Milk Supply Company also supplies milk in Delhi. Therefore the position enjoyed by Mother Dairy is semimonopolistic.

4) Regulation and control : These undertakings enjoy a monopolistic or semi-monopolistic position. So, they are in a position to misuse it and exploit the customers. For instance they may supply poor quality goods, services may be irregular, may charge high prices, etc. The government has to ensure the quality of the products or services at reasonable prices. Public is to be assured of regular and adequate supply of services and goods without discrimination. Therefore, it is essential to regulate their working as well as the price and supply policies of public utilities. Regulatory powers of the government in respect of these undertakings are provided in Special Acts of the legislature.

5) Franchise: Public utilities operate under franchise i.e. the right to interfere with public property (land, buildings, roads, etc.) for proper functioning. For example, the railways which is a public utility undertaking, can put up barriers on roads restricting movement of traffic across railway track at level crossings. Similarly, water supply undertakings can dig pits across the roads whiIe laying water pipes, and so on. The government grants special rights as well as casts duties and responsibilities on these concerns through a charter which is called franchise. The franchise or charter contains the powers, privileges and rights granted to these undertakings as well as duties and liabilities for which these undertakings are accountable. This is done to ensure their working efficiently and satisfactorily. The franchise can be withdrawn if the undertaking does not comply with the regulations and resttictions subject to which the franchise is issued.

6) Huge capital investment: These undertakings require huge capital investment in fixed assets. Take the case of Mother Dairy which supplies milk in Delhi. For supply of milk . to its consumers it has to set up a milk plant, storage plant, and large fleet of vans1 tankers. It has also to construct depots for distribution of milk at various places in different localities of Delhi. Then, it has to monitor the distribution of milk to its consumers properly. Thus, all the public utilities invest huge amount of capital in fixed assets.

7) Risk involved: The degree of risk involved in the business carried out by the public utilities is less as compared with other industries. This is because the demand for essential goods and services is not likely to fall, rather it is likely to increase over time. For instance, the demand for water, gas, milk, electricity, etc., is not likely to fall but increase since the population is increasing continuously year after year.

8) Non-transferable demand by the consumer: The demand of the consumer is nontransferable. If a consumer is provided electricity at his house, he cannot transfer his right of using electricity to his neighbour. Every consumer is to obtain the supply separately after fulfilling the rules and regulations of the undertakings.

9) Choice of site: The promoters of public utilities do not have much choice in the selection of site for the undertaking. They have to locate their enterprise as per the permission granted to them by the concerned authorities. They have to operate as per . the prescribed local conditions and regulations.

10) Size of the undertaking: These undertakings are required to be set up on a sufficiently large scale so as to meet the demand of the public of that locality. Moreover, the size of the unit must be large enough to make it possible for the undertakings to supply the service continuously at economical rates.

Problems faced by the public utility undertaking are:

i. Location:

The public utility does not have any choice when it comes to the location of its site. The location is decided by the public authorities and the public utility has no say in the matter. They are thus deprived of the benefit of selecting an appropriate choice of location according to the business requirements.

ii.Investment :

The investment required to set up plants to run public utilities is quite high. Public utility plants involve heavy investment of capital. The entire investment has to be made before the plant can become operational. Public utilities do not enjoy the privilege of investing funds in a staggered manner.

For e.g. in the case of electricity generation, the transformers, power grid and cable network have to be fully functional before electricity can be generated and distributed.

iii. Regulation

Public utilities serve as monopolies. Monopolies can exploit customers by charging high prices, producing sub-standard products, providing poor quality service etc. To avoid such undesirable practices, the government maintains a constant vigil over the operations of public utilities. Further any deficiency in products and services produced by public utilities would have far reaching negative impact. Therefore, strict rules and regulations have been laid down with regard to their functioning.

iv. Social Control

Public utilities are subject to high degree of social control. They are setup and run with public money. Any deficiency in quality or service would immediately result in a problem.

For e.g. if the electricity wires are hanging in an exposed manner or railway tracks are not properly laid, there would be considerable loss of human life. If the water is contaminated or is in scarcity, it would lead to social unrest. Any such occurrence would be highlighted in the media and invite public criticism.

v. Size

Deciding on the size of a firm is one of the important decisions that a businessman has to take before commencement of business. But public utilities do not have a choice in selection of size. They operate as monopolies in particular locations and have to satisfy the requirements of a large number of population. They are therefore set up as large scale units.