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ECO-01 Business Organisation

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

(a) Wholesale trade and retail trade

Ans: Wholesale trade involves purchasing goods from the manufacturers and sell them to the retailers. Retail trade involves purchasing goods from the wholesalers and sell goods to the consumers. Wholesalers are those who happen to be engaged in wholesaling or wholesale trade. Retailers are those who happen to be engaged in retailing or retail trade. Wholesalers buy from the manufactures and sell goods to the retailers. Retailers buy from the wholesalers and sell goods to the consumers. Wholesalers usually sell on credit to the retailers. Retailers usually sell for cash. They specialise in a particular product. They deal in different kinds of goods. They buy in bulk quantities from the manufacturers and sell in small quantities to the retailers. They buy in small quantities from the wholesalers and sell in smaller quantities to the ultimate consumers. Wholesalers always deliver goods at the doorstep of the retailers. Retailers usually sell at their shops. They provide door delivery only at the request of the consumers. A wholesaler needs mainly a godown to stock the goods he handles. A retailer needs a shop or a showroom to sell. A wholesaler goes to different places to supply. A retailer usually sells at a particular place. Sometime he may have branches in other places. A wholesaler need not provide shopping comforts like luxurious, interiors, provision of air-condition, trolleys, etc. A retailer usually provides shopping comforts mainly to attract customers. As the wholesaler specialises in a particular product, he has to necessarily convince the retailers about the product quality. Only then the latter will place an order. As the retailer deals in a variety of goods, he need not influence buyers. He can let the buyer choose any brand of product the he likes. As per the custom of their trade, wholesalers allow the retailers trade discount each time the retailers buy. The retailers normally do not allow any discount to their customers. Some of them may offer cash discount to bulk buyers. Sometimes, they may offer seasonal discounts. A large amount of investment is required for a wholesale business, but it can be less for a retail business. Wholesalers do not need to advertise their products, but a retailer will advertise their products to highlight their product and service.

(b) Entrepreneur and promoter

Ans: 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 entrepreneur undertaking 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.

(c) Statutory company and registered company

Ans:

Government Company	Statutory Corporation
Government company is a corporate body that is created under the Indian Companies Act, 1956. It is governed by provisions of Companies Act.	Statutory corporation is a corporate body created by either Parliament or State Legislature by a special act which defines its powers, duties and functions.
Government company is managed by Board of Directors consisting of members that are nominated by the government and the elected shareholders.	Statutory corporation is managed by the Board of Directors nominated by the government .
Government pays a minimum of 51% of capital in case of government company.	Government subscribes the full capital
there is a scope for private participation in the capital if the company is partly owned by the government.	There is no scope of private participation
A government company runs on commercial principles like a private enterprise and enjoys higher degree of freedom from government interference.	A statutory corporation works as an autonomous body within the permissions of the Act. It enjoys considerable degree of autonomy with no interference of government in day-to-day activities.
It enjoys more freedom from government control. Not subject to audit budget and accounting procedures of the government.	It is subject to some restrictions of the government. It is not subject to budget, audit and accounting procedures of the govt.
government and the concerned ministry are accountable to the public.	It is accountable to the public through legislature

(d) Publicity and advertisement

Ans: The activity of generating advertisements of products and services to commercialize them is known as Advertising. It is what the company says about its product. Whereas the activity of providing information about an entity, i.e., a product, an individual or a company to make it popular is known as Publicity. It is what others say about the product. There is a huge investment to be made in advertising a single product. On the other hand, Publicity does not require any kind of investment. The key people behind advertising are the company and its representatives. On the contrary, Publicity is done by a third party which is not related to any company. Advertising is under the control of the company. However, publicity is not under the control of the company. Advertising repeatedly occurs to grab the attention of the customers. Oppositely, Publicity is done only one-time act. Advertising is always customer focused, i.e., the more creative the advertisement, the more are the customers attracted to it. On the other hand, publicity is not done keeping customers in mind. Advertising always speaks the goodness about a

product, to persuade the target audience to buy it. Oppositely, Publicity, is unbiased, and so it will speak the reality, no matter whether it is goodness or illness. The company has to pay money to the media for the space or time used. There is an identifiable sponsor. Normally a company sponsors it for its product or service. In contrast to this, the company does not make any payment to the media for the time or space used for publicity. There is no identifiable sponsor. Media presents the information voluntarily.

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

(a) Bank overdraft

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.

(b) Margin trading

Ans: It refers to the practice of buying and selling securities by depositing with the broker a certain percentage of the value of the securities involved in the transaction. The percentage of value so deposited is called 'Margin Money' or 'Margin'. The objective is to meet the loss, if any, out of this deposit. When the margin money is deposited, the broker credits the Margin Account of the customer. Deposit of margin money is a precondition for the securities to be held on account of the client. Where the margin falls short of the amount of loss suffered by the client on the securities held in his account, the broker may ask the client to deposit additional amount to cover the shortfall. In case he does not deposit such amount, the broker can sell the securities and recover the amount.

(c) Outdoor media

Ans: 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. Pamphlets have temporary impact on the people who receive them when they are passing by and often have other matters in their mind.

* 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. Posters have the disadvantage that only those who look at them may notice their existence. Besides, posters in public places are likely to have a short existence either,due to superimposition of other posters or their removal by other postering agents. Posters fixed on walls or pillars may be initially less expensive. Posters fixed on the space provided in public transport (buses and railway coaches) involve payment of periodic charges.

* 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. Neon signs and electrical displays normally attract more public attention but these are effective only during the night time. Neon signs and electric displays involve fairly high initial costs for preparation and installation. It also involves considerable recumng expenditure for use of neon gas or electrical energy besides rent to be paid for location at public places.

* 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. Hoardings have the maximum attention value due to the big size and installation at prominent locations. The cost of hoardings is quite high due to the heavy initial expenditure required for its preparation and installation. The rent to be paid for locating it at a public place is also quite high.

(d) Bill of lading

A bill of lading is a document by which the shipping company acknowledges the receipt of goods on board the ship. It contains the terms and conditions on which goods are to be delivered to the port of destination. It serves as an evidence of the terms of the contract of a freightment between the exporter and the shipping company. The bill of lading is the document of title to the goods, without which goods cannot be claimed. Thus, when the goods arrive at the foreign port, the bill must be produced before they can be claimed. The bill can be made out to a certain person only, or order, when it can be endorsed and passed on, to transfer ownership of the goods to another. However, it is not negotiable, because the bearer's claim to the goods can never be better than the claim of the person who passed on the bill to him. If a bill were stolen before being passed on, it would not confer a legal right to the goods. The bill of lading mentions whether the freight has been paid or yet to be paid. When the freight is paid by the exporter, the bill of lading is marked freight paid. When the freight is payable by the importer of the goods, the bill of lading is marked freight forward.

PART-B

Attempt any three of the following questions :

3. What do you mean by business ? Describe salient features of business and discuss its economic objectives. 2+4+4

Ans: Business is an economic activity concerned with the production or purchase and sale of merchandise and rendering of services with the purpose of earning profit. The primary objective of a business is to earn profit. A business can be established by the decision of the entrepreneur and fulfilling certain legal formalities. Any person can start a business, there is no minimum qualification to run a

venture. It requires capital investment according to its size and nature. A business gets profit as a return for the work done by him/her. Transfer of interest is common. By following required legal formalities, business can be transferred to others. Risk factor is always present in business. There is risk of loss. Every business advertises its products and services, for the purpose of increasing sales.

Salient features of business:

- 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.

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.

4. (a) Describe the functions of Industrial Development Bank of India (IDBI). 5

Ans:

Industrial Development Bank of India (IDBI): This was set up by Government of India in 1964 and is a subsidiary of the Reserve Bank of India. The IDBI can provide financial assistance to all types of industrial enterprises which are registered under the Companies Act or any other law. There is no restriction on the types of finance and the amount of funds that may be available from this institution. It has the unique role of not only providing financial assistance directly to industrial units, but also to refinance loans granted by other financial institutions. Further, it is required to coordinate the functions of all development banks, scheduled commercial banks and state cooperative banks as regards industrial financing. Thus, the some functions of the IDBI include the following:

i) It refinances (a) term-loans to industrial concerns granted by IFCI and other financial institutions repayable between 3 and 25 years; (b) loans repayable between 3 and I0 years given by scheduled banks or state cooperative banks; (c) export credit granted by specified financial institutions maturing between 6 months and 10 years.

ii) It subscribes directly to the issue of shares and debentures made by industrial concerns.

iii) It grants loans and advances to companies repayable between 8 to 10 years.

iv) It guarantees loans raised by industrial concerns from the capital market or scheduled banks.

v) It accepts, discounts and rediscounts commercial bills of exchange and promissory notes of industrial enterprises.

vi) It undertakes underwriting of the public issue of shares and debentures made by companies.

vii) To meet the financial requirements of large enterprises, the IDBI also arranges joint financing by two or more financial institutions, particularly when the amount and the risk involved happen to be too heavy for any single institution to bear alone.

(b) How is it different from Industrial Finance Corporation of India (IFCI) ? 5

Ans:

Industrial Finance Corporation of India (IFCI)	Industrial Development Bank of India (IDBI)
This was set up in 1948 under the Industrial Finance Corporation Act, 1948.	This was set up by Government of India in 1964 and is a subsidiary of the Reserve Bank of India.
The IFCI deals only with industrial enterprises registered as limited companies or cooperative societies. Non-manufacturing concerns, private limited companies, partnership or sole traders cannot get assistance from this institution.	The IDBI can provide financial assistance to all types of industrial enterprises which are registered under the Companies Act or any other law.
It considers loan applications for amounts in excess of Rs. 30 lakh.	There is no restriction on the types of finance and the amount of funds that may be available from this institution.
It provides financial assistance for long-term investment in new industries or expansion or diversification of existing activities, or	The IDBI can provide financial assistance to all types of industrial enterprises which are registered under the Companies Act or any other law.

modernisation and renovation of plant and equipment.	

5. What do you mean by foreign trade ? Discuss the importance of foreign trade. Explain the common problems faced in foreign trade. 4+6

Ans:

Ans: Foreign trade is the process of buying, selling, and exchange of goods and services between different countries. : 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 trade 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.

The restrictions are numerous in a foreign trade . A firm requires permission from Government authorities before goods can be imported or exported. It involves the exchange of currencies between the nations which are involved in the trade. Payment can be made only through bank. It involves very high transportation costs and risky situations to transfer goods from one country to another. It depends upon the seaways and the airways between the countries involved in the trade. It involves more documentations and approvals from government and it is a long process to get approvals from government. It involves wide time gap between the goods dispatched from the home country and goods received by the other country. It facilitates countries to export the goods which they have surplus and import goods which are short in supply.

Importance of foreign trade:

i) Specialisation and efficiency of production: Foreign trade leads to specialisaiton in productive activities undertaken by different countries. Depending on 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) 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.

iii) 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.

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

v) 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.

vi) 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 offshore 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.

Foreign trade involves certain problems which do not arise in connection with home trade.

The problems of foreign trade are:

i) Suitability of the product for the market: Securing information about the suitability of products in the foreign market is a challenging task for every international marketer. This involves heavy expenditure and requires special skill and knowledge. Besides, the quality and price of goods must be more attractive as compared with similar products manufactured abroad. This requires intensive market research on the potential sale of goods to be exported.

ii) Changes in supply and demand conditions: International markets are often subject to changes in the supply and demand for particular products due to the entry of new competitors, or increased competition of local producers, or because of changes in buyers preferences. These changes cannot be easily anticipated by the exporters.

iii) Frequent price changes : The price of products in the international market may be affected by different factors. The changes may be due to changes in exchange rates of the currencies of importing and exporting countries, higher import duties, or freight rates. These factors increase the risks of foreign trade a great deal.

iv) Credit risk: International trade which is generally on a large scale involves heavy amounts to be paid by the importer. The exporters often sell their products on credit and therefore have to bear the credit risk arising from the buyer's default, bankruptcy, etc.

v) Changes in exchange rate: An additional risk of foreign trade is the risk of changes in exchange rates. The rate at which the currency of importing countries can be converted into the currency of exporter may cause losses to the exporter or the importer.

vi) Rules, regulations and procedures: Every country imposes certain restrictions in the export and import of goods to protect its economic and political interests. The rules and regulations differ from country to country and are changed from time to time.

6. What do you mean by risk management ? Explain the various steps followed in risk management. 2+8

Ans: The term is used to refer to (a) an insured object such as a home or a car, (b) a peril such as fire or earthquake, (c) the probability of an event which may cause loss, (d) the loss itself, (e) the hazardous condition, (f) the variation in the outcome that could such as fire or earthquake, (c) the probability of an event which may cause loss, (d) the loss itself, (e) the hazardous condition, (f) the variation in the outcome that could occur over a specified period in a given situation, etc. 'Business risk' may be defined as the uncertainty of occurrence of economic loss in the event of any business activity.

Risk management involves five basic steps:

i) Risk identification is the first step and also the most difficult function. Failure to identify all the loss exposers of the firm means you will not be in a position to deal with those risks.

ii) After identifying the risks, next step is to assess the intensity of financial loss associated with each of those risks. We have to determine two aspects: I) probability of the occurrence of each of the perils or risk identified in the first stage, and II) extent of financial loss to the firm, if that peril occur. With this assessment, we can identify the relatively more serious risks and pay more attention to them.

iii) Third step is to decide on various tools of risk management and decide upon the best combination of the tools to be used.

There are six tools for risk management :

I)assumption(or retension)

II) loss prevention

III)avoidance

IV)transfer(insurance)

V)separation

VI)combination

I) Risk assumption or retention: This is a common way of handling risks. Business enterprises assume or retain risks consciously (intentionally) or unconsciously (unintentionally). Under conscious assumption, one is aware of the risk to which hisher business is exposed, but essentially does nothing to avoid I I it. A manager of a business who consciously assumes risk is doing something about it by the very act of being aware of those perils and hazards which may cause loss. Being aware of risk, he may knowingly or unknowingly make adjustments in operations which will help to alleviate the impact of that risk. Awareness of risk itself is a significant achievement in better management. In the case of unconscious risk assumption, risk is not recognised. As you are not even aware of the existence of some risk, losses stemming from it can cause disastrous surprises to your business.

II) Loss Prevention: Another method of handling risk is to take appropriate measures to prevent the occurrence of a peril or minimise its financial impact on business. This approach is known as loss prevention. For example, by using fire resistant building material, you can prevent the occurrence of fire in the building. Loss prevention may not totally eliminate the risk, but can reduce its probability in terms of frequency as well as severity.

III) Avoidance: Avoiding situations which have the potential to cause loss, is another approach. For instance, a firm can avoid the risk of loss due to bad debts by simply stopping credit sales.

IV) Transfer: Transferring the risk to another party is a very widely followed approach to handle risks. Insurance is the most common method of transferring pure risks such as fire, windstorm, flood, riot, theft, etc. Business enterprises normally transfer the pure risks to the insurance company and devote their full efforts to their normal business.

V) Separation: Fifth method of risk control is separation of the firm's exposers to loss instead of concentrating them at one location where all of them might be involved in the same loss. For example, when a firm keeps its entire raw material in one warehouse, the entire raw material may be damaged if fire occur in that warehouse. Therefore, the firm may decide to store the raw material in ten separate warehouses. If fire occur in one warehouse, materials stored in that warehouse are damaged and the remaining nine warehouses are safe. This methods is also a kind of loss prevention.

VI) Combination: Strategies like diversification of products, law of large numbers, formation of more companies with unrelated lines of business, etc., come under this method. For example, if a firm is engaged in more products, the losses incurred in one product may be upset by the gains in another product. Similarly, if there are more companies, the losses incurred by one company may be upset by the gains by the other companies. Insurance companies work on this combination principle where a sufficiently large number of similar objects are combined to make the loss predictable within narrow limits.

While managing risks, one need not just rely on any one method, instead may rely on some combination of various methods.

iv)After taking a decision regarding the combination of risk management tools, the next step is the implementation of the decision made. For instance, if you have decided in the previous stage to transfer the risk, you have to get the insurance policy at this stage.

v) Last step is to evaluate the effectiveness of the risk management tools we have implemented.

The result of the decisions made in the four stages must be evaluated to determine their effectiveness and change the strategy, if required.

7. "Efficient transportation is an integral part of economic growth". Elaborate. 10

Ans: Transport, simply stated, means carrying of goods and passengers from one place to another. In the context of trade, transport involves carriage of goods from places of production to centres of distribution and sale, which may be within the country or abroad. Thus, transport facilitates trading activities to create place utility to goods by removing the barrier of distance between production and consumption.

In modern societies the scope of trade has increased not only due to the range of goods produced, but also on account of large scale production and widening of the market geographically. Transport plays an important role in the continuous supply of raw material to the industry and distribution of goods to ultimate consumers. It also contributed to the growth of large-scale industries by facilitating the inflow of raw materials and outflow of finished goods. Transport enables traders to adjust the supply of goods at different places according to changing demand from time to time. Thereby price fluctuations are reduced to the minimum.

Consumers derive benefits from transportation in three ways. Firstly, a large variety of products manufactured at different places are available to consumers all over the country as well as abroad. This is known as the benefit of diversified consumption. Secondly, as economics of scale achieved due to large-scale production and extension of markets with the help of transportation, goods are available at lower prices to the consumers. Thirdly, goods are available at stable prices as transport enables supplies to be moved quickly from surplus to deficit areas.

Economic benefits which are derived from transport facilities may be outlined as follows: (i) Development of industry and trade depends a great deal on the availability of transport. Easy transportability of raw materials, finished products and also movement of labour, have contributed immensely to the growth of trade and industrial activities. (ii) Extension of markets through transport development enables buyers to have a wider choice of goods at competitive prices. Extended markets also provide opportunities to the sellers to sell at the most profitable markets. Thus, buyers as well as sellers are benefited due to proper transport facilities. (iii) International competition is encouraged with the improvements in transport system. It makes markets accessible to sellers and buyers of different countries, and leads to wider choice of quality products. (iv) Well-developed sea and ocean transport have led to increased imports and exports. This has made it possible for each country to specialize in the production of goods for which it has competitive advantage. (v) Transport has facilitated economic interdependence of countries, which has, in turn, enabled people to interact, and promote material welfare of the human kind.

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.

8. What is meant by departmental form of organisation ? Discuss its merits and demerits. 2+8

Ans: Departmental form of organisation is the oldest form of organising public enterprises. Under this form of organisation, business activities of the undertakings are conducted under the overall control of one of the departments of the government. In other words, when a public enterprise is organised, financed and controlled in much the same way as any other government department. it is known as 'departmental form of organisation.' This form of organisation is generally, chosen for such undertakings which are important from the view point of public interest and national interest. This form is suitable for mo& of the undertakings which are not run on pure commercial principles. Departmental form of organisation, generally, is suitable under the following situations:

i) Where the basic purpose of an enterprise is to procure revenue for the government.

ii) Where the government desires to have firm control over service sectors keeping in view public interest (e.g., posts and telegraph, broadcasting, etc).

iii) Where maintenance of secrecy is regarded as a matter of strategic importance (e.g. atomic energy, defence industries, etc.).

iv) Where projects are in earlier stage of initial planning and require constant efforts and , continuous funds that can be provided only by the government.

Under this form of organisation, overall responsibility of management rests with the minister under whose ministry the undertaking functions. The employees in the case of departmental organisation are civil 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. For example, railways and postal (they are departmental organisations) budgets form part of the government budget. This form of organisation is subject to budget, accounting and audit controls. For this purpose, the undertaking is treated on par with other government organisations. It enjoys the sovereign immunity of the state. Therefore, it cannot be sued without the consent of the government.

Merits:

1) Maximum degree of government control : This form of organisation lends itself to the maximum degree of government control. Therefore, government can meet its social obligations very effectively.

2) Limited scope to misuse public funds: Departmental undertakings are managed by the concerned ministry. Hence, the accountability of the enterprise to Parliament is complete. These undertakings are treated on par with other government departments for purposes of budgeting, accounting and auditing. Therefore, the danger of misuse of the public funds is reduced.

3) Governmental control over economic activities: It provides an opportunity for the government to secure absolute control of economic activities. The government can freely use departmental undertakings as instruments of its social and economic policy.

4) Multiplies economic progress: The surplus coming from departmental undertakings increases the revenue of the government. Thus, this surplus can be utilised for the economic progress of the nation and the welfare of the masses.

5) Responsible to Parliament: A departmental enterprise is responsible to Parliament even for its day-to-day operations. It is not possible for a departmental enterprise to claim certain privileges from Parliamentary scrutiny. For example, if members of Parliament ask questions regarding the appointment or dismissal or promotion of a particular employee, or regarding a particular sale or purchase transaction, it is a matter of day-to-day operations. Such a question can be allowed to be asked of a departmental enterprise but not of a statutory corporation or a government company.

Demerits:

1) Bureaucracy and red-tapism: The staff of these departmental undertakings are the civil servants. So it is too close to the bureaucratic system of the government where much importance is attached to rules, regulations and precedents for every decision. Therefore, scope for initiative is limited. Normally a business enterprise needs much flexibility and quickness in decision making which you do not find in the departmental form.
2) Suffers from political instability: These undertakings are generally at the mercy of the political party which is in power. The fate of departmental undertakings also depends on the balance of power between the ruling party and the opposition. Hence there is even a possibility of victimising such undertakings because of political changes and political instability. Thus, these undertakings are subject to political changes and attacks motivated by political considerations.
3) Excessive parliamentary control: The 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. Every detail relating to their working are scrutinised and question in Parliament and outside. This causes delay in making vital decisions relating to the organisation.
4) Lack of professional expertise: These undertakings are managed by civil servants who often lack business acumen. They are selected and trained altogether for a different purpose. Regid adherence to formalities and procedures causes delays in decision making which is quite opposed to business principles. Besides, there is no bar on transfers of these officers. This hampers their understanding commitment and responsibility.
5) Absence of competition and profit motive: 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.
6) Financial constraints: You know that these undertakings are financed through annual budget appropriations made by the legislature and its revenue are paid into the treasury. They are not allowed to raise finances on their own and depend completely on the government. As a result, sometimes, these undertakings suffer due to shortage of funds. Further, these enterprises do

not have much flexibility in financial matters, as they are subject to budget, accounting and audit controls.