December 2016

ECO-01 Business Organisation

Note: Attempt any five questions. All questions carry equal marks.

1. Define the term 'business' and state its essential features. How is it different from profession? (2+4+4)

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

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

Five broad features of business are:

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

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

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

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

* Element of Risk: In every business, there is a possibility of incurring loss. This possibility of incurring loss is termed as risk. The element of risk exists due to a variety of factors which are outside the control of the business enterprise. There are two kinds of risks. (1) 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.

Difference between Business and profession:

Business	Profession
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.	Profession is a form of economic activities, wherein special skills, knowledge and expertise is required to be applied by the person, in his occupation.
The primary objective of a business is to earn profit.	Profession is aimed at providing services.
A business can be established by the decision of the entrepreneur and fulfilling certain legal formalities.	Profession requires membership of the respective professional body and certificate of practice, for the establishment.
Any person can start a business, there is no minimum qualification to run a venture.	Specialised knowledge of study, training and expertise is the major requirement for the profession.
It requires capital investment according to its size and nature.	Capital requirement is limited. Some amount of capital required for equipment and establishment of office.
Gets profit as a return for the work done by him/her.	Professional gets a fee for the services rendered by him/her.
Transfer of interest is common. By following required legal formalities, business can be transferred to others.	Transferability is not possible as it requires specialised skill and knowledge.
Risk factor is always present in business.There is risk of loss.	Risk factor may or may not be present in a profession. Possibility of not getting enough fee to meet the expenditure on establishment.
Every business advertises its products and services, for the purpose of increasing sales.	Advertisement is strictly prohibited as per professional code of conduct.

2. What do you mean by cooperative form of organization ? Explain its merits and limitations. (3+4+3)

Ans: Cooperative organisations are generally started by the poor and the economically weak sections to promote their common economic interests through business propositions. The primary objective of any cooperative organization is to render service to its members. The important features of the cooperative organization are service in place of profit, mutual help in place of competition, self-help in place of dependence and moral solidarity in place of unethical business practices.

A cooperative society is a voluntary association of persons and not of capital. Any person can join a cooperative society of his free will and can leave it at any time. This has two important connotations:
i)Any person can become a member irrespective of his caste, creed, religion, colour ,sex etc.

ii)The members come together to form themselves into an association without any coercion or intimidation.

A cooperative society is a self-governing organisation. It is self-sufficient, selfrenewing, and self-controlling within its jurisdiction. A cooperative organisation also enjoys a separate and independent entity distinct from that of its members. It has a perpetual life and is not affected by the entry and exit of members. In cooperative system, profits are distributed among the shareholders for the capital they have contributed. But the rate of dividend paid to the shareholders is limited to 9% as per the Cooperative Societies Act.

Merits of Cooperative form of organisation:

1. Ease of formation: It is quite easy to form a cooperative society. Any ten adults can join together and form themselves into a cooperative. Very little time and money are required to get a cooperative registered. The legal formalities are very few and simple.

2. Open membership: Any person having a common interest can become members of a cooperative society and can leave the society at his own pleasure. No discrimination is made on the basis of caste, creed, religion or political affiliation. The cost of a share is low and even poor persons can buy it.

3. Limited liability: The liability of every member is limited to the extent of his share in the society's capital. Therefore, the risk faced by every member is limited and known.

4. Continuity and stability: After registration, a cooperative society becomes a separate legal entity. The death, lunacy, or insolvency of a member does not affect its existence. Therefore, it enjoys continuity of operations.

5.Supply of goods at cheaper rates: The societies purchase goods directly from producers and sell them to the members at cheap rates. The middlemen are eliminated from the channel of distribution. The consumer cooperatives supply essential goods to the members at a time when there is scarcity of goods in the market. Cooperative societies ensure regular supply of goods at cheaper rates.

6.State assistance: The Government provides several concessions to cooperative societies in the matter of taxes, finance, etc. A cooperative society enjoys special privileges and exemptions.

Limitations of cooperative form of organisation:

1.Coordination: Internal dissensions and rivalries among the members diminish much of its strength and vigour. The absence of coordinated and joint action is responsible for the collapse of many cooperative associations.

2.Corruption: One of the most important drawbacks of a cooperative form of organisation is the prevalence of corrupt practices in the management and functioning of the cooperative societies.

3.Lack of secrecy: The affairs of cooperatives are generally exposed to the members and it becomes quite difficult for them to maintain secrecy in business affairs.

4.Insufficient motivation: Since the rate of return on capital is low, the members do not feel involved in the affairs of the society.

5.Lack of interest: Sustained efforts over a period are the prerequisites for success in any business. But such a state of affairs does not exist in many cooperatives. Within a short period of its dramatic start, the cooperative becomes lifeless and inactive in its operation.

3. What are the various methods of raising short-term capital? Explain them briefly. 3+7

Ans: Ans: The following methods may be used to raise short-term capital:

1) Trade credit

2) Factoring

3) Discounting bills of exchange

4) Bank overdraft and cash credit

5) Public deposits

1)Trade credit: Just as companies sell goods on credit, they also buy raw materials, components, stores and spare parts on credit from different suppliers. Hence, outstanding amounts payable to trade creditors as well as bills payable relating to credit purchases are regarded as sources of finance. Generally, suppliers grant credit for a period of 3 to 6 months, and thus provide short-term finance to the company. Availability of this type of finance is closely connected with the volume of business.

When the production and sale of goods increase, there is automatic increase in the volume of purchases, and more of trade credit is available. On the other hand, if sales decline there-is a corresponding decline in purchases of materials, and consequent decline in trade credit as a source of finance. Thus, creditors' balances (accounts payable) and bills payable help companies to finance current assets, i.e., stock of materials and finished goods as well as book debts. However, trade credit also involves loss of cash discount which could be earned if payments were made within 7 to 10 days from the date of purchase. This loss is regarded as the cost of trade credit.

2)Factoring: The amounts due to a company from customers on account of credit sale generally remain outstanding during the period of credit allowed i.e., till the dues are collected from the debtors. By this arrangement the responsibility of collecting the debtors' balances is taken over by the bank on payment of specified charges by the company. This is a method of raising short-term capital and known as 'factoring'. It helps companies to secure finance against debtors' balances before the debts are due for realization, and incidentally also helps in saving the effort of collecting the book 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.

3)Discounting bills of exchange: Discounting of a bill of exchange is a method of short-term financing provided by banks. When goods are sold on credit, bills of exchange are generally drawn for acceptance by the buyers of goods. The bills so drawn are payable after 3 or 6 months depending on the prevailing practice among traders. Discounting of the bill refers to the encashment of the bill before the date of its maturity. Instead of holding the bills till the date of maturity, companies generally prefer to discount them with commercial banks on payment of a charge known as bank discount. This process of encashing the bill with the bank is called discounting the bill. Bills are endorsed in favour of the bank so that the bank gets the amount from the drawee on the due date. The amount of discount is deducted from the value of bills at the time of discounting. The rate of discount to be charged by banks is prescribed by the

Reserve Bank of India from time to time. It really amounts to the interest for the period from the date of discounting to the date of maturity of the bill. If any bill is dishonoured on maturity, the bank returns it to the company which then becomes liable to pay the amount to the bank. The cost of raising finance by this method is the discount charged by the bank.

4) Bank overdraft and cash credit: Cash credit refers to an arrangement on a continuing basis whereby the commercial bank allows money to be drawn as advance from time to time within a specified limit known as cash credit limit. This facility is granted against the security of goods in stock, or promissory notes bearing a second signature, or other marketable instruments like Government bonds. The company is allowed to draw whatever amount is required at different times within the limit agreed upon. The cash credit limit may be revised according to the value of securities. The money drawn can be repaid as and when possible. Interest is charged on the actual amount withdrawn. It is offered for maintaining the working capital of the business. The loan duration is generally 1 year. An 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. The overdraft facility is also granted against securities as in the case of cash credit. Interest is charged only on the amount actually overdrawn. Overdraft facility is offered for meeting short-term obligations of individuals or businesses. The loan duration can vary and it can be monthly, quarterly, half yearly or yearly.

5) Public Deposits: Companies often find it convenient and necessary to raise funds by inviting their . shareholders, employees and the general The Companies Act permits such deposits to be received for a period up to 3 years at a time. Thus, public deposits can be raised by companies to meet their shortterm and medium-term financial needs. It is a simple method of raising finance for which the company has only to advertise in the newspapers giving particulars about its financial position as prescribed by the Companies Act. The deposits are not required to be covered by mortgaging assets or by other securities. Moreover deposits can be invited by offering a higher rate of interest than the interest on bank deposits. Public to deposit their savings with the company. But companies are not permitted to raise unlimited amounts of fund through public deposits.

4. Discuss the various functions performed by wholesalers. 10

Ans: The functions of wholesalers may be grouped as follows:

i. Assembling products: The basic function of every wholesaler is that of procuring goods from manufacturers and holding large enough stocks for sale to the retailers.
ii. Arranging storage : The wholesaler has to make arrangements for holding stocks to meet the needs of retailers from time to time. He must see that goods in stock are not spoiled or damaged. For proper storage he may have his own warehouse or hire one.
iii. Grading and packaging : Wholesalers who usually purchase in bulk may have to do the grading of products, i.e., sort out the products according to quality or size or other factors. For the convenience, it may also be necessary for wholesalers to undertake packaging of goods.
iv. Transporting goods : The wholesaler is generally required to arrange transportation of the goods procured from the place of manufacture to his godown. Often he is also to arrange delivery of the goods to retailers according to their needs.
v. Distribution of goods : Goods assembled and held in stock must be rnade available to the retailers who may be scattered in different parts of a city or region. For this purpose, advertisement and employment of salesmen must be undertaken by the wholesaler.

vi. Financial : As a general practice wholesalers provide crdit facility to retailers. Thus, payment can be made by retailers after goods have been sold by them or when their clients have cleared their accounts. Financing of retail trade is a very common function of wholesalers. Sometimes, wholasalers also advance money to manufacturer against orders placed for purchase of goods. This is another type of financing done by wholesalers.
vii. Risk-bearing : Procurement and holding large stocks of goods in anticipation of demand from retailers involves considerable risk of loss for the wholesalers. If market conditions change due to reduced demand or entry of competitors, the wholesalers end up with huge unsold stock.
viii. Price fixation : The prices of goods which consumers have to pay depend upon the prices fixed by wholesalers and charged from retailers. This is an important function to be performed by wholesalers because a number of factors including prices of competing goods, effect of prices on demand, etc., have to be taken into account.

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

(a) Loan and Overdraft

Ans: A loan is a fixed sum of money issued by a bank to a customer, usually to serve a predetermined purpose. All loans come set terms, including tenor, fees, and interest rate. The tenor is the period over which the loan will be repaid by the customer, while the fees are what the bank charges for offering the service. As for the interest rate, it is a percentage the bank adds to the sum of the loan to make a profit. Interest rates vary from bank to bank, depending on both the type of loan and the central Bank's directives. The lower the interest rate, the better it is for the customer. When applying for a loan, the bank checks your financials, other loans, or credit cards, and decides the maximum amount, tenor, and interest rate based on that information. While an overdraft is also a form of borrowing, it differs from a loan in that it does not entail a fixed amount of money. With an overdraft, you can withdraw more money than your current account balance up to a limit approved by the bank if needed. The bank if needed. The bank determines the limit based on a number of factors including your salary, account balance, repayment history and credit score. An overdraft is a faster method of money borrowing and is better suited for short-term expenses of smaller sums, such as unexpected bills. Loan payments are made in the form of monthly installments on a fixed day of each month. Whereas, overdraft repayments are not linked to a fixed date and can be made any time through a lump sum or multiple deposits. The monthly installments in loans is determined by the loan's total sum, interest rate, and duration. A loan's interest is calculated based on the total sum borrowed or the remaining amount to be repaid. Whereas in overdraft, interest rate is calculated daily rather than monthly, I.e, you are charged interest for every day the overdraft remains unpaid. An overdraft's interest is also only charged on the amount overdrawn, while a loan's interest is charged on the full amount borrowed. Overdraft interest is higher than loan interest.

(b) Cash Credit and Overdraft

Ans: Cash credit refers to an arrangement on a continuing basis whereby the commercial bank allows money to be drawn as advance from time to time within a specified limit known as cash credit limit. This facility is granted against the security of goods in stock, or promissory notes bearing a second signature, or other marketable instruments like Government bonds. The company is allowed to draw whatever amount is required at different times within the limit agreed upon. The cash credit limit may be revised according to the value of securities. The money drawn can be repaid as and when possible. Interest is

charged on the actual amount withdrawn. It is offered for maintaining the working capital of the business. The loan duration is generally 1 year.

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.

(c) Pledge and Hypothecation

Ans: Bailment of goods as security against the debt for the performance of the obligation or the payment thereon, is known as the pledge. Hypothecation is a mode of creating charge on goods or related documents without the surrender of possession of goods. Hypothecation is the pledging of goods, against the debt without delivering them to the lender. Pledge is defined in Section172 of Indian Contract Act, 1872.On the other hand, hypothecation is defined in Section 2 of Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest Act, 2002.The borrower who pledges the property is called the 'pledged' or 'pawner' and the person with whom the property is pledged is known as 'pledgee' or 'pawnee'. The borrower who hypothecates the goods is known as 'hypothecator' and the lender is termed as 'hypothecatee'. Property remains with the creditor in case of pledger, whereas property remains with the debtor in case of hypothecation. In the pledge, the possession of the asset is transferred, but in the case of hypothecation, possession lies with the debtor only. In the pledge, when the borrower default in payment, the lender can exercise his right to sell the asset to recover the debt amount. Conversely, in hypothecation, the lender does not have the possession of goods so he will have to seize property first and then sellout. A pledge is utilized when there exists an actual possession of security/assets as collateral by the banks/lender to avail the loans. Hypothecation is used whenever loans are granted against movable security as collateral without actual possession of the property.

6. Explain the features of a fire policy and state the various types of fire policies issued by insurance companies. (7+3)

Ans: Fire policies cover the losses directly caused through fire. However, it is necessary that fire must happen by ignition. If the fire is caused through the malicious act of the insured himself, he would not be able to recover the loss from the insurer. The fire insurance contract is an indemnity contract.In addition to fire, the standard fire policy covers such perils as lightning, explosion of domestic boilers, gas used for lighting and heating, and damage by water used to extinguish a fire on neighboring property. For a small

additional premium the policy may be extended to cover such other items as storm and flood, earthquakes and impact from road vehicles or aircraft, but not glass and china, jewellery,manuscripts and other items of value, except where specially mentioned. Fire policy is for a fixed period. During that period if there are successive fire accidents, the insurer is liable to make good of all those successive losses.

Types of Fire Policies:

Specific Policy where the liability of the insurer is limited to a specified amount, which is normally less than the actual value of the property insured.

Valued Policy where the insurer agrees to pay a fixed amount in the event of loss, irrespective of the actual loss suffered. Under this policy, the insured recovers a fixed amount, irrespective of the amount of actual damage.

Floating Policy where the amount of the policy may vary from time to time. This type of policy is useful in the case of goods in store where quantity and value change from time to time.

Replacement Policy where the insurer has the option to replace the property/goods damaged by fire, instead of paying the loss by cash.

Loss of Profit Policy where insured is protected against the loss of profit due to dislocation of business due to fire. Under this policy, insurer compensates to the extent of the loss in profits.

Comprehensive Policy which provides cover against not only fire but also several other risks such as lightning, riot, earthquake, flood, storm, burglary, war, etc.

7. What is a public enterprise? State the features and objectives of a public enterprise. 2+4+4

Ans: Government owned enterprises are also called Public Enterprises (PEs). Public enterprise, as a business entity, refers to any industrial or commercial undertaking which is owned and managed by the central, state or local government and of which the output is marketed i.e., not supplied free. Thus, public enterprises include manufacturing, trading as well as service organisations which are essentially business undertakings. Public enterprises consist of nationalised private organisations as well as new enterprises promoted under government ownership and control. Life Insurance Corporation, Indian Airlines Corporation, Coal India Ltd., etc., are examples of public enterprises established by nationalising private organisations. Hindustan Machine Tools, Hindustan Antibiotics Ltd., Chittaranjan Locomotive Works, etc., are examples of public enterprises promoted by government.

Features of Public Enterprises are:

i) Public enterprises are owned and managed by the government or agencies set up by the government.

ii) The whole or major part of the capital required for the public enterprises is provided by government.

iii) These are governed by public policies laid down by the government in the public interest and are not entirely guided by profit motive.

iv) A public enterprise can be organised as a departmental undertaking or as a statutory corporation or as a government company.

v) Their objectives are laid down in conformity with the development plans. They are accountable to the Parliament or state legislature for their performance and fulfilment of objectives.

Objectives of Public Enterprises are:

i) To channelise resources in the best possible manners for economic growth.

ii) To secure public welfare and to reduce inequalities in the distribution of income and wealth.

iii) To ensure balanced regional development of industry and trade.

iv) To prevent the growth of monopoly and concentration of economic power in a few private hands.

v) To provide satisfactory employment conditions to the personnel as model employers.

vi) To achieve rapid economic development through industrial growth in accordance with the development plans.

vii) To control the prices of essential consumer goods in the market to prevent public hardship.

viii) To mobilise public savings through financial institutions to meet the demands of public and private enterprises in accordance with planned priorities

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

(a) Departmental Store

Ans: A departmental store is a large-scale retail store in which there are several departments each selling a particular type of product. The departments are like separate retail shops operating in the same building. The idea behind a departmental store is to offer as many different products as possible to each customer. Thus, a wide range of products is sold under the same roof, and in each department there are varieties of a particular product available for sale. This type of stores can be regarded as a retail market in which the shops are owned and controlled by a single business firm. The departmental stores are generally established in central location is in cities so that they are within short distance of residential localities.

All kinds of consumer goods are sold in departmental stores. But perishable goods, like vegetables, fruits, bread, butter, milk, etc., are not sold in these stores. To attract customers, the departmental store also provides a number of services and facilities like hair-cutting saloon, beauty parlour, restaurant, reading room, telephone, toilets, and even recreation ' - facilities. These stores are very popular in USA and European countries. In India departmental stores have been established in cities like Bombay, Calcutta, Madras, Delhi.

(b) Public Corporation

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

management. Public corporation is also known as statutory corporation. The capital is wholly subscribed by the government. It is managed by the management committee constituted according to the provisions of the Act. It is answerable to the Parliament or State Legislature as the case may be.

The main features of the public corporations are:

1) Created by a special Act of legislature: Public corporation is an autonomous corporate body created by a special Act of a legislature. The Act defines the powers, duties, privileges, immunities, relationship to the government department, etc.

2) It is a corporate body: A corporation is a legal entity. It means that a corporation is an 'artificial person' which exists in the eyes of law. It can enter into contracts and can transact any business under its own name. Since it does not have physical existence, it operates through its agents, which is its Board of Directors.

3)Owned by the State: It is Fully owned by the state and the capital is wholly subscribed by the state.

4) Managed by a Board of Directors: It is managed by a Board of Directors constituted according to the provisions of the Act. The members of the Bowd represent various interests and are appointed by the concerned public authority.

5) Answerable to legislature: Public corporation is answerable to legislature (Parliament1 State Assembly) which creates it. The way the corporation would be held accountable is mentioned in the Act. Parliament is not expected to interfere in its day-to-day working. But it can discuss matters of policy and the overall performance of the corporation.

6) Relation with the government: Even though a statutory corporation is owned by the government, it does not operate as a wing or part of' the government. The legal relationship and channels of communication between the government and the corporation are laid down in the Act of its incorporation. Thus, the relationship with the government is formal and clear.

7) Own staffing system: Although a corporation is owned and managed by the government, its employees are not government servants. The employees are recruited, remunerated and governed by the rules and regulations laid down by the corporation. Their pay and benefits are also different from those of the government servants. Thus, the corporation can have the necessary freedom in regard to its employees in running its business.

8) Financial independence: A major source of autonomy of a statutory corporation is its independence in respect of its finances. A public corporation is not subject to the budget, accounting and audit controls. The corporation shall have its own funds and all receipts of the corporation shall be credited thereto and payments shall be made therefrom. Once the funds are given to a corporation, it manages them on its own. It does not have to go to the Parliament to get its budget approved. A corporation can also borrow money within and outside the country after getting approval from the government.

(c) Pricing policy followed by public utilities

Ans: Ans: Price of a commodity is usually determined by two factors: 1) demand, and 2) supply.This does not apply in the case of all goods and services supplied by the public utility undertakings. There are other considerations which play a more important role in fixing the price. In the case of public utility

concerns, price is not fixed on the basis of cost involved in the production or supply of such services i.e., cost of service principle. It is determined on the basis of the purchasing capacity of the consumers, which is called the principle of what the traffic will bear.

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

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

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

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

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