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ECO-01 Business Organisation

Part A

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

(a)Industry and Commerce

Ans: The industry is defined as an economic activity, concerned with the procurement and processing of raw materials into finished products, that reaches the customer. Commerce is described as a business activity, wherein exchange for goods and services for value is done on a large scale. Industry refers to that part of business activities which is concerned with the production of want satisfying goods through utilisation of available material resources. All the activities which establish link between the producers of goods and consumers of these goods, and maintain a smooth and uninterrupted flow of goods between them come under commerce. A huge capital investment is required to start an industry. On the other hand, commerce requires comparatively less capital investment. Industry involves the conversion of resources into useful goods. As opposed to, commerce which involves activities that are essential for facilitating the buying and selling of goods. The industry is an indicator of production part of business activities. Unlike commerce which deals with the making goods available to the customers, i.e. the distribution part. Industry is riskier than commerce. Commerce is less risky than industry. Industry is operated in workshop or factory. On the other hand, commerce is operated from production center to distribution center. Industry can be divided into primary, secondary, and tertiary industries. Primary industry is responsible for the extraction of natural resources, secondary industry is responsible for manufacturing and assembly of goods, and the tertiary industry is responsible for the services provided to support the primary and secondary industry. On the other hand, commerce can be divided into domestic and foreign trade. Domestic trade is the process of buying, selling, and exchange of goods and services within the country. Foreign trade is the process of buying, selling, and exchange of goods and services between different countries.

Industry sector plays a vital role in the economy by creating jobs, driving growth, and increasing the productivity of the country. It is responsible for the development of new technology, creating new products and services and providing employment opportunities. Commerce sector facilitates the flow of goods and services and contributes to the growth of the economy by promoting trade and investment. It helps to increase the standard of living by providing people with a wide variety of goods and services at competitive prices. It also helps to increase the economic growth by promoting exports and attracting foreign investment. Industry is often associated with the manufacturing sector, while commerce is associated with the retail and service sectors.

(b) Bulls and Bears

Bull or Long: A person who buys securities in the expectation of a rise in their prices, is called 'Bull. He becomes active whenever there is anticipation of a rise in the prices of securities. He buys with the object of selling them in future. He is also known as tejiwala. If his expectations come true, he earns a profit. If the market goes against his expectation, he incurs a loss. Suppose, he makes a deal for purchase of 100 shares at Rs. 105, expecting it will go up. On the settlement day the price of the share rises to Rs. 110. I-Ie informs his broker to settle the deal. He earns a profit of Rs. 500. On the other hand,

if the market price of the share goes down, he may incur a loss on settlement of the transaction. In such a situation he can postpone the settlement due to unfavorable price by paying budla charges (also called contango). He is called 'bull' as he has a tendency to raise the price artificially like a bull who generally throws his victim upwards.

Bear: A person who sells short i.e., sells what he does not possess at the time of selling, is called a 'Bear'. He does so in the hope of buying at a lower price at the time of delivery. Thus, a bear anticipating a fall in price in future sells at the current price which is high. If his expectations come true, he gains, otherwise he loses. If the market goes against him i.e., if the market prices rise, he can postpone his settlement by paying badla charges (also called backwardation). A sale of securities by bears is called 'short selling'. He has to buy them from the market for making delivery to the buyer.

(c)Wholesaler and retailer

Ans: Wholesalers are those who happen to be engaged in wholesaling or wholesale 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.

(d)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.

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

(a) Memorandum of Association

Ans: It is the most important document of a company as it lays down the constitution of the company and states the relationship of the company with the outside world. It is a public document and each person who deals with the company is supposed to know the provisions contained in the memorandum. The purpose of memorandum is to enable the shareholder, creditors and those who deal with the company to know what is its permitted range of activities. Although the company is a legal 'person' its capacity to do business, unlike that of a real person, is restricted. If a company is engaged in any trade or business which is outside the provisions of the Memorandum of Association, such acts are regarded ultra vires of the company and therefore, void and inoperative.

The Memorandum of Association contains the following particulars under different clauses.

i) Name of the company

ii) Name of the state in which the registered office is to be located.

iii) Objects clause-The nature of business activities which the company will undertake is to be stated in this clause.

iv) A declaration that the liability of' the members will be limited to the face value of shares subscribed.

v) Capital clause-The total amount of capital with which the company is proposed to be registered and its divisions into different shares of a fixed amount are to be stated under

this clause.

vi) A declaration by signatories to the Memorandum that they are desirous of being formed into a company and agree to take the number of shares mentioned against their names.

(b)Retained profits as a source of finance

Ans: Profitable companies do not generally distribute the whole amount of profits as dividend. A certain proportion is transferred to reserves and utilised as additional capital. Thus, the financial needs of a company can be met by retaining a part of the annual profits. This may be regarded as reinvestment of profits or 'ploughing back of profits'. Since retained profits actually belong to the shareholders of the company, these are treated a$ a part of ownership capital, and may be used to meet long, medium and short-term financial needs. The main advantage is that there is no legal formality involved, nor does the company have to depend on external investors to raise capital. Retention & profit is a sort of self-

financing of business. However, only the on-going profitable companies can make use of this source of finance. For profitable companies transfer up to 10% of current profits is legally permitted. A company may transfer more than 10% of profits to reserves provided it fulfils certain conditions laid down in the rules framed under the Companies Act. In short, more than 10% of current profits can be retained only after declaring a minimum rate of dividend consistent with the dividend distributed in the past.

(c)Features of an ideal medium of advertising

Ans: Features of an ideal medium of advertising are:

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

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

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

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

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

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

(d) Containerisation

Ans: Containerisation refers to the technique of using specially made containers for transportation of goods. It involves carriage of goods in large box like containers that can be loaded and unloaded to and from trains, trucks, ships and air crafts by mechanical devices instead of manual labour being engaged in transferring packaged lots. Containerisation is intended to eliminate manual handling of cargo, mechanising the operation and ensuring automatic control over transfer of goods in containers from storage to carriers and from one type of carrier to another. Containers can be hauled by trucks to railway yards, docks or airports and can be transferred readily to rakes, flatcars, ships or airplanes, thus, the main advantage of containerisation is its adaptability to efficient transfer between different modes of transportation. The transfer can be made by mechanical devices with minimum use of manual labour. For sea transport, operation of larger and faster general cargo vessels has become possible due to containerisation. Specialised container ships are required for the purpose, and it involves heavy capital expenditure. Even then it is found economical since loading big containers is easier, less time consuming and less costly compared with loading of small boxes or pieces. Movement of cargo by air may also be possible more conveniently with the prospect of containerisation enabling goods to be loaded and unloaded using highly automatic mechanical devices. However, it remains to be seen whether it is economically feasible to operate huge air freighters which are required to cany containerised cargo. In the West European countries and the United States, containerisation has become an integral part of the transport system. It is gradually gaining ground in India. At present Inland Container Depots (ICDs) serve as dry ports to promote exports and imports from and to inland locations.

Part B

Attempt any three of the following questions.

3. "Partnership form of business organisations emerged essentially because of the limitations and failures of the sole proprietorship organisations. " Discuss (10)

Ans: Partnership organisation emerged essentially because of the limitations and failures of sole proprietorships. The sole trader organisations have limited financial resources, limited managerial ability and skills, and unlimited liability. In case of expansion more capital and more managerial skills are required. At the same time, the risk will also increase. A sole proprietor may not be able to fulfil all these requirements. A person who lacks, managerial skills may be having capital. Another person who is a good manager may not be having sufficient capital. This calls for a situation where two or more persons come together, pool their capital and skills, and organise the business. This type of business organisation is called partnership organisation. It grew essentially because of the limitations and failure of the sole proprietorships.

Limited resources: The sole trader has to depend on his own earnings or he can borrow from relatives and friends. This is because a sole trader has got limited capital and resources.

Limited managerial capacity: To carry on a modem business, knowledge and skills regarding production, finance etc., are required. His decisions may not be balanced and it is impossible for a single person to possess expertise in all the areas mentioned above.

Less stability: The business continues and remains stable till the sole trader remains alive. If he dies, there is a chance of closure of business.

No check and control: No checks and controls are there on the proprietor. As he is the only proprietor of the business, one cannot question him on his acts and deals.

Not suitable for large scale operations: Due to the limited resources, it is appropriate for small business and not for carrying out large scale operations.

Less scope for scale economies: As the sole trader operates on small scale, he cannot enjoy benefits of large scale buying or selling.

These limitations brought sole proprietorship to an end and it gave birth to partnership organizations. Partnership is an association of two or more persons who have joined together to share the profits of business carried on by all or any of them acting for all. Partners are the persons who own the partnership business. All the persons are collectively called the firm or partnership firm. Because of the merits of partnership organization, it came into existence.

More capital available: Unlike sole proprietorship, there are two or more partners in partnership firms. So, in partnership firm does not have to rely on a single individual as the source or its funds. The added financial strength of the partners increases the borrowing capacity of the firm.

Flexibility: Like sole proprietorship, the partnership business is also owned and run by the partners themselves. They can easily appreciate and quickly respond to the changing conditions.

Protection: The rights of all partners are fully protected. If a partner is not comfortable with the firm’s working, he can ask for the firm’s dissolution and withdraw himself from the business.

More diverse skills and expertise: A good partnership brings together those partners who complement one another and not those who have the same background and experience. One partner could be a specialist in finance, another in marketing and the third one could be in manufacturing. If all the partners give a combined judgment, the decisions would be better and balanced, and not hasty and reckless. More partners are there, that is why, partnership involves more people in decision making.

Keen interest: As the partners are liable to losses and risks of a business, they take proper and keen interest in the business affairs.

Checks and controls over careless decisions: In this form of organization, there are fewer chances for hasty and reckless decisions. This is due to the reason that a firm is run on collective basis and all the partners take part in major decisions.

Diffusion of risk: In this, one doesn't have to bear the whole amount of the loss. It is so because the losses of the firm are shared by all the partners.

Secrecy: In partnership firms, some secrecy can be maintained because there is no obligation to publish accounts of the firm.

Easy formation: Although the formation of a partnership firm is not as easy as the sole proprietorship, but it is much less difficult as compared to a company. The partners agree to do business together and draw up and sign the partnership agreement. After that there are no complex government laws regulating the establishment of the partnership.

If more people come together they can not only pool their capital and skills but organize the business properly. A sole proprietor may not have both capital and skills to fulfill the requirements.

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

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.

5. Explain various factors to be kept in mind while deciding on channels of distribution for a product. (10)

Ans: The channel of distribution is a network of institutions that perform a variety of' interrelated and coordinated functions in the movement of goods from producers to consumers.

We can classify the distribution channels into two broad categories: (1) direct channels, and (2) indirect channels (use of middlemen).

1) Direct Channels: When the producers sell their goods directly to the consumers it is called a direct channel. No middlemen are present between the producer and the consumer.

2)Indirect channels: In the case of all the products it is not possible for the manufacturer to supply goods directly to the consumers. So may be middlemen like wholesaler, retailer and mercantile agents may be engaged in the channel of distribution. When the middlemen are engaged, it is called an indirect channel.

The following factors generally influence the choice of the channel of distribution:

1) Distribution policy

2)Characteristics of the product

3) The target customers in view

4)Supply characteristics

5)Types of middlemen in the field

6) Channel competition

7) Potential volume of sales

8) Costs of distribution

9) Profits expected in the long-run

1)Distribution policy: Where the manufacturer is interested in distributing his products through all possible outlets, it is desirable to use more than one channel to reach the target customers. This is known as intensive distribution policy. The purpose in this case is to make the product available as near to the consumers as possible. Consumer goods of frequent use like pens, pencils, paper, soap, hair nil, etc., are distributed through a large number of wholesalers and retail traders. If goods are meant for customers who are very particular about their quality and usefulness, manufacturers adopt a selective distribution policy.

2)Characteristics of the product: The nature of the product influences the choice of channel. For example, perishable products like eggs, milk, etc., are supplied either directly or through the short channels. In the case of heavy and bulky products (e.g., cement, steel) where distribution and handling costs are higher, short channels are preferred. Sophisticated electrical and electronics equipment which require careful handling are also generally distributed directly or through short channels. On the other hand, long channels are found in the case of light-weight and small-size items like dress

material, readymade garments, pocket calculators, stationery, toothpaste, toothbrush, etc. Similarly, simple mechanical products like electronic toys, time-clocks, etc., are supplied through long channels for intensive distribution.

3)Characteristics of target customers; If the number of customers is large and geographical area is extensive, long and multiple channels are necessary for intensive distribution of goods. This is also suitable where the consumers are in the habit of making frequent purchases of small quantities at irregular intervals. Short channels and direct selling are possible in the case of few customers who purchase large quantities at regular intervals and they are concentrated in a small area.

4)Supply characteristics: Goods produced by a small number of producers concentrated in one region are generally distributed through short channels. Long channels are suitable if a large number of producers in different regions produce and supply the goods.

5)Types of middlemen: Availability of suitable middlemen in the channel of distribution is another factor in the selection of the channel. This is because different functions like standardisation, grading, packing,

branding, storage, after sale servicing, etc., are expected to be performed by middlemen. Efficiency of distribution depends upon the size, location and financial position of middlemen. If the middlemen in a specific channel are dependable and efficient that channel may be preferred by producers.

6)Channel competition: There are different situations in which manufacturers compete with each other for availing the services of particular wholesalers. Similarly, wholesalers often compete with each other to deal with particular retailers or carrying particular brands of products. Sometimes producers use the same channel which is used by their competing producers. If any producer arranges exclusive distribution through a particular wholesaler, other producers also do the same. Thus, selection of a channel may depend on the competition prevailing in the distribution system.

7)Potential volume of sales: The choice of the channel depends upon the target volume of business. The ability to reach target customers and the volume of sales varies between different channels. One outlet may not be adequate for achieving the target in which case more channels need to be used. Of course, the competitive situation must be taken into account while examining the potential volume of sale through different channels.

8)Cost of distribution: The various functions carried out in the channel of distribution add to the cost of distribution. While choosing a channel, the distribution costs of each channel should be calculated and its impact on the consumer price should be analysed. A channel which is less expensive is normally preferred. Sometimes, a channel which is convenient to the customers is preferred even if it is more expensive. In such cases the choice is based on the convenience of the customers rather than the cost of distribution.

9)Long-run effect on profit: Direct distribution, short channels, and long channels have different implications with regard to the profits in the short-run and long-run. If demand for a product is high, reaching the maximum number of customers through more than one channel may be profitable. But the demand may decline in course of time if competing products appear in the market. It may not be economical then to use long channels. So, while choosing a channel one should keep in mind the future market implications as well.

6. What is insurance? Explain various legal aspects of insurance (2+8)

Ans: Insurance is a device by which a loss likely to be caused by uncertain event is spread over a large number of persons who are exposed to it and who voluntarily join to insure themselves against such an event. For example, it is a common knowledge that every year a certain number of houses are destroyed by fire, but nobody can predict which particular house will be destroyed. Thus, all house owners run the risk of loss through' fire. If all of them pay a small sum into a find every year, anyone who does lose his house can claim money from such fund to build a new house. In the absence of such a fund, the owner of the house has to bear the whole loss by himself. In the case of insurance, in the similar way, loss is being shared by a large number of persons instead of being borne by one. In the above illustration the persons who got their houses insured are known as 'Insured'. The agency which helped them in entering into this arrangement is known as 'Insurer' or the Insurance Company. The agreement or contract between the insurer and insured is known as 'Policy'. The amount paid by the insured in return of which the insurer undertakes to make good the loss is known as 'Premium'. we may define insurance as a form of contract between two parties (insurer and insured) whereby one party (insurer) undertakes in exchange for a fixed amount of money (premium) to pay the other party (insured), a fixed amount of

money on the happening of a certain event (death or attaining a certain age in case of life) or to pay the amount of actual loss when it takes place through the risk insured (in case of property).

Legal aspects of insurance:

The validity of every insurance contract rests upon certain principles. The basic principles which are applicable to various kinds of insurance contracts are: (1) utmost good faith, (2) proximate cause, (3) insurable interest, (4) indemnity, (5) subrogation, and (6) principle of mitigation of loss.

1) Utmost Good Faith: A basic condition of every contract of insurance is that the insurer and insured should display utmost good faith towards each other, Each party must reveal to the other party, whether asked or not, all material facts which would influence the other party's decision to enter into the contract. It is not enough that the insured gives truthhl answers to all the questions in the proposal form, but it is legal obligation to disclose all other information known to him that is likely to affect the insurer's estimation of the risk. If the material fact is not disclosed or if there is misrepresentation or fraud, the insurer is entitled to avoid the contract or refuse payment under it. This requirement of good faith is essential for the protection of the insurer, since he can evaluate the risk only on the basis of what he is told by the insured.

2) Proximate Cause: To recover compensation under a policy, it must be proved that the loss sustained was proximately caused by the event insured against. In other words, the loss must be the result of the occurrence of the peril stated in the policy or a peril very closed related to it.

3) Insurable Interest: A person cannot legally insure a risk in which he has no legal interest. For instance, a person can insure his own property but not that of his neighbour's property. In the same way, a creditor may insure the life of a person who owes him money. But you should note that sometimes interest may arise without ownership also.

4)Indemnity: Under the contract of indemnity, the policy holder is entitled to get the compensation from the insurer so that the policy holder neither gains nor losses from the mishap. This clause is applicable in fire and marine insurances only, and not applicable in other insurances (life, personal accident and sickness insurances). The main purpose of indemnity is to compensate the loss incurred and not make profits out of mishaps. H

5)Subrogation: The doctrine of subrogation applies only to contracts of indemnity. According to the doctrine of subrogation, after the insured is compensated for the loss, the right of ownership of such damaged part of the property passes on to the insurer. If the damaged property has any value left or the lost property is recovered, such property cannot be allowed to remain with the insured because in that case the insured will realise more than the actual loss, which is against the principle of indemnity.

6) Principle of Mitigation of Loss: An insured must take all reasonable care to prevent and reduce he loss. For instance, if a house is insured against fire and there is accidental fire, the owner must take all reasonable steps to extinguish fire and keep the loss to the minimum. Similarly, if a person had insured house hold goods against theft and burglary, he must take all normal precautions (such as locking the house) to prevent theft.

7)What is a public enterprise? How is it different from private enterprise? Explain the characteristics of a public enterprise. (2+3+5)

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.

Difference between Public enterprise and Private enterprise:

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. Private enterprises, on the other hand, refer to industrial and commercial organisations which are set up under individual or group ownership within the general framework of regulatory laws and rules of the government. These include manufacturing and commercial companies, medium and small firms organised as proprietory and partnership concerns.

Private enterprises are primarily motivated by private profit. Public enterprises are governed by public policies framed by government and aimed at maximising social welfare and upholding public interest. The objectives of public enterprises in India are laid down in conformity with the objectives of the development plans. They are accountable to the government and the parliament or state legislatures regarding the fulfilment of their objectives. Private enterprises are free to set their objectives and to undertake any business activity except those which are illegal. However, private enterprises are also regulated by government controls of different kinds.

Characteristics of Public enterprises are:

1) Public enterprises are owned and managed by the government or agencies set up by the government.
2) The whole or major part of the capital required for the public enterprises is provided by government.
3) A public enterprise can be organised as a departmental undertaking or as a statutory corporation or as a government company.

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

5) '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.

8. (a) "Expenditure on advertising is a social waste". Comment. (5)

Ans: Though advertising is one of the most frequently used medium of promotion of goods and services, it attracts lot of criticism. The opponents of advertising say that the expenditure on advertising is a social

waste as it adds to the cost, multiplies the needs of people and undermines social values. The proponents, however, argue that advertising is

very useful as it increases the reach, brings the pay unit cost of production down and adds to the growth of the economy. It is therefore, important to examine the major criticisms against advertising and see the extent to which these are true. This is taken up as follows:

1. Adds to Cost: The opponents of advertising argue that advertising unnecessarily adds to the cost of product, which is ultimately passed on to the buyers in the form of high prices. An advertisement on TV, for a few seconds, for example, costs the marketers several lakhs of rupees. Similarly, an advertisement in print media say in a newspaper or a magazine costs the marketers a large amount of money. The money spent adds to the cost, which is an important factor in fixation of the price of a product. True, advertisement of a product costs lot of money but it helps to increase the demand for the product as large number of potential buyers come to know about the availability of the products, its features etc. and are persuaded to buy it. The increased demand leads to higher production, which brings with it the economies of scale. As a result, the per unit cost of production comes down as the total cost is divided by larger number of units. Thus, the expenditure on advertisement adds to the total cost but the per unit cost comes down which in fact lessens the burden of consumers rather than adding to it.

2. Undermines Social Values: Another important criticism of advertising is that it undermines social values and promotes materialism. It breeds discontent among people as they come to know about new products and feel dissatisfied with their present state of affairs. Some advertisements show new life styles, which don’t find social approval. This criticism is not entirely true. Advertisement in fact helps buyers by informing them about the new products, which may be improvement

over the existing products. If the buyers are not informed about these products, they may be using inefficient products. Further, the job of an advertisement is to inform. The final choice to buy or not to buy anyway rests with the buyers. They will buy if the advertised product satisfies some of their needs. They may be motivated to work harder to be able to purchase these products.

3. Confuses the Buyers: Another criticism against advertisement is that so many products are being advertised which makes similar claims that the buyer gets confused as to which one is true and which one should be relied upon. For example, we may note similar claims of whiteness or stain removing abilities in competing brands of detergent powder or claims of whiteness of tooth or ‘feelings of freshness’ in competing brands of toothpaste that it is sometimes confusing to us as to which one to buy. The supporters of advertisement, however, argue that we are all rational human beings who make our decisions for purchase of products on factors such as price, style, size, etc. Thus, the buyers can clear their confusion by analysing the information provided on the advertisements and other sources before taking a decision to purchase a product. However, this criticism cannot be completely overruled.

4. Encourages Sale of Inferior Products: Advertising does not distinguish between superior and inferior products and persuades people to purchase even the inferior products. In fact, superiority and inferiority depends on the quality, which is a relative concept. The desired level of quality will depend on the economic status and preferences of the target customers. Advertisements sell products of a given quality and the buyers will buy if it suits their requirements. No advertisement should however, make false claim about the quality of a product. If a firm makes a false claims it can be prosecuted for the same.

5. Some Advertisements are in Bad Taste: Another criticism against advertising is that some advertisements are in bad taste. These show something which in not approved by some people say advertisements showing women dancing when not required or running after a man because he is wearing a particular suit or using a particular perfume are certainly not good. Some advertisements distort the relationship like employer employee and are quite offensive.

6.Advertising leads to monopoly: Small competitors find it difficult to enter the market due to advertising. This is because large firms create hurdles in their way.

7.Advertising causes undesirable social effects: Certain social effects can be. there due to advertising like it influences the materialistic values and life styles of people in society, certain sex and, horror appeals are used in order to draw the consumers attention, it creates frustration and disappointment when a person cannot purchase and enjoy a particular product.

8. Advertising results in inefficient resource allocation: Advertisements are intended not so much for the benefit of consumers. They are mainly directed to influence the consumer demand to fit whatever has been produced. In other words, advertisements are aimed mainly to change the tastes of people so that they will buy whatever is manufactured. This leads to distortion in consumption expenditure and increases the producers market power. Thus, advertising indirectly determines what people should consume. In this process productive resources i.e., land, labour and capital, may not be used in the best interest of the society.

9. Advertising may act against the freedom of press: Mass media earn huge income from advertisements. If the media are dependent on income from advertisements sponsored by few large business firms, it may be difficult to disseminate information in public interest when it is unfavourable to those big business firms. Big sponsoring firms can threaten the media owners by refusing their advertisements and dictate what media have to do. Thus, the financial dependence of media on advertisements may act against the freedom of press.

(b) State the main features of a public corporation. (5)

Ans: The main features of the public corporations are:

I) 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.