June 2014

SECTION-A

1. Attempt any four of the following : 5+5+5+5

(a) Distinguish between private limited company and public limited company.

Ans:

Private Limited Company	Public limited Company
Private Limited Company refers to the company which is not listed on a stock exchange and the shares are held privately by the members concerned.	Public Limited Company implies a company that is listed on a recognized stock exchange and whose shares are traded openly by the public.
The minimum number of members in the case of a private limited company is two and can be formed more easily.	In the case of a public limited company: the minimum number is seven
Maximum is fifty.	There is no maximum limit.
restricts the right to transfer its shares	The right of the shareholder to transfer his shares is not restricted.
prohibits any invitation to the public to subscribe for any shares or debentures of the company.	It can invite public to subscribe for its shares and debentures.

(b) Write a short note on 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.

(c) How is Industrial Finance corporation of India helpful in the industrial development ?

Ans: Industrial Finance Corporation of India (IFCI): This was set up in 1948 under the Industrial Finance Corporation Act, 1948. Its primary objective is to provide long-term and medium-term finance to large-scale industrial concerns particularly when bank loans were not suitable or funds could not be raised from the capital . market by issue of shares. The IFCI deals only with industrial enterprises registered as limited companies or cooperative societies. Nonmanufacturing concerns, private limited companies, partnership or sole traders cannot get assistance from this institution. It considers loan applications for amounts in excess of Rs. 30 lakh. It provides financial assistance for long-term investment in new industries or expansion or diversification of existing activities, or modernization and renovation of plant and equipment. The IFCI can grant loans or subscribe to debentures issued by companies repayable in not more than 25 years. It can also guarantee loans raised from other sources or debentures issued to the public. Further, companies can secure loans in foreign currency from the IFCI or get such loans guaranteed by the Corporation. IFCI takes up the underwriting of the public issue of shares and debentures by companies.

(d) Explain the concept of speculation at stock exchanges.

Ans: The word 'speculation' is derived from the Latin word 'speculare' which means 'to see from a distance or take a decision in anticipation of future happenings'. However, in the share market, it means dealing in securities keeping in view the present and future prices with the object of making profits from the difference of the two prices. e. The stock exchange provides an arrangement for the marketing of listed securities which are also called 'scrips'. The actual functioning of this market consists of buying and selling of these scrips. The buyers buy scrips with the object of selling them in future at a profit, or sell now in the expectation of buying at a lower price in future. They are known as speculators and their transactions are known as speculative transactions. Speculation is based on foresight. In speculation the intention is to gain from difference in prices. The risk of loss is assumed and anticipated in speculation. Speculation is a rational activity, based on reasoning. Speculation is a recognised activity.

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

(e) State with reasons of your choice of media of advertising for a low priced detergent in the rural areas.

Ans: The following factors influence the choice of media:

i) Character of the media

ii) Nature of the product to be advertised

iii) Type of audience I

iv) Coverage

v) Cost

Character of the media: To judge the suitability of any medium, the characters of different types of media should be analysed on a factual basis. The following aspects of the media are to be considered before choosing any particular medium.

a) The geographical coverage of the medium i.e. national, regional or local.

b) The frequency and duration of exposure of the message to the audience.

c) Method of communication i.e., visual, oral, both visual and oral, etc.

d) Production quality of the media.

e)) Degree of permanence or durability in the sense that how long the advertisement can remain before prospective customers' eyes or within their grasp. A TV advertisement disappears within a few seconds whereas an hoarding continues delivering the same message to the passing public for a year or more.

f) Scheduling flexibility is another factor. Producing a TV advertisement takes more time than producing a newspaper advertisement. Similarly, withdrawal of advertisement with a short notice is not possible with some media.

g) Power of the medium to reach special categories of audience e.g. children, ladies, business executives, etc. This is also called audience selectivity.

Nature of the product: Consumer goods need to be advertised with different types of appeal for effectiveness. Familiar goods of daily consumption do not require elaborate description, while industrial machinery may require technical details to be explained. The size of advertisement and the time of exposure required vary according to the nature of the products. Again, advertisement for consumer goods can reach the largest possible number of people through mass media like newspapers, radio and television. But industrial goods may be more effectively advertised through trade and technical magazines. Advertisement of garments is best done in multi-colour printing in magazines.

Type of audience: Media habits of the target audience to be reached is one of the important factors to be considered while selecting the medium. If the target audience are illiterate, press medium (newspapers and magazines) is ineffective. Similarly, if the target customers are in villages where there are no TV sets, advertising by TV is a waste. The most effective medium to reach housewives in the urban areas may be the radio or television, and for-business executives it may be a professional magazine. Therefore, the characteristics of the target customers with respect to media are very important in selecting proper medium.

Coverage: How many and what percentage of the potential buyers can be approached through each possible medium are also determining factors in the choice of a medium. One medium may be able to reach more number of target customers than the other media. Therefore, n medium which can reach the maximum number of target customers should be prefened. For instance, if target audience are illiterate and do not have TV sets, short films in the cinema halls may be more effective. Similarly, the number of doctors who can be reached through direct mail is expected to be more than the number who can be reached through any other medium. To advertise sewing machines to the urban customers, women's magazines may be more appropriate as the appeal will reach many more ladies through this medium.

Cost: The most important factor determining the choice of a medium is the cost involved. Cost of a medium may be analysed in two ways: 1) absolute cost, and 2) cost related to audience size. Absolute cost is the actual charge for buying a certain amount of time or space in a medium. If the small firm had set aside a small amount for advertising, it cannot afford to use an expensive medium. For instance TV is a very expensive medium whereas newspaper advertising is relatively cheaper. However, what is important is not the absolute cost of using each medium but the size of the target, audience reached in relation to the cost. Relative cost is a comparative cost. It is the absolute cost related to the size of the audience served by the chosen medium. For instance, charges for a full page advertisement in two different magazines may be exactly the same. But if one magazine has a circulation of 3 lakh and the other has a circulation of 4 lakh, advertisers choose the second magazine as it reaches more number of customers for the same money.

(f) Describe briefly the importance of transport in trade.

Transport, simply stated, means carrying of goods and passengers fiom 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.

(g) Enumerate the major reasons for the government participation in business.

Ans: The government controls the private enterprises on one hand and directly participate in the business on the other. Government today is engaged in various types of business undertakings. There are several types of services which are provided by Government organisations such as electricity, water, postal, telecommunications, transport services, etc.. Besides these organisations, there are many manufacturing industries owned and managed by government. They produce steel, locomotives, machine tools, watches, railway coaches. telephone equipment, and so on. Government undertakings are also involved in the supply of consumer goods like milk (through government milk schemes), bread (Modem Bakeries), cloth (National Textile Corporation), etc.

The reasons for the direct participation of government in business and industry may be divided into three categories:

i) basic reasons

ii) ideological reasons

iii) specific reasons.

i) Basic reasons: The government of India was rightly convinced that political independence without economic independence would not have much meaning. It was, therefore, decided to industrialise the country in a big way as early as possible.

The government felt that if the private sector was to take the initiative. it would take an unduly long time to achieve this objective of rapid industrialisation. It was so because the private enterprises lacked adequate entrepreneurship and resources to start large scale ventures.

The government encouraged private enterprises to set up new industries, but also, went into industry in a big way.

It was decided to establish steel plants. fertilizer factories and other units necessary for industrial and agricultural growth. The following is a list of some major enterprises and power projects set up by the government within a decade of Independence- Steel Plants at Rourkela, Bhilai and Durgapur, Indian Telephone Industries. The intention of the government was to have economic self-reliance in as many areas and as early as possible.

ii) Ideological reasons: Apart from the economic and social consideration, the government had strong ideological commitment to the philosophy of public ownership of the means of production.

iii) Specific reasons: There are many other reasons for the government to participate in business. These are specific to a particular decision. Some of these are listed below.

* Air Transport Business: Till 1953, there were many private air companies in the country. Most of these were financially unsound and had no money to invest in modem and costly aeroplanes, The air transport is of strategic importance to the country. The government, therefore, nationalised nine air companies and created Indian Airlines Corporation and Air India International Corporation in 1953.

* Insurance Business: Today, the whole of insurance business is with the government. The life insurance business is operated through the Life Insurance Corporation of India and other types of insurance business through the General Insurance Corporation of India and its four subsidiary companies. The government went into the life insurance business in 1956 nationalising scores of private companies which were not fulfilling the main objective of the life insurance business, namely,

i) effective mobilisation of the people's savings,

ii) spreading the message of insurance as far and as wide as possible, and

iii) using the insurance funds for economic development.

* Commercial Banks: The government today is in the banking business in a big way. Over 90% of commercial banking is in the hands of the government. The government rightly wanted the banking system to serve the developmental needs of the economy in conformity with national policy and objectives. It also wanted the banks to have new criteria for advancing loans in order to benefit the weaker sections of the society.

* Coal Industry: The coking coal mines were nationalised in 1971. It was done because coking coal which is essential for production of iron and steel has very limited reserves in the country. The private sector was mining this fast depleting and scarce natural resources in a very wasteful manner. Other coal mines were also nationalised in 1973. The reasons for this were: i) the private sector owners did not have the necessary funds required for increasing the coal production, ii) the coal which is a scarce natural resource was being mined in a very unscientific way, and iii) the private coal miners were greatly exploiting the labour employed in the mines.

* Oil Industry: In the 1970's the foreign oil companies Burmah Shell, Caltex and Esso were nationalised. Here the objective was that lhe government should have control over a critical and strategically important resource like oil.

* Various Other Types of Business: There is yet another important reason for the government going into business of various types. Over one hundred cotton textile mills and dozens of engineering and other

enterprises have been taken over by the government since Independence. This is done because the government cannot afford to lose production capacity which exists in the units which become sick and which the private sector wants to close down.

From the above, we can conclude the reasons for participation of Government as:

i) The government's role in business in India is greatly justified by economic and social reasons.

ii) Had the government not initiated a large number of industrial activities, the Indian economy would never have got the sound base and self-reliance which it has today.

iii) A large number of enterprises have been forced on the government when they became sick and they could not be allowed to be closed down due to social and economic reasons.

iv) There is an element of ideology in the role which the government has in business today. Had the ideology not been there, the government would have disengaged itself from at least some of its business activities after completing its role as path finder or initiator.

v) The government continues .to be in business in a big way because of ideological as well as economic and social considerations.

(h) Distinguish between current bank account and savings bank accounts.

Ans:

Current accounts are intended for businessmen, joint stock companies, public institutions, etc., whose banking transactions happen to be numerous on every working day. A current account is a running and active account which may be operated upon any number of times during a working day. There is no restriction on the number and the amount of deposits or withdrawals from this account. Since the amount from this account is repayable on demand, the banks are required to keep sufficient cash to meet such demands. Therefore, the banks pay no interest on current account deposits. The banks charge incidental charges on an unremunerative current account for the work and expenses involved in its maintenance.

The main advantage of current account is that the customers are relieved from the botheration of handling cash. Third party cheques with endorsements can be deposited in the current account for collection and credit to customer's account. Overdraft facilities are given in this type of account and loans and advances are granted by the bank.

Whenever any person or a group of persons or a firm wants to open a current account with a bank, they have to make a written request in the prescribed form. The forms contain the particulars about his name, his address, his trade or profession, his specimen signature and references etc. Before opening a current account in the name of a person, the bank should satisfy itself regarding the customer's character, integrity and respectability. For this purpose, the applicant must be introduced either by a respectable person known to the bank or known to the staff of the branch. If an account is opened without proper introduction, cases of fraud or misrepresentation may occur and the bank and the general public may suffer losses. After all the above formalities are over, the bank should receive the initial or first deposit from the customer. When an account is opened, the bank supplies to the customer a 'Pay-in slips 1book', a cheque book and a pass book. Now in place of the pass book, the banks send to their customers every month a statement of account showing therein the transactions that have taken place during the month.

A customer can deposit money or cheques in his account by filling up the requisite pay-in slip. Whenever he wants to withdraw money or wants to make payment to some one, it is done by issuing a cheque. The customer should check up the entries in the pass book or statement of account with the counterfoils in his possession.

A savings bank account is opened and operated by people who wish to save a part of their income for his future needs and also earn some interest on his deposits. This type of account is intended to promote the habit of saving among depositors, therefore, some restrictions have been imposed on the number and the amount of withdrawals from this account. The banks allow interest on the minimum balance standing to the credit of an account during the period from the 10th day of the month to the last day of every month.

The procedure of opening a savings bank account is similar to the procedure of opening a current account. For opening a savings bank account, the customer has to fill up the prescribed form, giving details about his name, address, occupation, etc. Before opening the account, the bank should seek proper introduction to satisfy himself about the integrity and respectability of the applicant. The bank should obtain specimen signature of the applicant. This account can be opened by depositing a minimum balance prescribed by the bank. The bank then opens an account in his ledger and provides the customer with a pay-in slip book, a cheque book (if customer wants) and a Pass Book.

A customer operates this account through these documents - a pay-in slip (for depositing money in the account), a cheque or withdrawal form (for withdrawing or payment to others) and a pass book. When a cheque book is issued to a customer, he is required to maintain a minimum balance in his account. Interest is payable on the minimum balance according to the rates prescribed by Reserve Bank of India from time to time.

SECTION –B

Note : Attempt any three of the following :

2. What do you mean by partnership ? Enumerate the main features of partnership form of business organisation. 2+8

Ans: The sole trader organisations have limited financial resources, iinlited managerial ability and skills, and unlimited liability. In case of expansion more capital and more managerial skills are required. At the same time, thc 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.

As defined by J.L. Hanson, "a partnership is a hrm of business organisation in which two or more persons upto a maximum of twenty join together to undertake some form of business activity".

The Indian Partnership Act, I932 defined partnership as "the relation between persons who have agreed to share the profits of business carried on by all or any of them acting Tor all".

The Uniform Partnership Act of the USA defines a partnership "as an associalion of two or more persons to carry on as co-owners a business for profit".

Based on the above definitions, we can state that 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.

The persons who own the partnership business are individually called 'partners' and collectively known as the. 'firm’ or 'partnership firm'.

Main features of partnership form of organisation as follows :

1. PIurality of persons; To form a partnership firm, there should-be at least two persons.. The maximum limit on the number of persons is ten for banking business and twenty for other types of business.
2. Contractual relationship: Partnership is created by an agreement between persons called 'partners'. In other words, a person can become a partner only on thc basis of a contract. This contract could be oral, written or implied.
3. Profit sharing: There must be an agreement anlong the partners to share the profits and losses of the business of the partnership firm. This is onc of the basic elements of partnership. If two or more persons jointly own some property and share its income, it is not regarded as partnership.
4. Existence of business: The purpose of the agreement among the partners is to do some lawful business and share profits. If the purpose is something other than business, it should not be treated as partnership. For example, if the purpose is to carry some charitable work, it will not be treated as partnership.
5. Principal-agent relationship: The business of the firm may be carried on by all or one or more partners acting for all the partners. Every partner is entitled to take part in the operations of the firm. In dealing with other parties, each partner is entitled to represent the firm and other partners in respect of the business of the firm. All partners are bound by his acts done in the ordinary course of business and in firm's name. In this sense a partner is agent of the firm and the other partners.
6. Unlimited liability: In respect of business debts, each partner has unlimited liability. This means that if the assets of the firms are not sufficient to meet the obligations of the firm, the partners have to pay from their private assets. The creditors can even realise the whole of their dues from one of the partners. Thus, all the partners are jointly and severally liable for all business debts and obligations.
7. Good faith and honesty: A partnership agreement rests on good faith among the partners. The partners must be honest to each other and trust each other. They must disclose every information about the business and present true accounts to one another.
8. Restriction on transfer of share: A partner cannot transfer his share to an outsider without the consent of all the other partners.

3. Define capital structure. Describe the factors that determine the capital structure of a company. 2+8

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

Factors determining the capital structure of a firm are:

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

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

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

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

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

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

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

8. Management control: Promoters who had major shareholding and control the management of the company take into account the probable effect of raising funds through the Issue of equity shares. Equity shareholders having voting rights can influence the policy decisions of the company or the selection of directors. But the persons who give loans do not have any right to elect directors or to participate in the management of the company. Hence the existing management group, in order to retain their control over management, prefer to raise additional finance through the issue of debentures and preference shares.

4. Discuss the primary and secondary functions of a stock exchange. 10

Ans:

Primary functions :

1) Marketability and price continuity: The stock exchange provides for easy marketability of securities as securities can be bought and sold conveniently on the floor of the stock exchange. Since transactions take place regularly, there is continuity in the dealings. Prices quoted are duly recorded and reported in the newspapers for the benefit of investing public. Besides, price fluctuations are also moderated because of the continuity of buying and selling.

2) Mobilising surplus savings: Stock exchange is an integral part of the capital market of a country. It is because through stock exchanges the savings from all parts of the country are made available to the industrial and commercial undertakings for meeting their financial requirements.

3) Barometer of economic and business conditions: The intensity of buying and selling of securities and the corresponding rise or fall in the prices of securities reflect the investors' assessment of the economic and\business conditions. Thus, during periods of economic and business prosperity prices of securities tend to rise. Conversely, prices tend to fall when there is economic stagnation or when business activities slow down as a result of depression in the markets. Indeed, change in security prices are known to be highly sensitive to changing economic, social and political conditions.

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

5) Contribution to capital formation: Savings are encouraged when people come to know about the avenues of investment. Stock markets educate investors as regards where and how to invest their savings for a fair return.

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

7) Sifting process: Investors generally prefer to invest their savings after proper assessment of the relative risks and returns associated with different securities. The comparative advantages and disadvantages of investment in various types of securities may be grasped by investors from the dealings which take place on the stock exchanges. Hence they can pick and choose from among different securities and make investment decisions on a sound basis.

Secondary Functions:

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

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

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

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

5) Helpful in re-investment decisions: The investors sometimes want to switch their investments from one type of securities to others depending on which will be more rewarding. If shares or debentures of a company are in greater demand there is a rise in their market price indicating that the investors have assumed the company's performance and prospects to be better than others. On the other hand, if shares or debentures are offered for sale by many, the price tends to fall indicating that investors are not satisfied with the earnings and future prospects of the company. Thus, changes in the prices of

securities provide a fair index of demand and supply of securities of particular companies. The investors can make their investment decisions accordingly.

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

5. How does advertisement help the business ? Also state its adverse effects. 5+5

Points in favour of advertising:

1. Advertising leads to reduction in the cost of goods: Some people hold the opinion that advertising may lead to a reduction in the cost of goods. When consumers come to know about any product through advertisements, the demand for that product increases and production is increased accordingly. Increase in production leads to economies of scale. The benefits resulting from the economies of scale offset the cost of advertising. On the whole, the cost of production need not necessarily increase due to advertising. Besides, advertising costs are much less than other forms of business communication like personal selling. In the absence of advertising, business firms may adopt other more expensive methods.

2.Advertising need not necessarily lead to monopoly: It is not always true that advertising results in monopoly. It cannot be said that the first advertiser always wins the consumers' patronage and the later entrants have a disadvantage due to late entry. There is no evidence to believe that increased advertising -always results in increased sales. The fact that the soap and cigarette manufacturers constantly introduce new brands shows that the consumers like some novelty. If the neq entrant has a better product, there is always a better chance of its acceptance by consumers. There are many instances of new comers successfully competing with entrenched leaders.

3.Advertising directs allocation of resources according to demand: By creating demand for goods, advertising influences the allocation of resources. It informs people about product available in the market. Based on this information, 'consumers choose - and buy those products which satisfy their needs more effectively. Thus, the goods which satisfy consumer needs better are more in demand, and manufacturers allocate , their resources accordingly. Thus, advertising directs the allocation of resources in accordance with the demand for goods and contributes to economic development.

4. Advertising and social values: It is argued that the social values and customs are subjective. What is objectionable to one person may not be objectionable to another person. Similarly, what is good at one point of time may not be good at another point of time. It is accepted that advertising is misused occasionally by unscrupulous businessmen. But advertisement as such should not be blamed for its misuse. This misuse of advertisement may be controlled through statutory regulations.

5. Advertising encourages autonomy of mass media: Mass media such as newspapers and magazines earn huge income from advertisements which make the media financially self-supporting, Thus, the publishers of newspapers and magazines are able to sell them at a fairly lower price. Without advertisements the price of newspapers and magazines would be much higher. The earnings from advertisements make the media financially se!f-supporting. Because of this financial autonomy, media can , publish matters of public interest freely and frankly. Thus, advertising may be said to increase freedom of the prices.

6.Advertising provides useful information: It is through advertisement that consumers get useful information relating to products, prices, quality, terms of sale, servicing, etc. It is the main sources of information, particularly for those who live in remote . areas and cannot be approached by salesmen. Thus, 'advertising plays an informative ' role which is beneficial to consumers.

Adverse effects:

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. 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.

5.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

6. Outline the relationship between a banker and its customer. What are the obligations of a bank towards them ? 5+5

Ans: The relationship between a banker and a customer is as follows:

i. Contractual Relationship: The primary relationship between a banker and a customer arises from a contract between the two, so it is a contractual relationship. The contract takes place the moment an account is opened by a customer with a bank and this contract remains valid till the customer operates his account as per the terms and conditions agreed between them.

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

iii. Bailee and Bailor Relationship: When a bank accepts deposits of money, he does not act as a bailee. This is so because a bailee accepts the bailment of goods on the condition that the things bailed will not be utilised by him and the identical goods will be returned. But a bank does not accept money from customer on the condition that it will not utilise the money and that the identical money (the same currency notes or coins deposited by customer) will be returned. A banker provides for safe deposit vaults and accepts documents and valuables for safe custody. Here the bank is acting as a bailee and the relationship is that of bailee and bailor.

iv. Trustee Beneficiary Relationship: Banks also act as trustees and executors of will of customers. A trustee is required to hold property and money and use the trust money in accordance with the trust deed and use it for the benefit of some other person known as beneficiary. A customer may deposit some money with the bank for a specific purpose with specific instructions to the bank regarding its use. In such cases, the banker is the trustee of the customer's money, and the banker cannot employ them for any other purpose other than the purpose specified by the customer. The legal position of a banker as a trustee is different from that of a debtor to the customer. The relationship is determined by the particular circumstances in each case. For instance, when a bank receives a cheque from the customer for collection from another bank, the bank becomes a trustee till the amount of cheque is realised. Once the amount is credited to the customer's account, the banker assumes the position of a debtor.

v. Principal-Agent Relationship: Banks perform many agency functions such as collection of cheques or drafts or bills, collection of interest and dividends on securities, arranging for remittances and payment of insurance premiums, etc., as per the instructions of the customers. In all such cases, the bank is acting as an agent of the customer. In these cases the position of a customer is that of the principal and the position of the banker is that of the agent. Here the bank has to act according to the instructions of the customer.

Obligations:

1. Obligation to Honour Cheques: You know that a bank is the debtor of his customer. The . bank has a statutory obligation to honour the cheques of its customers upto the amount standing to the credit of the customer's account. If a bank wrongfully refuses to honour the cheque of its customer, the bank shall be liable to compensate the customer. This obligation is subject to some conditions, namely:

a) There must be sufficient funds of the customer in the hands of the bank.

b) The funds must be properly applicable for the payment of the customer's cheque.

c) The &clue must be properly drawn Up i.e., it should . . be complete in all respects. -,

d) The cheque must be presented for payment within a reasonable time.

e) There must be no legal bar preventing the payment of such cheques. If the bank has received any order from a court or any other competent authority prohibiting payment, it is the duty of the bank to obey such orders.

2. Obligation to Maintain Secrecy: The relationship between the banker and customer is of a nature. The bank must not disclose to any outsider the details concerning the customer's account, as such disclosures may adversely affect the credit and business of the customer. However, a disclosure can be made under the following two situations : (a) when the law requires such disclosures to be made, and (b) when the practices amongst the banks permit such disclosure.

3. Obligation to Follow Customer's Instructions: The banker is under a legal obligation to follow the instructiolls of the customer. This is SO because there is the contractual relationship between the bank and the customer.

4. Obligation to Maintain Proper Records: The banker is under an obligation to maintain accurate record of all the transactions of the customers made with the bank.

5. Obligation to give Notice before Closing the Account: If a bank wishes to close the account of a customer, it must give a reasonable notice to this effect to the customer. Thus, a bank cannot close the account of a customer on its own, because it may have serious consequences to the customer.

7. Describe the distinctive features of public utilities. 10

Ans: Features of public utility undertaking are:

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

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

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

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

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

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

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

8) Non-transferable demand by the consumer: The demand of the consumer is nontransferable. If a consumer is provided electricity at his house, he cannot transfer his right of using electricity to his

neighbour. Every consumer is to obtain the supply separately after fulfilling the rules and regulations of the undertakings.

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

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