June 2015

ECO-01 Business Organisation

Part A

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

(a) Fixed capital and working capital

Ans:

Fixed Capital	Working Capital
Fixed capital includes the assets or investments needed to start and maintain a business, like property or equipment.	Working capital is the cash or other liquid assets that a business uses to cover daily operations, like meeting payroll and paying bills.
Money has to be invested in some fixed or durable assets like land, buildings, machinery, equipment, furniture, etc.	Working capital is the difference between a company's current assets (what you have) and liabilities (what you owe)
Fixed capital is not at all liquid	Working capital is highly liquid.
It is not possible to convert fixed capital into cash.	Working capital can be converted into cash.
It supports the business indirectly.	It supports the business directly.
Fixed capital is invested in long-term assets.	Working capital is invested in current assets.
It is required before the business starts.	It is required after the business gets started.
Fixed capital serves the business for a very long period.	Working capital serves the business for a brief period.

(b) Direct and indirect distribution channel

Ans: Direct Channels: When the producers sell their goods directly to the consumers it is called a direct channel. No middlemen is present between the producer and the consumer. They establish direct link with the consumers through travelling salesmen or through their own retail shops or showrooms. The producer or manufacturer may employ salesmen to book orders by contacting the potential users, and supply may be arranged from the stock held by the producer himself.

Alternatively, the producer may set up retail shops/show rooms in different localities and sell goods directly to the customers as shown below.

i) Producer --> Travelling Salesman -->Consumer

ii) Producer --> Retail shop/showroom --> Consumer

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.

As shown below, there could be four indirect channels.

i) Producer-->Retailer-->Consumer

ii) Producer-->Wholesaler-->Consumer

iii) Producer--> Wholesaler-->Retailer-->Consumer

iv) Producer-->Agent-->Wholesaler-->Retailer-->Consumer

(c) Departmental store and supermarket

Ans: Ans: A departmental store is a large-scale retail store in which there are several departments each selling a particular type of product. The departments are like separate retail shops operating in the same building. On the other hand, A Super-market is a large-scale retail store which offers for sale a wide P variety of consumer good of regular use.

All kinds of consumer goods are sold in departmental stores. But perishable goods, like vegetables, fruits, bread, butter, milk, etc., are not sold in these stores. To attract customers, the departmental store also provides a few services and facilities like hair-cutting saloon, beauty parlour, restaurant, reading room, telephone, toilets, and even recreation ' - facilities. Contrarily, the articles sold in a super market may include stationery, toiletry, dress materials, ready-made garments, toys, grocery items, crockery, kitchen utensils, medicines, I as well as bread, butter, meat, eggs, fruits! vegetables, etc

In a super-market the products sold are generally low priced, fast-moving items of daily need. Durable goods like refrigerators, electric fans, radio, television, etc., are not available in super-markets. A departmental store mostly concentrates on consumer' durables and fashion goods.

In a departmental store there are separate counters served by salesmen, whereas super- market operates on a self-service basis.

Customers are not provided with services and facilities like hair-dressing, recreation, etc., in a supermarket. These may be available in large departmental stores, although not in every such store.

The items are placed in separate stalls in the same building, or kept on shelves or tables in a hall in the case of super market. Whereas in a departmental store, the departments are like separate retail shops operating in the same building

(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) Aids to trade

Ans: Activities which facilitate the trade are called 'aids to trade'. Thus, all human activities which eliminate the hindrances and facilitate the flow of goods from producers to consumers come under aids to trade. They are also called 'auxiliaries to trade'. The whole range of activities coming under aids to trade may be classified into five categories: 1) transportation, 2) warehousing, 3) insurance, 4) advertising, and 5) banking.

1)Transportation: All the goods are not consumed at the same place where they are produced. In the modern times there is a vast distance between centers of production and the centers of consumption. Therefore, goods are to be moved from the place of production to the place where they are demanded. This difficulty is removed by an important aid to trade known as transport. Thus, transportation eliminates the hindrance of place and creates place utility to goods. Transportation can be of three types: a) Land transportation - road, rail b) Air transportation-aeroplane C) Water transportation-boat, ship.

2) Warehousing: Warehousing is an act of carefully storing goods in warehouses to sell or distribute them later. Warehousing is essential because there is a time gap between production and consumption. In other words, goods which are produced at one time, are not consumed at the same time. Hence, it becomes necessary to make arrangements for storage or warehousing. Goods once produced should be preserved properly till they are consumed. Particularly, perishable goods like milk, meat, vegetables, flowers, etc., should be preserved very carefully. Otherwise, they get spoiled and become useless. For this reason warehousing is recognised as yet another aid to trade. Thus, warehousing eliminates the hindrance of time and provides time utility to goods.

3) Insurance: The goods may be destroyed while in production process, or in transit due to accidents, or in storage due to fire or theft, etc. The businessmen would like to cover thcse risks. Insurance companies come to their rescue in this regard. They undertake to compensate the loss suffered due to such risks. For this purpose, the business has to take an 'insurance policy' and pay a certain amount regularly, called 'premium'. Thus, insurance eliminates the hindrance of risk.

4) Advertising: Exchange of goods is possible only when the consumers have the knowledge about the existence of a product. This is the hindrance of knowledge. This hindrance is eliminated through advertising. Through advertisement, producers communicate all information about their goods to the prospective consumers and create in them a strong desire to buy the product. Thus, advertising facilitates the flow of goods between producers and consumers by bringing the knowledge about the products to the consumers. Advertising is done through TV, radio, newspapers, magazines, hoardings, wallposters, etc.

5) Banking: Banking solves the problem of finance. Banking facilitates the flaw of goods by removing the hindrance of finance and credit. Businessmen receive money and pays money in large amounts. It is risky to carry a large amount of cash from one place to another. Here comes banking as a solution. Banking and financial institutions solve the problem of payment and facilitate a smooth exchange between buyer and seller. The businessmen may also require short-term and long-term funds. Bank provide such finance to businessmen. Banks also advance loans in the form of overdraft, cash-credit and discounting of bills of exchange etc.

(b) International financial institutions

Ans: International Financial Institutions: There are several international financial institutions which provide long-term funds for industrial development all over the world. The most important among them are: i) The World Bank, and ii) International Finance Corporation.

The World Bank grants loans for specific industrial projects of high priority included in the national development plan. The loans must be guaranteed by the Government of India, and may be given directly to an industrial concern, or through a Government agency, or may be given to the IOBI for refinancing to companies.

b) The International Finance Corporation (IFC) was established in 1956. It is an affiliate of the World Bank. As you know the World Bank grants loans only to governments of member-countries or private enterprises with guarantee of the concerned government and it does not provide risk capital to enterprises in member-countries. s. IFC was set up to assist the private undertakings without the guarantee of the member-countries. It also provides them risk capital. IFC grants loans to industrial firms for a period of 8 to 10 years. Such loans do not require Government guarantee.

(c) Outdoor media

Ans: Outdoor media of advertising refer to the media used to reach people when they are out of doors or travelling rather than at home or in the office. Pamphlets, posters, hoardings (bill boards), neon signs, and electric displays come under this category of media.

* Pamphlets (printed handbills) are quite often used as a medium of advertising for sales promotion in a local area. Pamphlets are distributed among passers by at street crossings, railway stations or bus terminals, roadside market places, etc. Pamphlets have temporary impact on the people who receive them when they are passing by and often have other matters in their mind.

* Posters (message printed on Paper) are generally fixed on walls, roadside pillars lamp posts, etc. Posters are also fixed inside public transport vehicles like trams, buses and railway coaches. In these cases space is provided on payment. Posters have the disadvantage that only those who look at them may notice their existence. Besides, posters in public places are likely to have a short existence either,due to superimposition of other posters or their removal by other postering agents. Posters fixed on walls or pillars may be initially less expensive. Posters fixed on the space provided in public transport (buses and railway coaches) involve payment of periodic charges

* Neon signs and electric displays are usually installed on roof tops or at busy street crossings so as to draw the attention of people. These are visible only in the night. Neon signs and electrical displays

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

* Hoardings (bill boards) refer to large boards carrying the message, sometimes with life size pictures, and installed at public places. Hoardings are specially designed to draw the attention of the public. As the size of the hoardings is normally large, advertisement is visible from a distance. Hoardings have the maximum attention value due to the big size and installation at prominent locations. The cost of hoardings is quite high due to the heavy initial expenditure required for its preparation and installation. The rent to be paid for locating it at a public place is also quite high.

(d) Insurable risk

Ans: Those risks which can be covered up by some type of insurance policy are called insurable risk. Insurable risks are risks in which the insurance provider can calculate potential future losses or claims. The loss causing factor should not be within the control of the insured in the case of insurable risk. Risks due to war (except cargo at sea) and certain risks such as radio activity arising from nuclear fusion are non-insurable risk. The characteristics of the insurable risks are as follows:

i. The risk should be accidental or random in nature. The loss causing factor should not be within the control of the insured. Thus, the loss which has occurred already or which is very likely to occur cannot be insured. For instance, a building which is on fire or which is already destroyed by fire cannot be insured against fire.

ii. The amount of loss should be measurable and possible to estimate. This condition is necessary to set the premium at appropriate levels.

iii. There should be a sufficiently large number of units exposed to the same risk. In other words, there must be a large number of people interested to insure against the same risk.

iv. The units facing the same risk must be spread over large geographical area. In other words, the risk must be spread over a wide geographical area so that the happening of a single event in a small region may not cause heavy burden to the insurer.

Part B

3. What do you mean by a company ? Explain its salient features.(2+8)

Ans: According to the Indian Companies Act. a government company is a company in which 51 per cent or more of the total paid-up capital is held by the central government or any state government 01. by many state governments or partly central government and partly by one or more state governments. Any company which is subsidiary of such a company is also considered a government company. Thus a government company is an enterprise wherein government is a predominant shareholder having the bulk of controlling interests, Government cornpany is registered under Indian Companies Act. k of controlling interests, Government cornpany is registered under Indian Companies Act. When the government applied to the Registrar of Joint Stock Companies for setting up a new company, it has to follow all the rules and procedures as are applicable to private persons.

Salient features of a company are:

i) Created under Indian Companies Act : Government company is a corporate body created under the Indian Companies Act, 1956, like any other joint stock company in the private sector. With regard to registration, memorandum, articles, meetings, capital structure, accounts, audit, etc., it is governed by the provisions of the Companies Act. But the government has the authority to exclude or modify certain provisions of the Companies Act by special notifications duly approved by the legislature.

ii) It is a corporate body: A government company is a legal entity. It is an 'artificial person' which exists in the eyes of law. Like a living being it can file a suit in a court of law br be sued, can enter into contract and acquire property in its own name.

iii) Scope for private participation in the capital : A government company may be , wholly or partly owned by the government. In any case, the share of the government is not less than 51%. In case it is partly owned by the government, the private persons (individuals as well as corporate bodies) can also participate in the capital. Thus, there is scope for the private sector to participate in the capital.

iv) Managed by a Board of Directors : It is managed by the Board of Directors. All the directors or the majority of them, depending on the extent of private participation, are appointed by the government. While constituting the Board the government may give representation to various interests like technocrats, labour, consumers, foreign . collaborators, etc.

v) Enjoys financial independence : Government company can use and reuse the revenue derived from [he sale of its goods and services. If necessary, it can borrow money from the financial institutions and the general public.

vi) Independent staffing : Its employees are not civil servants. They are appointed by the company on its own terms and conditions. It regulates its personnel policies according to its Articles of Association.

vii) Independent accounting and auditing system : It is exempted from the accounling and audit laws and procedures applicable to government departments. Its accounting practices are more akin to those of commercial enterprises and its auditors are chartered accountants appointed by the government on the advice of the CAG.

viii) Annual reports : Its annual reports and accou'nts alongwith the audit reports are to be presented to the legislature, as per the Companies Act.

4. Outline the characteristics of stock exchange. Describe its primary and secondary functions. (3+7)

Ans: Characteristics of stock exchange are:

1. Stock exchange is an organised market.

2. Securities (shares, debentures, bonds, etc.) issued by central, state and local governments, municipalities, port trusts, public utility concerns, joint stock companies and public corporations are bought and sold on the floor of a stock exchange.

3. In a stock exchange, transactions take place between members or their authorised agents on behalf of the investors.

4. In a stock exchange all transactions are regulated by the rules and bye-laws of the concerned stock exchange.

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.

8) Facilitates resource allocation: As a result of stock market transactions, funds flow from the less profitable to more profitable enterprises. Thus the existence of stock exchange provides for mobility of funds i.e. movement or flow of funds in the economy as a whole. Industries which have potentials of

growth are able to attract the savings of people towards their ventures relatively more than those which have no such prospects. Thus, financial resources of the economy are allocated on a reasonable basis.

Secondary Functions:

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

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

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

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

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

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

5. Define advertising and discuss types of media and their characteristics.(10)

Ans: The activity of generating advertisements of products and services to commercialize them is known as Advertising. It is what the company says about its product. There is a huge investment to be made for advertising a single product. The key persons behind advertising are the company and its representatives. Advertising is under the control of the company. Advertising repeatedly occurs to grab the attention of the customers. Advertising is always customer focused, i.e., the more creative the advertise, the more are the customers attracted to it. Advertising always speaks the goodness about a product, to persuade the target audience to buy it. Advertising consists of preparing visual or oral message and their communication for making people aware of and favourably inclined towards a product or service or a point of view. The underlying objective of all advertising is to promote sales. . The media of advertising thus play a vital role in the sale of goods and services.

A variety of media are used for advertising purpose. Media may be divided into the following broad categories:

i)Press: Press medium is a print medium which comprises of newspapers and magazines. The main difference between newspapers and magazines is the periodicity of their publication. Newspapers are published daily, whereas magazines are published periodically i.e., weekly, fortnightly, monthly, quarterly or biannually. In both cases, however, the message is conveyed through words in print, sometimes along with pictures or photographs. Words and accompanying picture in print can be made as attractive, appealing and informative as possible.

Newspapers can be published in different languages. Newspapers are widely and regularly read by the educated public. Many have become accustomed to advertisements in newspapers and look for them as sources of information. As a medium of advertising, newspapers reach a very large number of people. Newspaper advertising is relatively cheaper than other media like radio and television.

Magazines are also called periodicals as they are published at periodical intervals-weekly, fortnightly, monthly and so on. Different types of magazines are published for different categories of readers. For example, there are popular general magazines containing feature articles, news and stories e.g., India Today, Illustrated Weekly, Dharm Yug, etc. There are magazines for children (e.g., Target, Chandamama, etc.) which include stories of their interest. There are magazines like Business India, Fortune, Commerce, etc., for businessmen and executives. Similarly, there are sports magazines (e.g., Sports Week, Sports Star, etc.), women's magazines (e.g., Femina, Women's Era), professional magazines (e.g., Indian Journal of Marketing, Indian Medical Journal, etc.), film magazines (e.g., Star & Style, Filmfare, etc.) and so on. Magazines are not as widely read as newspapers. Many people read the newspapers in the morning and put them aside afterwards. So, the life of the advertisement in a newspaper is short. Since magazines are generally read over a period of time, they have longer life than newspapers. The cost of advertising in magazines is relatively cheaper compared to other media like radio and T.V.

ii) Radio: Broadcasting as a medium of advertising has become increasingly popular in India due to the availability of radio sets at prices which people of low income can also afford. In India radio sets I are owned by a large number of population. Thus, advertisement appeals can reach the general public in different parts of the country very conveniently through radio broadcasts.

Radio broadcasting is well suited for various consumer goods having a mass appeal such as movies, electric fans, refrigerators, sewing machines, leather goods, travelling bags, etc. The advantage of radio advertising is that, being an audio medium, it does not require education to receive the message. The listeners need not be literates. Besides, the message which is orally I communicated may be more impressive than the message in print. The limitations of radio advertising are: 1) it is more expensive than press advertising, 2) the life of the i advertisement is very short, and 3) it is difficult to remember the message in detail.

iii) Television: The importance of television as a medium of mass communication has significantly increased in India over the last 15 years. Its importance as a medium of advertising has grown with the use of satellite transmission and establishment of more relay stations to cover the remote parts of the country.

Individuals who cannot afford to buy TV sets are able to watch TV Programmes in I I community centres and public places. Use of television for advertising is increasing in recent times due to its extensive coverage and the impact of visual communication on the I viewers. Its combination of sound, vision and movement permits the use of advertisement to demonstrate the product and its advantages. For this reason this medium is more i effective than the press and radio. The major limitation of this medium is the heavy cost of I advertising, particularly for advertisement before or after popular programme, known as prime time. Hence, only the large enterprises are in a position to make use of this medium. Another limitation is that the duration of a commercial advertisement is only for a few seconds. Also viewers often find it difficult to assimilate a large number of advertisements within a short span of time.

iv) Outdoor media: Outdoor media of advertising refer to the media used to reach people when they are out of doors or travelling rather than at home or in the office. Pamphlets, posters, hoardings (bill boards), neon signs, and electric displays come under this category of media. Pamphlets (printed handbills) are quite often used as a medium of advertising for sales promotion in a local area. Pamphlets are distributed among passers by at street crossings, railway stations or bus terminals, roadside market places, etc. Posters (message printed on Paper) are generally fixed on walls, roadside pillars lamp posts, etc. Posters are also fixed inside public transport vehicles like trams, buses and railway coaches. In these cases space is provided on payment.

Neon signs and electric displays are usually installed on roof tops or at busy street crossings so as to draw the attention of people. These are visible only in the night. Hoardings (bill boards) refer to large boards carrying the message, sometimes with life size pictures, and installed at public places. Hoardings are specially designed to draw the attention of the public. As the size of the hoardings is normally large, advertisement is visible from a distance.

v) Direct Mail: Sending personalised letters by post to the prospective customers is a method of advertising which often pays. These communications are mostly in the form of circulars and sometimes accompanied by catalogues or price lists. The idea behind mailing circular letters is to approach the customers directly with the advertising message and to arouse his interest in the product or service with detailed explanation in a convincing manner. A mailing list is thus prepared and the letter is carefully drafted with personalised wordings. The message having a personal touch is expected to be more effective.

Direct mail cannot be a suitable medium for advertising products meant for public use on a mass-scale. It is best suited for products where the people to be contacted can be easily identified. For example, a company manufacturing or distributing pharmaceutical products (medicines) may easily identify the doctors or chemists for direct communication of information relating to the products.

It would be expensive and time consuming to undertake direct mailing of circular letters to innumerable consumers of such products who are widely scattered. Booklets, pamphlets, catalogues, etc., sent by post to prospective customers also come under direct mail. These are also suitable only in the case of a selective group of customers.

vi) Miscellaneous: Apart from the media discussed above, there are several other types of media used for advertising. Some such media are slide projection in cinema houses, films, exhibitions, display in show-cases, etc. Calendars, diaries, key-rings, purses, paper weights, etc., imprinted with a message along with the advertiser's name and address are also considered as advertising media. Projection of slides in the cinema theatre before and during the film show is one of the cheaper means of advertising. Projection of short-films before the commencement of feature film is a relatively more expensive medium of advertising.

Exhibitions also provide opportunities for advertising goods. Consumer goods can be displayed and the use of industrial goods like machinery, can be demonstrated in the. exhibition. The limitation of exhibitions is that their duration is restricted to a specified period.

Show cases displaying goods are located in public places like railway stations, airports, bus terminals, etc., to attract the attention of the public. Rent is payable for the space. Attractiveness of the products and the manner they are displayed are the main features of this advertising medium.

6. "Retailer is an important link in the supply chain of consumer goods." Elaborate by giving suitable examples. (10)

Ans: Retailing refers to all transactions which involve sale of goods to the ultimate consumers for personal consumption. If the buyer uses the goods for reselling purposes it will not be treated as a retailing transaction. Any individual or business unit or shop primarily engaged in retail selling is known as a retailer or retail store.

A retailer is a middleman because retailing involves procuring goods from suppliers (generally wholesalers) and selling them to consumers for their personal use. Retailers perform the very important task of making goods available to consumers, which after all is the objective that underlies Ihe production of goods. Retailers thus form a vital link in the channel of distribution of products.

Since the retailers deal with a large number of consumers of many different categories, the role of retailers in the physical distribution of goods is clearly of vital importance. The retailers act as a link between the producers or wholesalers on the one hand and the consumers on the other. Without retailers, neither the products would sell in distant places, nor would it be possible for consumers to buy goods of their choice in shops located nearby. Due to large-scale manufacture of a wide variety of consumer goods and the necessity of making them available to individuals living in distant villages, cities and towns, retailers are now regarded as the most important middlemen in the chain of distribution of goods.

Retailing refers to sale of goods to the ultimate users. A retailer is one whose business consists primarily of selling goods to customers for their own use, not for use in their business. If manufacturers sell goods to consumers, they are not treated as retailers as retailing is not the major activity of a manufacturer.

Retailers form a vital link in the channel of distribution of goods. They act as a link between the producers or wholesalers on the one hand and consumers on the other.

7. What is meant by insurance ? Explain briefly various types of insurances. (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).

Various types of insurance are:

1)Life insurance

2)Marine insurance

3)Fire insurance

4)Motor insurance

5)Miscellaneous insurance

1)Life insurance: Life insurance is a contract under which one person, in consideration o fa premium paid (either in lump sum or by monthly, quarterly, half-yearly or yearly payment),undertakes to pay to the person for whose benefit the insurance is made, a certain sum of money either on the death of the person whose life is insured or on the expiry of a specified period of time. Life policies are considered as life assurance policies. The insurer must pay the agreed amount (policy amount) on the occurrence of the agreed event (death or expiry of the specified time).

Types of Life Policies: Some of the types of life policies are discussed below:

Whole Life Policies: Under this policy, the sum assured is payable after the death of the assured. The premiums on whole life policies may be payable regularly through out the life of the assured, or alternatively they may be payable for a fured period only (say 20 or 30 years). If the premiums are paid throughout the life, it is called 'ordinary life policy'. In the other case when premiums are paid for a limited period, it is called 'limited payment life policy'.

Endowment Life Assurance: Under this policy the insurer undertakes to pay the sum assured either at the end of a specified period or on the death of the assured, whichever is the earlier. 1n case the assured dies before the expiry of specified period (or before attaining the specified age), the sum assured is payable to the legal heirs or nominees. If the insured survives till the policy matures (i.e, expiry of the specified period), the sum assured is paid to the insured himself. The premium for endowment policy is a bit higher than the whole life policy.

Term Assurance: This is also called temporary assurance. Under this policy, the sum assured is paid when the assured dies before the stipulated date. No payment is made if the assured survives to that date. For example, policies of this kind are taken out by persons who travel abroad, to cover shortperiod bank loans so that the sum assured will be available to repay the loan if the borrower die before the policy lapses, etc.

Joint Life Policy: This type of assurance involves the insurance of two lives simultaneously in the same policy. The sum assured (policy money) is payable by the insurer upon the death of any one of the assured to the surviving person. If both the policy holders die at the same time, their legal heirs or nominees will be paid the assured sum.

Group Insurance: Under group insurance, a group of persons under the same employer are covered under a single policy. Premium is paid by the employer alone or by the employer and employee jointly. A group insurance policy may cover all the employees or a particular category/section of the employee of the same organisation. However, the employees are covered under this policy as long as they serve with that employer. In group insurance, the insurance contract is between the employer and the insurance company (insurer).

2)Marine Insurance: Marine insurance is an arrangement by which the insurer undertakes to compensates the owner of a ship or cargo for complete or partial loss at sea. Marine insurance covers ship, cargo and freight. Perils of the sea also includes any land risk incidental to sea voyage.Under marine insurance, insurable interest must exist only at the time of loss. It is not necessary for the insured to have tlze instrlnble interest at the time of taking the marine insurance policy. Marine insurance is a contract of indemnity.

Types of Marine Policies:

The different kinds of marine policies are as follows:

Voyage Policies: This type of policy covers a ship or cargo during a specified voyage only. Thus the limits of the risk are from the port of departure to the port of destination. The risk which is covered starts from the departure of ship from the port and it ends when that ship reaches the port of destination. In the case of a voyage policy, issurer is not liable if the destination of the ship is changed or the ship deviates from the agreed route. However, deviation from the agreed route is allowed when it is necessary for the safety of ship/cargo or saving the human life or any other circumstance stated in the contract.

Time Policy: This type of policy covers the risk during a stated period of time irrespective of number of voyages made. This policy would cover all the risks from the perils of sea for a stated period of time. A time policy covers a period not more than 12 months. Most time policies include a continuation clause providing against expiration of the policy if the ship is still on the voyage. A monthly prorata premium is payable for the continuation.

Mixed Policy: This combines the elements of a time policy and voyage policy. Mixed policy covers the risk during a particular voyage for a specified period.

Valued and Unvalued Policies: Under valued policy, the value of the subject matter insured (ship/cargo) is specified on the face of the policy. In the event of full loss the insurer compensates the amount specified in the policy. If the loss is partial a proportionate amount is paid by the insurer. On the other hand, in the case of an unvalued policy, the value of the subject matter is not stated in the policy. In case of loss or damage, the compensation is ascertained by assessment of loss, subject to the limit of the sum insured.

Floating Policies: This policy is suitable to a merchants who makes regular shipments. To avoid the botheration of taking a separate policy for every shipment, of exporter can take a floating Policy. A floating policy is taken for a round amount, and leaves the details to be declared at a later time, Whenever some cargo is shipped, the shiper (insured) makes a declaration stating the sum for which it is to be insured. Then the total value of the floating policy is reduced by that amount. With each shipment, the value of the policy goes on decreasing.

3)Fire Insurance:Fire policies cover the losses directly caused through fire. However, it is necessary that fire must happen by ignition. If the fire is caused through the malicious act of the insured himself, he would not be able to recover the loss from the insurer. The fire insurance contract is an indemnity contract. In addition to fire, the standard fire policy covers such perils as lightning, explosion of domestic boilers, gas used for lighting and heating, and damage by water used to extinguish a fire on neighboring property. For a small additional premium the policy may be extended to cover such other items as storm and flood, earthquakes and impact from road vehicles or aircraft, but not glass and china, jewellery, manuscripts and other items of value, except where specially mentioned. Fire policy is for a fixed period. During that period if there are successive fire accidents, the insurer is liable to make good of all those successive losses.

Types of Fire Policies:

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

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

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

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

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

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

4)Motor Insurance: Owners of motor vehicles (two or four wheelers) can take insurance policies to cover different types of risks viz., (a) loss or damage to the vehicle, (b) injuries to or death of any passenger, and (c) damages payable to the third parties for accidents. Every motor-vehicle driver must be insured for against liability for death of or injury to third parties and for the cost of their medical surgica1 treatment.

5)Miscellaneous Insurance: There are several other types covering various other aspects of risks. Some of them are discussed below:

Engineering Insurance :This is a highly technical branch of insurance. It is a branch of insurance that has expanded rapidly under recent legislation and especially under the Factories Acts,which prescribe compulsory inspection at regular intervals of certain types of industrial equipment, such as boilers, electrical plant, cranes and other lifting gear.

Aviation Insurance: Under aviation insurance, cover is available for loss of or damage to aircraft,personal accidents to passengers, third party risks in respect of both person and property and for cargo sent by air.

8. What is meant by public utilities? Describe the distinctive features of public utilities. (2+8)

Ans: Water, gas, electricity, transport communication, etc.,, are needed by the public in their daily life. Whenever there is any interruption in the supply of such goods or services, the normal life of people is disturbed. For example, If the electricity supply or transport services are not available, public life and activities are severely upset. these services have a great significance to the community. Hence they are termed as essential services or indispensable necessities. The business enterprises established basically to provide efficient and uninterrupted supply of the goods that are absolutely indispensable for a civilised community are referred to as public utility organisations.

public utilities are the business undertakings engaged in supplying essential goods and/or services of daily necessity for the general public. The institutions which undertake certain essential services like the Supply of gas, water, electricity, urban transport, etc., are examples of public utility undertakings. All the public utility undertakings have an obligation to supply the essential goods and services to everyone in the community without any discrimination at reasonable prices.

The distinctive features of the public utilities 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.