June 2016

ECO-01 Business Organisation

Part A

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

(a) Distinguish between entrepreneur and promoter.

Ans: Those who are innovators and risk-bearers are strictly known as 'entrepreneurs' while those who take steps to set up the business and make it operational are known as 'promoters'. The entrepreneur is someone who comes up with the idea/solution and/or develops a business around it. Those who take steps to set up the business and make it operational are known as 'promoters'. Entrepreneurs may or may not be specialists in the field of business. Promoters are basically specialists who work to set up a new business, expand an existing business or combine two or more business firms. An entrepreneur can be a promoter but a promoter may or may not be an entrepreneur. In actual practice, such distinction does not hold well because Entrepreneurship (act of Entrepreneurs) does not remain confined only to identifying a business opportunity and his preparedness to do something new. It does not end with the entrepreneur undertaking to bear the risks of business. It also extends to planning for the business and taking necessary steps to put it into operation. After all, a business becomes a business only when it gets going. An entrepreneur is basically someone who has founded the company. A promoter, on the other hand, is someone who promotes the business. An entrepreneur is fully responsible for the company's success or failure. Promoter is responsible for getting others to invest into the business venture.

(b) State the characteristics of a capital market.

1. Ans: Capital market actually denotes the arrangements whereby transactions of money capital (not capital goods) are facilitated. Transactions involving procurement of funds and supply of funds which take place among individuals and various organisations may be regarded as the capital market. Thus, the capital market is not located in a particular place. Nor there are fixed categories of investors and dealers in the capital market, that is, those who supply funds and those who procure funds for investment. The capital market is called as a securities market because the securities are dealt with shares and debentures etc. The demand and supply of the capital market are determined by its pricing securities. The key players of the capital market are individuals, corporates and financial institutions**. T**ransactions involving the procurement and supply of long-term funds take place in the capital market. Capital markets are not highly liquid in nature.There is an open platform to transact financial assets with long term capital markets. It offers higher returns on investment. Capital markets are those in which the buyers and sellers come together to trade with the financial securities like stocks, bonds etc. The time of issue is decided by the directors taking into account the likely demand for shares in the capital market, the investors' mood, government policies with regard to money and credit control and taxation, as well as the prevailing business conditions. There are some more functions which determine the capital markets. They are the act of linking the investor and the saver, boosting up the economic growth, facilitating trading of capital securities, financial institutions with quick valuations, funds available at a continuous state, allocation of capitals to be improved in an

effective manner. The capital market raises a permanent capital in stock exchange but the investors are not asked to place their funds permanently.

(c) Explain forward delivery contracts at the stock exchange.

Ans: Forward delivery is when the underlying asset is delivered to the receiving party in exchange for payment. A forward contract is a contract between two parties to buy or sell an asset at a specified price on a future date. Such contracts are also due for settlement on the following settlement day but they can be postponed to the next settlement day, if so desired. Forward contracts are used for hedging or speculation where the buyer has no intention to take delivery and make payment. He simply covers it by another transaction and earns or loses the difference in prices. For example Mr. Sanjay buys 1,000 shares of Modi Rubber at Rs. 50 per share in the hope that its price will go up. If the price rises as expected, he will settle it by a transaction for sale of 1,000 shares and pocket the difference, If the price falls, he may decide to settle it by a transaction for sale at a lower price and pay the difference. Alternatively, expecting the price to rise, he may seek postponement of its settlement to the next settlement day by paying the necessary charges. Technically, such postponement is known as 'Carry Over' or 'Badla' and the charges paid are called 'badla charges' (also known as contango or backwardation). Sometimes the professional badlawalas may advance the necessary sum of money to finance purchase of shares by the hull speculator at certain rate of interest and thus help him to postpone the sale.

(d) State the various outdoor media of advertising.

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

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

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

* Neon signs and electric displays are usually installed on roof tops or at busy street crossings so as to draw the attention of people. These are visible only in the night. Neon signs and electrical displays normally attract more public attention but these are effective only during the night time. Neon signs and electric displays involve fairly high initial costs for preparation and installation. It also involves considerable recumng expenditure for use of neon gas or electrical energy besides rent to be paid for location at public places.

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

(e) Enumerate essentials of a good transport system.

Ans: 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.

5. It should provide for ensuring the risks of loss or damage to goods in transit, and assure payment of due compensation in case of delay causing loss to the owner of goods.

6. There should be proper arrangements for loading and unloading of goods promptly and at minimum cost.

7. As far as possible, delivery of goods should be made at locations convenient to the receiver of the goods.

(f) How does a public enterprise differ from private enterprise ? Explain.

Ans:

Public enterprise	Private Enterprise
Refers to any industrial or commercial undertaking which is owned and managed by the central, state or local government and of which the output is marketed i.e. not supplied free.	refer to industrial and commercial organisations which are set up under individual or group ownership within the general framework of regulatory laws and rules of the government
Include manufacturing, trading as well as service organisations	Include manufacturing and commercial companies,

which are essentially business undertakings.	medium and small firms organised as proprietary and partnership concerns.
Main objective is to provide service to the general public.	Main objective is profit maximization.
The government has full control over the organisations.	Enjoys less government interference.
Tax collections, excise and other taxes, bonds, treasury bills, etc., provide funding for public enterprises.	Firms obtain money from their owners or through loans, through issuance of shares and debentures, and other sources.
Public enterprises provides a wide range of employee perks, such as job stability, housing, allowances, and retirement benefits.	Private enterprises provides advantages such as higher salary packages, greater opportunities for promotion and recognition, a competitive workplace, and stronger incentives in the form of bonuses and other benefits.
Jobs are particularly steady and secure since the possibilities of being fired for performance are quite low.	Jobs are not secure since poor performance might result in dismissal. Companies can also terminate employees in order to minimise costs or scale back operations.

Part B

Attempt any three of the following

2. Name the four forms of business organisation. Describe briefly the requisites of an ideal form of business organisation. (2+8)

Ans: The four different forms of organisation are:

i) Sole trader organisation
ii) Partnership form of organisation
iii) Company form of organisation
iv) Cooperative form of organisation

Requisites of an ideal form of business organisation are:

i) Ease of formation: An important factor for preferring a particular form of organisation to another is the ease with which a business can be brought into existence. The comparative ease of difficulty in forming a particular form of organisation mainly depends on three factors: {i) formation expenses by way of registration fee, stamp duty, fees of legal experts, charges involved in the drafting of documents, obtaining licenses, etc., (ii) legal formalities, and (iii) procedural delays, etc. Unless necessary, it is better to go for an organisation which is easy to form.

ii) Scope of raising capital: The choice of organisation mainly depends on the amount of capital required which is determined by the nature of business and the scale of operations. Ideal form of organisation is one which provides scope for raising the amount of capital as and when required. For example, the amount of capital needed will not be much for opening a retail shop in groceries than to set up a sugar factory.

iii) Extent of liability: limited liability is considered as an important feature of a good form of organisation.

iv) Flexibility of operations: The form of organisation should be very flexible and adaptable to changing business conditions without much difficulty or complication. For example, if you want to expand your business, diversify or modernise the plant and equipment, the organisation should be able to meet all requirements.

v) Stability and continuity: Stability and long life of business is desirable from the point of view of owners, employees, and customers. Employees always prefer a stable and continuous employment. If the business is stable, the owner should be able to formulate plans for the future and to make investments paying for a considerable length of time.

vi) Effectiveness of management: The success of any business enterprise depends on the efficiency of management. Managerial efficiency depends on skills, motivation, flexibility, adaptability, etc. It is difficult for an individual to possess all these qualities.

vii) Extent of government control and regulations: If the governmental control and regulations are too many, the enterprise may have to divert a lot of time, money and energy for complying with legal formalities and instructions. In some cases there may be too much interference by the government officials in the day-to-day business of the firm. But too much government interference is not favoured by the entrepreneurs because it mars their initiative and disrupts the working of their business.

viii) Business secrecy: In business, it is important to maintain business secrets without leaking them out to competitors. Therefore, a form of organisation which enables ,retention of business secrets is preferred to the one wherein business secrets are difficult to preserve.

3. What is a stock exchange ? Describe briefly its various functions. (2+8)

Ans: Stock exchange can be broken into two words- one is 'Stock' which means a part or fraction of the capital of a company, and the other is 'Exchange' which means a market for purchasing and selling. Stock exchange can be defined as a market or a place where different types of securities are bought and sold. It not only deals in shares and debentures but also in various other types of securities issued by central, state and local governments as well as institutions like Unit Trust of India, Steel Authority of India, National Thermal Power Corporation, etc. Therefore, it is also called 'securities market' or 'securities exchange'. This market is open only to members, most of whom are brokers acting as agents of the buyers and sellers of shares, debentures and bonds. The membership of the stock exchange is restricted to a certain number, and new members are admitted only when there are vacancies. Every member has to pay the prescribed membership fee.

The Securities Contracts (Regulation) Act, 1956 has defined stock exchange as an 'association, organisation or body of individuals, whether incorporated or not, established for the purpose of assisting, regulating and controlling business of buying, selling and dealing in Securities'.

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.

Functions of stock exchange:

Stock exchange, being a part of financial market, plays a very important role in the economic development of the country. Functions may be enumerated as

(a) primary functions, and (b) secondary functions,

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.

4. Suppose your company has launched a detergent of low price. As the chief of the marketing wing, how will you choose an appropriate media for making it popular?

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

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.

5. State the importance of distribution channel in the promotion of business. Describe briefly the factors that influence the choice of the channel. (5+5)

Ans: In the modem society the production of goods takes place on a large scale in factories concentrated in few localities while the consumers are scattered throughout the country. For instance, textile mills are concentrated at a few places like Bombay, Ahmedabad, Coimbatore, etc., while the cloth is used by all the people in the country.

Thus, in most of the cases goods are produced at one place while they are consumed at various other places. It is not possible for all the consumers to know the place where goods are produced and contact the producers directly. Similarly, it is not possible for all the producers to contact the consumers directly and sell the goods. Hence, it is essential to move the goods from the place of production to the markets where consumers can buy them, Otherwise, production has no value and it becomes waste.

The goods produced are not consumed at the same point of time. Some goods are produced--throughout the year, but their consumption is seasonal. For example, umbrellas and raincoats are used only during rainy season, woolen garments are used only during winter season. In some other cases, goods are produced during a specific season while they are consumed continuously throughout the year.

Producers and consumers are, thus, separated by place and time. Production has no value unless goods are supplied to the consumers at the right place and at the right me. Hence the distribution of goods assumes importance in the business operations. It -is the distribution system which moves the goods from the place of production and make them available to the consumers, at the right place and right time.

Distribution channel helps in marketing and promotion of products. There are several middlemen's who are involved in the distribution system of businesses. These intermediaries inform the customers about the product. They introduce them with new products and explain them to its specifications. Customers are induced & motivated to buy these products by intermediaries. Hence, the distribution channel has an efficient role in promotion and marketing of goods.

Factors affecting the choice of distribution channels :

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

1) Distribution policy

2)Characteristics of the product

3) The target customers in view

4)Supply characteristics

5)Types of middlemen in the field

6) Channel competition

7) Potential volume of sales

8) Costs of distribution

9) Profits expected in the long-run

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

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

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

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

5)Types of middlemen: Availability of suitable middlemen in the channel of distribution is another factor in the selection of the channel. This is because different functions like standardisation, grading, packing, branding, storage, after sale servicing, etc., are expected to be performed by middlemen. Efficiency of distribution depends upon the size, location and financial position of middlemen. If the middlemen in a specific channel are dependable and efficient that channel may be preferred by producers.

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

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

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

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

6. Suppose your company decides to set up a manufacturing unit of apparels. How will you proceed for importing the necessary machinery and technology for the same ? Explain. (10)

Ans: Import trade procedure differs from country to country depending upon the satisfactory requirements and trade practices in force. The general procedure of import trade in India involves the following stages:

i. Trade Enquiry
ii. Obtains import License
iii. Obtains Foreign Exchange
iv. Places the Order/Indent
v. Arranges Letter of Credit
vi. Gets Shipping Documents
vii. Clears the Goods
viii. Makes Payments

Trade enquiry: The intending importer makes trade enquiry from the possible exporters. His enquiry is based on the details of the goods required by him viz., quality, design, size, etc. and seeks information regarding the availability of goads, the price at which they would be available and the tens and conditions regarding delivery and payment. In response to his enquiry, the importer may receive a number of quotations which will contain particulars as of the goods available in ready stock, their quality, size, design, etc. The different quotations will also specify the price at which the goods should be available and the terms and conditions of sale. Once quotations from different suppliers have been received, a thorough comparison should be made of the various quotations before taking the decision to import.

Obtains import License : In order to obtain an import licence, the intending importer makes an application in the prescribed form, to the Licencing Authority. When the licensing authority is satisfied with the claims, he issues the licence. The import licence is issued in duplicate. 'The first copy is presented by the importer to the customs authority at the time of clearance of goods and the second copy is used for obtaining foreign exchange from Reserve Bank of India. Although raw materials, intermediates, capital goods and other items announced by the central government may be imported freely under Open General Licence (OGL) scheme.

Obtains Foreign Exchange: After obtaining the import licence, the importer makes arrangements for obtaining the necessary amount of foreign currency. In India, the Reserve Bank of India (RBI) is authorised by the Government to regulate the use of exchange. Every importer has to produce import licence along with the prescribed application form under the Exchange Control Act. The exchange bank of the importer endorses and forwards the application to the Exchange Control Department of RBI. The RBI sanctions the release of the amount of foreign exchange to the importer after scrutinising the application on the basis of the existing Government policy.

Places the Order/indent: After obtaining the import licence and requisite amount of foreign exchange, the next step is to place the order or indent for import of the goods. An indent is a form of order sent abroad for goods to be imported. The indent contains Full details regarding the goods to be imported and the terms and conditions regarding price, shipment, delivery, the method of payment, etc. An indent may be 'open', 'closed' or 'confirmatory'. When the selection of goods and other details are left to the agent's discretion in the foreign country, it is called an 'open indent'. A closed indent contains full particulars of the exact goods required. When an order is placed subject to the confirmation by the importer's agent, it is called confirmatory indent. Every importer is free to place the order directly or through the intermediaries, specialised in such trade. These specialised agencies are called indent houses. An indent house refers to an import agent or import firm, which imports goods on orders received from importers. The indent house serves as middlemen between the importers and exporters. They charge certain percentage of commission for their services from the importer. If the importer wants to make use of services of an indent house, he has to enter into an agreement with the indent house for the supply of specified goods.

Arranges Letter of Credit : Depending upon the terms of the importer may have to arrange a letter of credit to be issued by his bank in favour of the exporter. All the terms and conditions agreed upon between the importer and exporter are generally spelt out in the letter of credit. The importer's bank issues the letter of credit authorising the correspondent bank in the exporter's country to buy the bill drawn by the exporter on the importer, or to accept the bill drawn on the bank itself. The importer's bank may require adequate amount to be deposited by the importer so as to cover the amount for which the letter of credit is issued.

A bank may issue any of the following types of letter of credit.

1) Revocable letter of credit: It can be withdrawn or altered or revoked at the discretion of the issuing bank without the prior consent of the exporter.

ii) Unconfirmed irrevocable letters of credit: It cannot be cancelled or altered or withdrawn by the issuing bank prior to the date of expiry, without the consent of the exporter and is thus much safer.

iii) Confirmed irrevocable letters of credit : The irrevocable letter of credit shall be more safe if it is confirmed or guaranteed by a bank. With a confirmed irrevocable credit, the bank must pay the exporter, whatever happens to the importer or the foreign bank.

Gets Shipping Documents: After receiving order and the letter of credit, the exporter ships the goods and intimates the importer that the goods have been despatched. The exporter draws a bill of exchange on the importer's bank for the full value of goods payable to him. The bill of exchange, accompanied by all the shipping documents viz. commercial invoice, bill of lading, insurance policy, and the certificate of origin (if needed), are forwarded to the importer's bank by the exporter's bank. Under the letter of credit arrangement, the importer's bank will handover the documents to the importer who would take steps for getting the goods cleared from the customs authorities. In the absence of a letter of credit, the bank will follow the instructions of the exporter in the matter of delivering the documents to the importer. If the bill of exchange is marked D/A (documents against acceptance), the documents will be delivered to the importer on the acceptance of the bill. If the bill is marked DIP (documents against payment), the documents will be delivered to the importer only on payment of the amount of the bill.

After taking possession of the documents of title to the goods, the importer waits for the arrival of the ship. When the ship arrives at the port of destination, the importer arranges clearance of the goods from the customs office in whose custody the goods lie after being unloaded from the ship. This requires a number of formalities to be completed. The importer may appoint a clearing agent for that purpose. Clearance of goods requires the following steps to be taken: (i) get the bill of lading endorsed by the shipping company for delivery of the goods or a delivery order issued by the shipping company (ii) pay the necessary amount of port trust dues representing the cost of services rendered by the dock authorities in connection with the loading of goods (iii) fill up a 'bill of entry' containing all particulars relating to the imported goods and the customs duty to be paid. After import duty has been paid, the importer has to submit the 'bill of lading ' 'port trust dues receipt' and 'bill of entry' to the shipping company for release of the goods. In case the importer is not in a position to pay the customs duty in full immediately, he may apply to the customs authorities to get them placed in the bonded warehouse. The importer can pay duty for part of the goods as and when he wants to get delivery.

Makes payments: The mode of payment for import depends upon the agreement between the importer and the exporter. If the documents have been received against acceptance (D/A bills), the importer has to honour the bill of exchange on the due date. After the bill is paid, the importer transaction comes to a close. In case of documents against payment (D/P bills), the importer pays immediately or within a short period after presentation, because the importer gets possession of the documents of title to the goods only on payment of the bill.

7. What do you mean by risk management? Describe briefly the insurable risks and the non - insurable risks. (2+4+4)

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

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

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

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

I)assumption(or retension)

II) loss prevention

III)avoidance

IV)transfer(insurance)

V)separation

VI)combination

Insurable risks and non-insurable risks:

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.

Whereas those risks which cannot be covered up by some type of insurance policy are called Non-insurable risk. Non-insurable risks are risks which insurance companies cannot insure because the potential losses or claims cannot be calculated. The risk should be accidental or random in nature. The risks which do not fulfill the above mentioned (characteristics of insurable risks) characteristics are Non-insurable risks. Non-insurable risks include:

i. Risks due to war (except cargo at sea) and certain risks such as radio activity arising from nuclear fusion.

ii. Risks incapable of measurement such as unforeseen changes in fashion, marketing of new products etc.

iii. Risks too small and recuring too frequently, or risks so large and recurring so infrequently.