June 2017

ECO-01 Business Organisation

1. Explain the features of an ideal form of business organisation, and state factors affecting the choice of form of business organisation. (4+6)

Ans: Features 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 organisalion 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 governrllent 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.

Factors affecting the choice of form of business organisations:

1) Nature of business: Choice of a suitable form of organisation is dependent on the nature of the proposed business. The organisational requirements are different for different types of business. For example, a big cement manufacturing activity and a retail cement shop cannot have the same form of organisation. Similarly, the form of organisation suitable for a textile mill is not suitable for a tailoring shop.

2) Volume of business: The expected volume of business also influences the decision about the suitable form of organisation. If the volume of business is small, you need small amount of capital and run less risk. In that case sole proprietorship may be quite suitable. But if the volume of business is large, you need more capital and runs more risk, which a single owner may find it difficult to cope with. So, partnership form or a company form would be considered more suitable.

3) Area of operation: The area of operation of the business also influences the choice of form of organisation. If the area is limited and confined to a particular locality, the suitable form of organisation may be sole proprietorship. If the area is widespread, the suitable form may be a joint stock company.

4) Desire for control: The extent of control and supervision will also determine the choice of organisation. If it is desired to have a direct control over the business operations, a sole proprietorship or a partnership form of business should be adopted. 1n case if you feel that there is no need for direct control, the company form of organisation is the best.

5) Capital requirements: The form of organisation will also depend on the extent of financial requirements of the business. A business which requires a small amount of capital can be organised on sole proprietorship or partnership basis. But if the financial requirements are huge, then the joint stock company form of organisation may be preferred.

6) Extent of risk and liability: You know business operations involve risk. If the promoters of a business enterprise are deterred by the risk involved, they will start the business on the basis of a limited liability. That means they can go for a company. In case they have capacity to bear the risk involved, it can be organised on sole proprietorship or partnership basis.

7) Government regulations: Governmental controls and regulations are more in company form and cooperative form of organisations compared to the remaining two forms. If you do not want too much government control and regulation, you should choose either sole proprietorship form or partnership form.

2. Discuss the role of an entrepreneur in business promotion. How does an entrepreneur differ from a promoter? (6+4)

Ans: Role of entrepreneur are:

i) Develops an idea and explores opportunities: The idea of forming n business unit is first formed in the creative mind of the entrepreneur. On the basis of the idea explores the prospects of starting Business Organisation a manufacturing enterprise.

ii) Product analysis and market survey: He collects data on consumer preferences and needs through market research techniques and to find out the saleability of the proposed product. Further, he collects consumer preferences in respect of design, colour, size, and shape. In addition, the entrepreneur gathers the total demand and the degree of competition for the proposed product.

iii) Decides form of organisation: He decides the form of business ownership, i.e., whether it should be a sole proprietorship, a partnership firm, a company or a cooperative society.

iv) Decides location: He decides location of the factory at a suitable place taking into account the available facilities of transport, power-supply, fuel, water, labour, supply of raw-materials, nearness of market, etc.

v) Collects necessary capital: He makes available sufficient amount of capital for the initiation and continuation of the business. He gives personal guarantees to the financiers who contribute capital. Otherwise, he promises to invest capital himself or arrange the necessary amounts from friends and relatives.

vi) Places orders for machinery: He places orders for machinery, equipment and other requirements. He takes decision about the installation of equipment and machinery in the process of production.

vii) Recruitment of labour: As an entrepreneur he makes an estimate of skilled and unskilled workers of different categories required for various departments. Accordingly, the entrepreneur arranges their recruitment.

viii) Designs internal organisation structure: He designs internal organisation structure for his proposed concern. This involves breaking up of the total work of the enterprise into major functions like production, marketing, finance, personnel, purchase, engineering, etc. and the dividing of each of them into sections. He stipulates the functions of different departments and their inter-relationships.

ix) Fulfils formalities and launches enterprise: Every type of business has some procedural formalities while starting a new enterprise. The formalities are different for different types of business organisations. Unless you fulfil them you cannot simply launch an enterprise.

The role of an entrepreneur is that of an initiator and promoter. In a sense, the role of an entrepreneur is also that of an expert having knowledge of product, market conditions and of the practical aspects of running a business. He should not be simply an imaginative thinker but also have the ability to judge what kind of business will click. His role is indeed crucial for the eventual success of a business. When an enterprise has been launched and it turns out to be profitable, the entrepreneur may decide to leave it, give up his ownership tights, and hand it over to others to run it. The basic responsibilities of an entrepreneur include the ability to seize an opportunity, to innovate, explore the, prospects of profitable business, and then to complete legal formalities, raise, funds and finally manage the business are the basic responsibilities 'of the entrepreneur. He has to face many obstacles, many problems and difficulties in the course of promoting business. He has to take decisions which may have long-run implications. An entrepreneur has thus to undertake many things. But the most important of these are: (i) innovation, and (ii) risk bearing.

Difference between Entrepreneur and Promoter:

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.

3. What is a Stock Exchange? Describe the functions of a Stock Exchange. (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'.

According to Pyle, 'security exchanges are market places where securities that have been listed thereon may be bought and sold for either investment or speculations.

K.L. Garg has described the stock exchange as 'an association of persons engaged in the buying and selling of stocks, bonds and shares for the public on commission and guided by certain rules and usages.

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. State the main purpose of advertising and suggest the guidelines for designing an effective advertisement. (3+7)

Ans: Advertising is defined as "any paid form of non-personal presentation of ideas, goods or services by an identified sponsor". This definition includes the following four expressions:

i) Paid form

ii) Non-personal presentation

iii) Ideas, goods and services

iv) Identified sponsor

Meaning of each expression is :

Paid form: For every advertisement, some money has to be paid to the mediurjwhich carries'the message. For instance, if the message is published in a magazine, payment must be made for printing and the space used in that magazine. If the matter is printed without any charge, it will not be treated as an advertisement.

(ii)Non-personal presentation: When a salesman directly talks to the customer about any product, it is personal presentation. If the message is communicated through mass media like radio, television, newspaper, magazine, direct mail, hoardings, etc., it is called non-personal presentation. In the case of advertising, the message is conveyed through non-personal media.

(iii) Ideas, goods and services: This implies that advertising may be intended to help selling not only goods but also ideas and services. For instance, banks, insurance companies, airlines, restaurants, dry cleaners, and similar organisations advertise their services and ideas underlying the usefulness of savings, travelling, eating palatable food, etc. just as manufacturers of automobiles, soaps or hair oil advertise the usefulness of their products. Thus, the phrase ideas, goods and services explains that advertising is concerned with much more than the promotion of only tangible goods.

(iv)Identified sponsor: The sponsor of an advertisement is the advertiser. The phrase identified sponsor means that the producer or seller who advertises the product should be known through the advertised message. In other words, the receiver of the message should be able to identify both of source and purpose of the advertisement. If it is not sponsored by any individual or institution, it would not come under advertisement.

Purpose of advertisement:

Main purpose of advertisement are :

i) Introduction of new products: Manufacturers Introduce new products from time to time so as to compete with other manufacturers who might have succeeded in winning over customers of the existing product. Advertising the new product is necessary so that consumers know about the introduction of the product, its usefulness, where it may be available, how to get more information about the product, etc. Advertising is highly important to promote the sale of new products.

ii) Inducing potential customers to buy: Advertising is one of the best means by which the sale of an existing product can be increased. For this purpose, the advertisement should emphasise the usefulness of the product, its quality, price advantage, etc., so as to win over potential buyers and make them actual buyers. If the product is so advertised, traders expect sales to increase and keep larger stocks for sale. Thus, advertising leads to immediate buying action among customers as well as traders.

iii) Reminding users: In this competitive market new products are introduced frequently by different firms. All these products are advertised in the market. As the outcome, old brands are likely to be forgotten by the consumers. To nullify this possibility, manufacturers advertise their products to maintain the buyers interest.

iv) To create brand image: Business firms very often advertise for establishing an image for the product (brand) and create customer loyalty for that product. When customers develop brand loyalty, they are not inclined to shift to other brands easily. This objective of advertising has great significance in the case of well-known manufacturers of products.

v) To intimate customers about new uses of a product: Advertising is sometimes used to convey new uses of an existing product to the customers or to draw their attention to some new features of the product.

vi) To highlight brand character: For certain products. consumers feel that a particular characteristic is very important. Its existence determines the buyers' choice of a particular brand out of several brands. If the product has that feature, advertising is used to stress it and demonstrate its advantages. Similarly, if the product has a special feature which is linked with a desirable consumer benefit, advertising is used to emphasise it.

vii) Dealer support: Sometimes the aim of advertisement is to provide support to dealers and distributors. Thus, there are many advertisements in newspapers, in which the list of dealers and distributors are mentioned along with the particulars of the product.

viii) Trafficking the retail trade (increasing retail sale): On certain occasions, the objective of advertisement is to increase retail sale through off-season or special festival discounts, gift schemes, clearance sales, etc. The objective of such advertisements is to draw the attention of customers towards the special offers.

ix) Miscellaneous: In some cases the objective of the advertisement is to inform the customers in remote areas which are not accessible to salesmen. Similarly, it is also aimed at informing customers in far off places or outside the country about new products.

Guidelines for designing an effective advertisement:

Certain guidelines may be kept in view while designing an advertisement. The essential characteristics of a good advertisement may be divided into two broad categories:

1) Features relating to the message

2) Features relating to consumer reach

1) Features relating to the message:

The impact of an advertisement depends not only on what is said about the product, but also how it is said. The message should be such as to win the attention and interest of the target audience. So, while designing the advertisement message, one should keep in mind the following points.

i) Desirability: : The message should say something desirable and interesting about the product. Otherwise, the advertisement may fail to induce the customers to buy the product.
ii) Exclusive: The advertisement message should point out the unique features of the product. Customers should know how the Product advertised is better than the other products.
iii) Believable: If the message conveys imaginary qualities of any product, people will never take the advertisement seriously. The message should actually compare with the product which the customer may verify so as to be convinced. Therefore, the message should be believable and provable.
iv) Attractive: Words or pictures which draw the attention of customers should be used in the advertisement. If the message is attractive, it will draw the attention of the customers very easily. If the message is not catchy, it will not have any effect on the minds of people.
v) Memorable and easy to recall: The words used in the message should be easy to memorise and recall. Whenever customers go for shopping, the advertisement message should come to their mind and remind them about the product.

2)Features Relating to Consumer Reach :

The impact of an advertisement also depends on how well it reaches the target customers. The following points should be borne in mind while designing the advertisement.

Appropriate media: the use of appropriate

i) Media is highly important for the effectiveness of advertisements. The advertisement message should be presented through the media to which the target customers have access. For example, if the majority of the target customers do not have television sets, the message presented by TV transmission will not reach them. Similarly, if the majority of customers are illiterate, the message presented in newspapers may not reach them.
ii) Frequency: Frequency refers to the number of times any advertisement is repeated within a specified period of time. It also refers to the time gap between two or more advertisements. The main purpose of repetition is to keep the message alive in the memory of the customers. If the frequency is less, people may not remember the message. If the frequency is more, people may get irritated and may stop giving attention to it.
iii) Timing: The specific time of advertising the message is an equally important aspect ' of advertisement. For example, if the advertisement appears on the T.V. when most of the customers are not viewing it, the effect will be much less as compared with the effect when a majority of the customers are viewing the T.V. programme.

5. Discuss the various problems faced by an organisation in managing foreign trade. (10)

Ans: Foreign trade involves certain problems which do not arise in connection with home trade.

The problems of foreign trade are:

i) Suitability of the product for the market: Securing information about the suitability of products in the foreign market is a challenging task for every international marketer. This involves heavy expenditure and requires special skill and knowledge. Besides, the quality and price of goods must be more attractive as compared with similar products manufactured abroad. This requires intensive market research on the potential sale of goods to be exported.

ii) Changes in supply and demand conditions: International markets are often subject to changes in the supply and demand for particular products due to the entry of new competitors, or increased competition of local producers, or because of changes in buyers preferences. These changes cannot be easily anticipated by the exporters.
iii) Frequent price changes : The price of products in the international market may be affected by different factors. The changes may be due to changes in exchange rates of the currencies of importing and exporting countries, higher import duties, or freight rates. These factors increase the risks of foreign trade a great deal.
iv) Credit risk: International trade which is generally on a large scale involves heavy amounts to be paid by the importer. The exporters often sell their products on credit and therefore have to bear the credit risk arising from the buyer's default, bankruptcy, etc.
v) Changes in exchange rate: An additional risk of foreign trade is the risk of changes in exchange rates. The rate at which the currency of importing countries can be converted into the currency of exporter may cause losses to the exporter or the importer.
vi) Rules, regulations and procedures: Every country imposes certain restrictions in the export and import of goods to protect its economic and political interests. The rules and regulations differ from country to country and are changed from time to time.
vii) Credit worthiness of importer and reliability of exporters: The value of goods involved in external trade is fairly high and the exporter has to grant credit facilities to the importer. Since there is no direct contact between exporter and importer, it is necessary that the exporter must take steps to verify the credit worthiness of the importer and importer should check the reliability of the exporter for supply of goods. This may take a long time and cause delay in the availability of gods.
viii) Transportation and cargo risks: International trade takes place either by land, air or water transport, and goods have to be transported over long distances. Water transport occupies a predominant place in transporting goods across the national boundaries because ships can carry large volumes of cargo at low cost. In spite of dl developments in transportation, the risks of loss or damage to cargo by fire, storm, collision, leakage, explosion, spoilage, etc. Exist.
ix) Time gap: The distance involved is usually greater in transporting goods from one country to another country, and hence the transit time is longer. This time gap involves exporter's capital being locked up over a long period.
x) Political and legal problems: Political risks may arise as a result of changes in governments or capture of cargo by enemies, etc. Commercial laws may be different between the trading countries.

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

(a) Voyage policy and Time Policy

Ans: Voyage Policy: A voyage policy is that kind of marine insurance policy which is valid for a particular voyage. 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. Issuer 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. For example, you are shipping the export cargo from Bombay to Amsterdam in Netherlands and you have taken a voyage policy. This policy covers the risk of damage to cargo from Bombay port till it reaches the Amsterdam port.

Time Policy: A marine insurance policy which is valid for a specified time period – generally valid for a year – is classified as a time policy. This policy would cover all the risks from the perils of sea for a stated period of time, say 1" April 1998 to 30 March 1999. Most time policies include a continuation clause providing against expiration of the policy if the ship is still on the voyage.

(b) Risk avoidance and Loss prevention

Ans: Risk avoidance: Avoiding situations which have the potential to cause loss, is another approach of handling risk. For instance, a firm can avoid the risk of loss due to bad debts by simply stopping credit sales. Avoiding situations which have the potential to cause loss, is another approach.

Loss Prevention: Another method of handling risk is to take appropriate measures to prevent the occurrence of a peril, or minimise its financial impact on business. This approach is known as loss prevention. For instance, by using fire resistant building material, you can prevent the occurrence of fire in the building. However, in most cases loss prevention measures may not totally eliminate the risk, but can reduce its probability in terms of frequency as well as severity.

c) Life insurance and fire insurance

Ans: Life insurance: In life insurance, the life of the insured is a subject matter. A contract whereby the insurance company undertakes to pay a certain sum of money either on death or maturity (whichever is earlier) for a consideration premium. It can be taken by an individual for his own life or for his family members. Types of life policies:

i) 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 fixed 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'.

ii) 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. In 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. On the other hand, 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.

iii) 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.

iv) 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.

v) Group Insurance: Under group insurance, a group of persons under the same employer are covered under a single policy. Premium is paid by the Y 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 employees of the same organisation. However, the employees are covered under this policy as long as they serve with that employer.

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. Each contract specifies the maximum amount that can be claimed by the insured in case of loss. 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. A 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:

i) 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.
ii) 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.
iii) 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.
iv) Replacement Policy where the insurer has the option to replace the property/goods damaged by fire, instead of paying the loss by cash.
v) 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.
vi) Comprehensive Policy which provides cover against not only fire but also several other risks such as lightning, riot, earthquake, flood, storm, burglary, war, etc.

7. Explain the factors taken into account while selecting a proper mode of transport for despatch of goods.

Ans: Modes of transport or means of transport, can be divided into the following four broad categories:

1, Road transport

2, Rail transport

3. Sea transport

4. Miscellaneous modes

Mode of transport to be chosen by a business firm will depend upon the nature, weight, bulkiness and volume of goods to be transported. Four major factors viz., cost, speed, flexibility and regularity of the service influence the choice of a particular mode.

Cost: The most important factor is the cost of transport. Sea transport is by far the cheapest means of transporting bulky and heavy goods, provided the speed of carriage is not an essential requirement. Rail transport is also a relatively cheaper mode of transport for heavy and bulky goods to be carried over long distances: It is also speedier than sea transport. But transport by rail is possible only when places are connected by railways. Transport by motor trucks is cheaper and speedier than rail transport for small consignments over short distances. But the cost of road transport by trucks is higher than that of rail transport for bulky goods of small value to be carried over long distances. This is due to the limited carrying capacity of trucks. Air transport is the fastest mode of transport but it is also the costliest mode. Its use is thus restricted to the carriage of perishable goods, valuable goods or spare parts of machinary urgently needed.

Speed: Motor transport by road is speedier than rail transport over short distances. But railways are potentially a speedier means than road transport for long distances. The quickest mode of transport is of course, air transport, and the slowest is water transport.

Flexibility: Road transport is the most flexible mode. Carriage of goods by motor trucks is possible between all places. Goods can be picked up and delivered at any point and loading as well as unloading call be arranged at any convenient time. Rail transport is relatively less flexible, as it is generally available for carriage of goods only between certain definite places. Sea transport provides services only between sea ports and to that extent is inflexible, but it is indispensable for trade between countries without common land frontiers. Air transport is also inflexible as a mode of transport. Carriage of goods is possible only between airports which are fewer and far between.

Regularity: Regularity of service is most assured in rail transport. The scheduled movement of railways is relatively less affected by weather conditions. Motor trucks may or may not have scheduled services but transport by trucks is somewhat affected by bad weather conditions. Sea transport is also available according to some schedule. Only in certain parts of the world, storms and freezing of sea water may affect this mode of transport. Air transport is also available according to a fixed schedule but the services are very much affected by weather conditions.

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

(a) Government Company

Ans: 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. a government company is an enterprise wherein government is a predominant shareholder having the bulk of controlling interests, Government company is registered under Indian Companies Act. An act of legislature (central state) is necessary for establishing a statutory corporation while n government company does not require it.

Features of Government Company:

i) Created under Indian Companies Act : Government company is a corporate body createcl under the Indian Companies Act, 1956.Registration, memorandum, articles, meetings, capital structure, accounts, audit, etc., it is governed by the provisions of the Companies Act.
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. If 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.
v) Enjoys financial independence : : Government company can use and reuse the revenue derived from the 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.
vii) Independent accounting and auditing system : It is exempted from the accounting 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 accounts along with the audit reports are to be presented to the legislature, as per the Companies Act.

(b) Sales policy of Public Utilities:

Ans: Sales policy of public utilities:

i) The products or services offered by public utilities are essential requirements of the public and have usually large demand from the public.
ii) The public utilities do not generally have rivals or competitors. A particular product is supplied by one undertaking in a particular area. So there is no possibility of different rates being charged by different producers in the same area. So there is no necessity for price discount.
iii) These undertakings are granted franchise by the government. They had the right to interfere with private property as well as right to use public property (roads, land, buildings, etc.).
iv) There are no middlemen or intermediaries for sale of their products or services. They sell directly to their consumers or sell through their own distribution network. For example water supply, electric supply, and transport undertakings come in direct contract with the consumers. Therefore, they have to offer best possible terms to users, of these services.
v) Unlike other commercial concerns, public utility undertakings do not have the problems of credit collection from the customers. In some cases, as in electricity undertakings, the supply is stopped if there is default in payment of bills by a specified date. In some cases, the dealings are on cash basis, as in railways and road transport undertakings.

vi) There is no necessity for the public utility undertakings to advertise their goods and services like other business units. However, they have to inform the public about the service which they provide. For example, a transport undertaking has to keep the public informed about the new services introduced from time to time on different routes, changes in the routes, changes in the timings, etc. Such information facilitates the customers in utilising the service which ultimately leads to utilisation of full capacity.

(c) Public Enterprise

Ans: Government owned enterprises are also called Public Enterprises (PEs). Public enterprise, as a business entity, refers to any industrial or commercial undertaking which is owned and managed by the central, state or local government and of which the output is marketed i.e., not supplied free. Thus public enterprises include manufacturing, trading as well as service organisations which are essentially business undertakings.

Public enterprises consist of nationalised private organisations as well as new enterprises promoted under government ownership and control. Life Insurance Corporation, Indian Airlines Corporation, Coal India Ltd., etc., are examples of public enterprises established by nationalising private organisations. Hindustan Machine Tools, Hindustan Antibiotics Ltd., Chittaranjan Locomotive Works, etc., are examples of public enterprises promoted by government.

Public enterprises are governed by public policies framed by government and aimed at maximising social welfare and upholding public interest. The objectives of public enterprises in India are laid down in conformity with the objectives of the development plans. They are accountable to the government and the parliament or state legislatures regarding the fulfilment of their objectives. The whole or major part of the capital required for the public enterprises is provided by government.

Some of the objectives of public enterprises are:

* To channelise resources in the best possible manners for economic growth

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

* To ensure balanced regional development of industry and trade.

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