



**CREATIVE EDUCATION FOUNDATION, KARKALA**  
**SECOND PU ANNUAL EXAMINATION APRIL – 2023**  
**BUSINESS STUDIES DETAILED SOLUTION**

**PART - A**

**I. choose the correct answer**

**10x1 = 10**

1. The following is not an objective of management.

- a) Survival    b) Earning profit    c) Growth of the organisation    d) Policy making

Ans: **d) Policy making**

2. How are the principles of management formed?

- a) in a laboratory    b) By the experience of managers  
c) By the experience of customers    d) By the propagation of social scientists

Ans: **b) By the experience of managers**

3. Which of the following is not the feature of planning?

- a) It focuses on achieving objectives  
b) It involves identification and division of work.  
c) It is the primary function of management.  
d) It is a pervasive function

Ans: **b) It involves identification and division of work.**

4. Which of the following is not an element of delegation?

- a) Accountability    b) Responsibility    c) Authority    d) Rights

Ans: **d) Rights**

5. Which of the following is a money market instrument?

- a) Treasury Bills    b) Debentures    c) Equity shares    d) Preference Shares

Ans: **a) Treasury Bills**

**II. Fill in the blanks. By choosing correct answer from the bracket**

**5x1 = 5**

(SEBI, Coordination, Fixed Assets, Job Rotation, Budget)

6. **Coordination** is the essence of Management.

7. A statement of expected results in numerical terms is known as **Budget**.

8. The shifting of trainees from one department to another department is **Job Rotation**.

9. Fixed Capital is invested in **Fixed Assets**.

10. Capital Market is controlled by **SEBI**.

**III. Match the following**

**5x1 = 5**

11.

**A**

- a) Decentralisation  
b) Preliminary Screening  
c) Laissez Faire  
d) Modern techniques of Controlling  
e) Financial Market

**B**

- iii) Quick Decision making  
- Iv) Selection Process.  
- i) Style of Leadership.  
- v) Management Information System  
- ii) Money Market and Capital Market

## PART-B

IV. Answer any NINE of the following questions in four sentences each 9x2 = 18

12. Who advocated piece wage system?

Ans: F.W Taylor advocated piece wage system.

13. Write any one feature of Business Environment.

Ans: Totality of external forces, Uncertainty , Interrelatedness etc

14. Mention any one element of Directing.

Ans: Leadership or Supervision or Motivation or Communication.

15. What is a brand?

Ans: A brand is a name, term, sign, symbol, design which is used to identify the product.

16. State the monetary limit of claim in State Consumer Disputes Redressal Commission.

Ans: The State Commission is empowered to receive such complaints where the value of goods or services and compensation claimed exceeds Rs 20 lakh but less than 1 crore.

## PART- C

V. Answer any SEVEN as the following questions in twelve sentences each. 7x4 = 28

17. Define Management.

Ans: According to Harold Koontz and Heinz Weihrich, "Management is a process of designing and maintaining an environment in which individuals working together in groups efficiently accomplish selected aims."

18. State any two differences between Unity of Command and Unity of Direction.

Ans:

Basis	Unity of Command	Unity of Direction
Meaning	One subordinate must receive orders from only one superior.	Each group of activities having same objective must have one head and one plan.
Aim	It prevents dual subordination	It prevents overlapping of activities
Implications	It affects an individual employee	It affects the entire organisation.

19. Give the meaning of Planning Premises.

Ans: Planning premises are the assumptions about the future conditions and events. Trends in population, legal regulations etc are examples. Plans should be formulated by the management within the frame work of the planning premises.

20. What is Formal Organisation?

Ans: Formal Organisation refers to the organisation structure which is designed by the management to accomplish a particular task. It clearly specifies the boundaries of authority and responsibility in the organisation

21. Mention any two demerits of internal source of recruitment.

Ans: 1) The scope of induction of fresh talent is reduced.

2) No organisation can fill all its vacancies through internal sources.

3) The employees may become lethargic if they are sure of time bound promotions.

22. Write any two features of Motivation.

- Ans: 1) It is an internal feeling.  
2) It can be either positive or negative.  
3) It produces goal directed behaviour.

23. Give the meaning of breakeven analysis.

Ans: Breakeven analysis is a technique used by managers to study the relationship between costs, volumes and profits. It determines the probable profit or losses at different levels of activity.

24. State the twin objectives of financial planning?

- Ans: a) To ensure availability of funds whenever required.  
b) To see that the firm does not raise resources unnecessarily.

25. Mention any two money market instruments.

Ans: Treasury Bills, Commercial Papers, Certificate of deposit and Commercial Bills are some Money market instruments.

26. How do you describe Marketing Mix?

Ans: Marketing Mix is described as the set of Marketing tools that a firm uses to pursue its marketing objectives in a target market. It consists of four elements namely Product, Price, Place and Promotion.

27. Write any two rights of consumers.

- Ans: 1) Right to safety  
2) Right to be informed  
3) Right to choose

### PART-C

**VI. Answer any seven of the following questions in 10-12 sentences. Each question carries 4 marks :  
7x4=28**

28. Explain F.W. Taylor's Scientific Management Principles.

In the words of Taylor, "Scientific management means knowing exactly what you want me to do and seeing that they do it in the best and cheapest way. Therefore, it would be in order to discuss these principles.

**i) Science, not rule of thumb:**

Taylor believed that there was only one best method to maximize efficiency. This method can be developed through study and analysis. The method so developed should substitute 'Rule of Thumb' throughout the organization.

**ii) Harmony, not discord:** Factory system of production implied that managers served as a link between the owners and the workers. He emphasized that there should be complete harmony between the management and workers. Both should realize that each one is important. To achieve this state, Taylor called for complete mental revolution on the part of both management and workers.

**iii) Cooperation, not Individualism:** There should be complete cooperation between the labour and the management instead of individualism. This principle is an extension of

principle of 'Harmony not discord'. Competition should be replaced by cooperation. Both should realise that they need each other.

- iv) **Development of each and every person to his greatest efficiency and prosperity:** Taylor was of the view that the concern for efficiency could be built in right from the process of employee selection. Each person should suit her/his physical, mental and intellectual capabilities. To increase efficiency, they should be given the required training.

29. Briefly explain any four dimensions of business environment.

A brief discussion of the various factors constituting the general environment of business is given below:

- i) **Economic environment :** Interest rate, inflation rate, changes in disposable income of people, stock market indices and the value of rupee are some of the economic factor that can affect management practices in a business enterprise.
- ii) **Social environment:** The social environment of business include the social forces like customs and traditions, values, social trends. Society's expectations from business etc.
- iii) **Technological environment:** Technological environment includes forces relating to scientific improvements and innovations which provides new ways of producing goods services and new methods of techniques of operating a business.
- iv) **Political Environment :** Political environment includes political conditions such as general stability and peace in the country and specific attitudes that elected government representatives hold towards business.

30. Explain the importance of planning with any four points.

Planning is certainly important as it tells us where to go, it provides direction and reduces the risk of uncertainty by preparing forecasts. The major benefits of planning are:

- i) **Planning provides directions:** By stating in advance how work is to be done planning provides direction for action. Planning ensures that the goals are clearly stated so that they act as a guide for deciding what action should be taken and in which direction.
- ii) **Planning reduces the risks of uncertainty:** By deciding in advance the tasks to be performed, Planning shows the way to deal with changes and uncertain events. Changes or events cannot be eliminated but they can anticipated and managerial responses to them can be developed.
- iii) **Planning reduces overlapping and wasteful activities:** Planning serves as the basis of coordinating the activities and efforts of different divisions, departments and individuals. It helps in avoiding confusion and misunderstanding.
- iv) **Planning promotes innovative ideas:** Since planning is the first function of management, new ideas can take the shape of concrete plans. It is the most challenging activity for the management as it guides all future actions leading to growth and prosperity of the business.

31. Explain briefly four On-the-training methods.

**i) Apprenticeship Programmes :** Apprenticeship programmes put the trainee under the guidance of a master worker. These are designed to acquire a higher level of skill. People seeking to enter skilled jobs, to become, for example, plumbers, electricians or iron-workers, are often required to undergo apprenticeship training.

**ii) Coaching :** In this method, the superior guides and instructs the trainee as a coach. The coach or counselor sets mutually agreed upon goals, suggests how to achieve these goals, periodically reviews the trainees progress and suggests changes required in behavior and performance.

**iii) Internship Training :** It is a joint programme of training in which educational institutions and business firms cooperate. Selected candidates carry on regular studies for the prescribed period. They also work in some factory or office to acquire practical knowledge and skills.

**iv) Job Rotation:** This kind of training involves shifting the trainee from one department to another or from one job to another. This enables the trainee to gain a broader understanding of all parts of the business and how the organization as a whole functions.

32. Briefly explain the first four steps involved in controlling process.

Controlling is the systematic process involving the following steps.

**Step 1: Setting performance standards :** The first step in controlling process is setting up performance standards. Standards are the criteria against which actual performance will be measured. Standards can be set in both qualitative and quantitative terms.

**Step 2: Measurement of actual performance :** Once performance standards are set the next step is measurement of actual performance. Performance should be measured in an objective and reliable manner. As far as possible, performance should be measured in the same units in which standards are set as this would make comparison easier.

**Step 3: Comparing actual performance with the standards:** This step involves comparison of actual performance with the standards. Such comparison will reveal the deviation between actual and desired results. Comparison becomes easier when standards are set in quantitative terms. For instance, performance of a worker in terms of units produced in a week can be easily measured against the standard output for the week.

**Step 4: Analyzing deviation:** Some deviation in performance can be expected in all activities. It is therefore important to determine the acceptable range of deviation. Also deviations in key areas need to be attended more urgently as compared to deviation in certain insignificant areas.

33. What is Capital budgeting decision ? Explain briefly factors influencing capital budgeting decisions.

A number of projects are often available to business to invest in. but each project as to be carefully evaluated. A particular project is selected depending upon the returns they generate. There are certain factors which affect capital budgeting decisions.

- i) **Cash flow of the project :** when a company takes an investment decision involving huge amount it expects to generate some cash flows over a period. These cashflows are in a form of series of cash receipts and payments during the life of an investment. The amount these cashflows should be carefully analyzed before analysing a capital budgeting decision.
- ii) **The rate of return :** The most important criterion is the rate of return of the project. These calculation are based on the expected returns from each proposal and the assessment of risk involved. Suppose there are two projects A and B with a rate of return of 10 percent and 12 percent respectively, then under normal circumstances, project B should be selected.
- iii) **The investment criteria involved :** The decision to invest in a particular projects involves a number of calculation regarding the amount of investment, interest rate, cashflows etc. there are different techniques to evaluate investment proposals which are known as capital budgeting techniques. They are applied to each proposal before selecting a project.

34. Explain any four factors affecting working capital requirements of an organization.

Ans: Apart from investment in fixed assets every business organisation need to invest in current assets. The investment facilitates smooth day to day running of the business. Factors affecting the Working Capital Requirements are:

1. **Nature of Business:** The basic nature of a business influences the amount of working capital required. A trading organisation usually needs a smaller amount of working capital compared to a manufacturing organisation.
2. **Scale of Operations:** For organisations operating at a higher scale, the quantum of inventory and debtors is generally high. Such organisations generally require large amount of working capital as compared to the organisations that work on a lower scale.
3. **Credit Allowed:** Different firms allow different credit terms to their customers. A liberal credit policy results in higher amount of debtors, increasing the requirement of working capital.
4. **Growth Prospects:** If the growth potential of a concern is perceived to be higher, it will require large amount of working capital, so that it is able to meet higher production and sales whenever required.

35. State any four factors affecting working capital requirements of an organisation

Ans: A brand is a name, term, sign, symbol, design or some combination of them, used to identify the products. Following are some of the considerations, which should be kept in mind while choosing a brand name.

- i) The brand name should be short, easy to pronounce, spell, recognise and remember eg. Ponds, VIP, Rin, Vim, etc.
- ii) A brand should suggest the product's benefits and qualities. It should be appropriate to the product's function.
- iii) A brand name should be distinctive.
- iv) The brand name should be sufficiently versatile to accommodate new products, which are added to the product line.
- v) It should be capable of being registered and protected legally.
- vi) Chosen name should have staying power i.e it should not get out of date.

36. Explain any two advantages and two limitations of advertising.

Ans: Advertising is perhaps the most commonly used tool of promotion. It is an impersonal form of communication, which is paid for by the marketers to promote goods or service.

Advertising has the following merits:

1. **Mass Reach:** Advertising is a medium through which a large number of people can be reached over a vast geographical area. For example, an advertisement message placed in a national daily reaches lakhs of its subscribers.
2. **Enhancing Customer Satisfaction and Confidence:** Advertising creates confidence among prospective buyers as they feel more comfortable and assured about the product quality and hence feel more satisfied.

The major limitations of Advertising are:

1. **Less Forceful:** Advertising is an impersonal form of communication. It is less forceful than the personal selling as there is no compulsion on the prospects to pay attention to the message.
2. **Inflexibility:** Advertising is less flexible as the message is standardised and it is not tailor made to the requirements of the different customer groups.

37. State any four responsibilities of consumers while purchasing, using and consuming goods and services.

Ans: A consumer should keep in mind the following responsibilities while purchasing, using and consuming goods and services.

- i) Be aware about various goods and services available in the market so that an intelligent and wise choice can be made.
- ii) Buy only standardised goods as they provide quality assurance.

- iii) Learn about the risks associated with product and services, follow manufacturer's instructions and use the product safely.
- iv) Assert yourself to ensure that you get a fair deal.
- v) Ask for a cash memo on purchase of goods or services, this would serve as a proof of the purchase made.

#### PART-D

VI. Answer any three of the following questions in 20-25 sentences each.

Each question carries 8 marks.

3x8 = 24

38) Explain the characteristics of management.

Ans:- According to **Harold Koontz and Heinz Weihrich** "Management is the process of designing and maintaining an environment in which individuals, working together in groups, efficiently accomplish selected aims."

The important characteristics of Management are

- (i) **Management is a goal-oriented process**
- (ii) **Management is all pervasive**
- (iii) **Management is multidimensional**
- a) **Management of work**
- b) **Management of people**
- c) **Management of operations**
- (iv) **Management is a continuous process**
- (v) **Management is a group activity**
- (vi) **Management is a dynamic function**
- (vii) **Management is an intangible force**

**1. Management is a goal-oriented process:** An organisation has a set of basic goals which are the basic reason for its existence. These should be simple and clearly stated.

Different organisations have different goals

**2. Management is all pervasive:** The activities involved in managing an enterprise are common to all organisations whether economic, social or political. Therefore management is all pervasive and universal phenomenon.

**3. Management is multidimensional:** Management is a complex activity that has three main dimensions. These are:

(a) **Management of work:** All organisations exist for the performance of some work. In a factory, a product is manufactured, in a garment store a customer's need is satisfied and in a hospital a patient is treated. Management translates this work in terms of goals to be achieved and assigns the means to achieve it.

(b) **Management of people:** Human resources or people are an organisation's greatest asset. Despite all developments in technology "getting work done through people" is still a major task for the manager.

(c) **Management of operations:** No matter what the organisation, it has some basic product or service to provide in order to survive. This requires a production process which entails the flow of input material and the technology for transforming this input into the desired output for consumption.

**4. Management is a continuous process:** The process of management is a series of continuous, composite, but separate functions (planning, organising, directing, staffing and

controlling). These functions are simultaneously performed by all managers all the time.

- 5. Management is a group activity:** An organisation is a collection of diverse individuals with different needs. Every member of the group has a different purpose for joining the organisation but as members of the organisation they work towards fulfilling the common organisational goal.
- 6. Management is a dynamic function:** Management is a dynamic function and has to adapt itself to the changing environment. An organization interacts with its external environment which consist of various social, economic and political factors. Therefore, management is dynamic function. It must change according to the changes in needs.
- 7. Management is an intangible force:** Management is an intangible force that cannot be seen but its presence can be felt in the way the organisation functions. The effect of management are noticeable in terms of attainment of production targets, employee' s satisfaction etc. So management is an unseen force but results in the collective efforts of people. All these characteristics are found in all types of the organisation whether it is a profit oriented or non profit, big or small, manufacturing or service. Whenever there is organized group of people working towards a common goal, some type of management is essential.

39) What is delegation? Explain the importance of delegation.

Ans:- Delegation refers to downward transfer of authority from superior to subordinate. It is pre requisite to the efficient functioning of an organization because it enables the manager to use its time on high priority activities.

Effective delegation leads to the following benefits:

- (i) **Effective management**
- (ii) **Employee development**
- (iii) **Motivation of employees**
- (iv) **Facilitation of growth**
- (v) **Basis of management hierarchy**
- (vi) **Better co-ordination**

**Effective management:** By empowering the employees, the managers are able to function more efficiently as they get more time to concentrate on important matters. Freedom from doing routine work provides them with opportunities to excel in new areas

**(i) Employee development:** As a result of delegation, employees get more opportunities to utilise their talent and this may give rise to latent abilities in them. It allows them to develop those skills which will enable them to perform complex tasks and assume those responsibilities which will improve their career prospects. It makes them better leaders and decision makers. Thus, delegation helps by preparing better future managers. Delegation empowers the employees by providing them with the chance to use their skills, gain experience and develop themselves for higher positions.

**(ii) Motivation of employees:** Delegation helps in developing the talents of the employees. It also has psychological benefits. When a superior entrusts a subordinate with a task, it is not merely the sharing of work but involves trust on the superior's part and commitment on the part of the subordinate. Responsibility for work builds the self-esteem of an employee and improves his confidence. He feels encouraged and tries to improve his performance further.

**(iii) Facilitation of growth:** Delegation helps in the expansion of an organisation by providing a ready workforce to take up leading positions in new ventures. Trained and experienced employees are able to play significant roles in the launch of new projects by replicating the work ethos they have absorbed from existing units, in the newly set up branches.

**(iv) Basis of management hierarchy:** Delegation of authority establishes superior subordinate relationship, which are the basis of hierarchy of management. It is the degree and flow which determines who has to report to whom. The extent of delegated authority also decides the

power that each job position enjoys in the organization.

- (v) **Better co-ordination:** The elements of delegation, namely authority, responsibility and accountability help to define the powers, duties and answerability related to the various positions in an organization. This helps to avoid overlapping of duties and duplication of effort as it gives clear picture of the work been done at various levels. Such clarity helps in developing and maintaining effective coordination among various departments, levels and functions of management.

Thus delegation is considered a key element in effective organising. Delegation ensures that subordinates perform tasks on behalf of manager thereby reducing his work load and providing him with more time to concentrate on important matters.

- 40) Explain the stages involved in staffing process.

**ANS:-** Staffing has been described as managerial function of filling and keeping filled position in the organization structure. Staffing is the continuous process because new jobs may be created and some of the existing employees may leave the organization.

The following are the stages involved in staffing process

- (i) **Estimating the Manpower Requirements**
- (ii) **Recruitment**
- (iii) **Selection**
- (iv) **Placement and Orientation**
- (v) **Training and Development**
- (vi) **Performance Appraisal**
- (vii) **Promotion and career planning**
- (viii) **Compensation**

(i) **Estimating the Manpower Requirements:** You are aware that while designing the organizational structure, we undertake an analysis of the decisions and the decision-making levels, activities as well as relationship among them with a view to evolving the horizontal and vertical dimensions of the structure. Thus, various job positions are created. Clearly, performance of each job necessitates the appointment of a person with a specific set of educational qualifications, skills, prior experience and so on.

(ii) **Recruitment:** Recruitment may be defined as the process of searching for prospective employees and stimulating them to apply for jobs in the organization. The information generated in the process of writing the job description and the candidate profile may be used for developing the 'situations vacant' advertisement. The advertisement may be displayed on the factory/ office gate or else it may be got published in print media or flashed in electronic media. This step involves locating the potential candidate or determining the sources of potential candidates.

(iii) **Selection:** Selection is the process of choosing from among the pool of the prospective job candidates developed at the stage of recruitment. Even in case of highly specialised jobs where the choice space is very narrow, the rigour of the selection process serves two important purposes:

(i) it ensures that the organisation gets the best among the available, and (ii) it enhances the self-esteem and prestige of those selected and conveys to them the seriousness with which the things are done in the organisation.

(iv) **Placement and Orientation:** Joining a job marks the beginning of socialisation of the employee at the workplace. The employee is given a brief presentation about the company and is introduced to his superiors, subordinates and the colleagues. He is taken around the workplace and given the charge of the job for which he has been selected. This process of familiarisation is very crucial and may have a lasting impact on his decision to stay and on his job performance. Orientation is, thus, introducing the selected employee to other employees and familiarising him with the rules and policies of the organisation. Placement refers to the employee occupying the position or post for which the person has been selected.

(v) **Training and Development:** What people seek is not simply a job but a career. Every one

must have the opportunity to rise to the top. The best way to provide such an opportunity is to facilitate employee learning. Organisations have either in-house training centers or have forged alliances with training and educational institutes to ensure continuing learning of their employees. The organisations too benefit in turn. If employee motivation is high, their competencies are strengthened, they perform better and thus, contribute more to organisational effectiveness and efficiency.

(vi) **Performance Appraisal** After the employees have undergone a period of training and they have been on the job for some time, there is a need to evaluate their performance. All organisations have some formal or informal means of appraising their employee's performance. Performance appraisal means evaluating an employee's current and/or past performance as against certain predetermined standards.

(vii) **Promotion and career planning** It becomes necessary for all organisations to address career related issues and promotional avenues for their employees. Managers need to design activities to serve employees' long-term interests also. They must encourage employees to grow and realise their full potential. Promotions are an integral part of people's career. They refer to being placed in positions of increased responsibility. They usually mean more pay, responsibility and job satisfaction.

(viii) **Compensation** All organisations need to establish wage and salary plans for their employees. There are various ways to prepare different pay plans depending on the worth of the job. Basically the price of the job needs to be determined. Compensation, therefore, refers to all forms of pay or rewards going to employees. It may be in the form of direct financial payments like wages, salaries, incentives, commissions and bonuses and indirect payments like employer paid insurance and vacations.

The above staffing process helps the organisation to fill the various positions in the organisation by obtaining competing personnel and by putting right person on the right job.

41) Explain suitable measures to overcome barriers to effective communication.

Ans:-The barriers to effective communication exists in all organisation to a greater or lesser degree. Organisation keen on developing effective communication should adopt suitable measure to overcome the barriers and improve communication effectiveness.

The following measures to improve communication effectiveness.

(i) **Clarify the ideas before communication**

(ii) **Communicate according to the needs of receiver**

(iii) **Consult others before communicating**

(iv) **Be aware of languages, tone and content of message**

(v) **Convey things of help and value to listeners**

(vi) **Ensure proper feedback**

(vii) **Communicate for present as well as future**

(viii) **Follow up communications**

(ix) **Be a good listener**

(i) **Clarify the ideas before communication:** The problem to be communicated to subordinates should be clear in all its perspective to the executive himself. The entire problem should be studied in depth, analysed and stated in such a manner that is clearly conveyed to subordinates.

(ii) **Communicate according to the needs of receiver:** The level of understanding of receiver should be crystal clear to the communicator. Manager should adjust his communication according to the education and understanding levels of subordinates.

(iii) **Consult others before communicating:** Before actually communicating the message, it is better to involve others in developing a plan for communication. Participation and involvement of subordinates may help to gain ready acceptance and willing cooperation of

subordinates.

(iv) **Be aware of languages, tone and content of message:** The contents of the message, tone, language used, manner in which the message is to be communicated are the important aspects of effective communication. The language used should be understandable to the receiver and should not offend the sentiments of listeners.

(v) **Convey things of help and value to listeners:** While conveying message to others, it is better to know the interests and needs of the people with whom you are communicating.

(vi) **Ensure proper feedback:** The communicator may ensure the success of communication by asking questions regarding the message conveyed. The receiver of communication may also be encouraged to respond to communication.

(vii) **Communicate for present as well as future:** Generally, communication is needed to meet the existing commitments to maintain consistency, the communication should aim at future goals of the enterprise also.

(viii) **Follow up communications:** There should be regular follow up and review on the instructions given to subordinates. Such follow up measures help in removing hurdles if any in implementing the instructions.

(ix) **Be a good listener:** Manager should be a good listener. Patient and attentive listening solves half of the problems. Managers should also give indications of their interest in listening to their subordinates.

Effective communication helps in avoiding confusions and filtering part of breakdowns in communication. The above effective measures to overcome barriers helps the manager to remove various semantic barriers, psychological barriers, organizational barriers and personal barriers.

42) What is stock exchange? Explain the functions of stock exchange.

Stock exchange means any body of individuals incorporated or not, constituted for the purpose of assisting, regulating or controlling the business of buying and selling or dealing in securities. The following are the important functions of stock exchange:

The following are some of the important functions of a stock exchange.

(i) **Providing Liquidity and Marketability to Existing Securities**

(ii) **Pricing of Securities**

(iii) **Safety of Transaction**

(iv) **Contributes to Economic Growth**

(v) **Spreading of Equity Cult**

(vi) **Providing Scope for Speculation**

**i. Providing Liquidity and Marketability to Existing Securities:** The basic function of a stock exchange is the creation of a continuous market where securities are bought and sold. It gives investors the chance to disinvest and reinvest. This provides both liquidity and easy marketability to already existing securities in the market.

**ii. Pricing of Securities:** Share prices on a stock exchange are determined by the forces of demand and supply. A stock exchange is a mechanism of constant valuation through which the prices of securities are determined. Such a valuation provides important instant information to both buyers and sellers in the market.

**iii. Safety of Transaction:** The membership of a stock exchange is well regulated and its dealings are well defined according to the existing legal framework. This ensures that the investing public gets a safe and fair deal on the market.

**iv. Contributes to Economic Growth:** A stock exchange is a market in which existing securities are resold or traded. Through this process of disinvestment and reinvestment savings get channelised into their most productive investment avenues. This leads to capital formation and economic growth.

**v. Spreading of Equity Cult:** The stock exchange can play a vital role in ensuring wider share ownership by regulating new issues, better trading practices and taking effective steps in educating the public about investments.

**vi. Providing Scope for Speculation:** The stock exchange provides sufficient scope within the provisions of law for speculative activity in a restricted and controlled manner. It is generally accepted that a certain degree of healthy speculation is necessary to ensure liquidity and price continuity in the stock market.

Stock exchanges help the companies to raise finance, provide liquidity and safety of investments to the investors and enhance the credit worthiness of individual companies. So, efficient functioning of a stock exchange creates a conducive climate for an active and growing primary market for new issues.

43) What is Pricing? Explain the factors affecting price determination.

**Ans:-** . The amount of money paid by a buyer or received by a seller in consideration of the purchase of a product or a service are called Price. Pricing is the process where by a business sets the price at which it will sell its product and services.

The following are the factors affecting price determination:

1. **Product Cost:**
2. **The Utility and Demand**
3. **Extent of Competition in the Market**
4. **Government and Legal Regulations**
5. **Pricing Objectives**
6. **Marketing methods used**

**1. Product Cost:** One of the most important factor affecting price of a product or service is its cost. This includes the cost of producing, distributing and selling the product. The cost sets the minimum level or the floor price at which the product may be sold. Generally all marketing firms strive to cover all their costs, at least in the long run Total Costs are the sum total of the fixed, variable and semi-variable costs for the specific level of activity, say volume of sales or quantity produced.

**2. The Utility and Demand:** While the product costs set the lower limits of the price, the utility provided by the product and the intensity of demand of the buyer sets the upper limit of price, which a buyer would be prepared to pay. In fact the price must reflect the interest of both the parties to the transaction—the buyer and the seller. The buyer may be ready to pay up to the point where the utility from the product is at least equal to the sacrifice made in terms of the price paid. The seller would, however, try to at least cover the costs. According to the law of demand, consumers usually purchase more units at a low price than at a high price. The price of a product is affected by the elasticity of demand of the product. The demand is said to be elastic if a relatively small change in price results in large change in the quantity demanded. Here numerically, the price elasticity is greater than one. In the case of inelastic demand, the total revenue increases when the price is increased and goes down when the price is reduced. If the demand of a product is inelastic, the firm is in a better position to fix higher prices.

**3. Extent of Competition in the Market:** Between the lower limit and the upper limit where would the price settle down? This is affected by the nature and the degree of competition. The price will tend to reach the upper limit in case there is lesser degree of competition while under conditions of free competition, the price will tend to be set at the lowest level. Competitors' prices and their anticipated reactions must be considered before fixing the price of a product. Not only the price but the quality and the features of the competitive products must be examined carefully, before fixing the price.

**4. Government and Legal Regulations:** In order to protect the interest of public against unfair practices in the field of price fixing, Government can intervene and regulate the price of commodities. Government can declare a product as essential product and regulate its price. For example, the cost of a drug manufactured by a company having monopoly in the production of the same come to Rs 20 per strip of ten and the buyer is prepared to pay any amount for it, say Rs 200.

In the absence of any competitor, the seller may be tempted to extort the maximum amount of Rs 200 for the drug and intervene to regulate the price. Usually in such a case, the Government does not allow the firms to charge such a high price and intervene to regulate the price of the drug. This can be done by the Government by declaring the drug as essential commodity and regulating its price.

**5. Pricing Objectives:** Pricing objectives are another important factor affecting the fixation of the price of a product or a service. Generally the objective is stated to be maximize the profits. But there is a difference in maximising profit in the short run and in the long run. If the firm decides to maximize profits in the short run, it would tend to charge maximum price for its products. But if it is to maximise its total profit in the long run, it would opt for a lower per unit price so that it can capture larger share of the market and earn greater profits through increased sales.

**6. Marketing methods used:** Price fixation process is also affected by other elements of marketing such as distribution system, quality of salesman employed, quality and amount of advertising, sales promotion efforts, the type of packaging, product differentiation, credit facility and customer services provided.

Pricing is considered to be an effective competitive weapon. In these conditions of perfect competition most of the firms compete with each other on the basis of these factors. Thus marketing firms give high importance to the fixation of the price for their products and services.

### PART – E

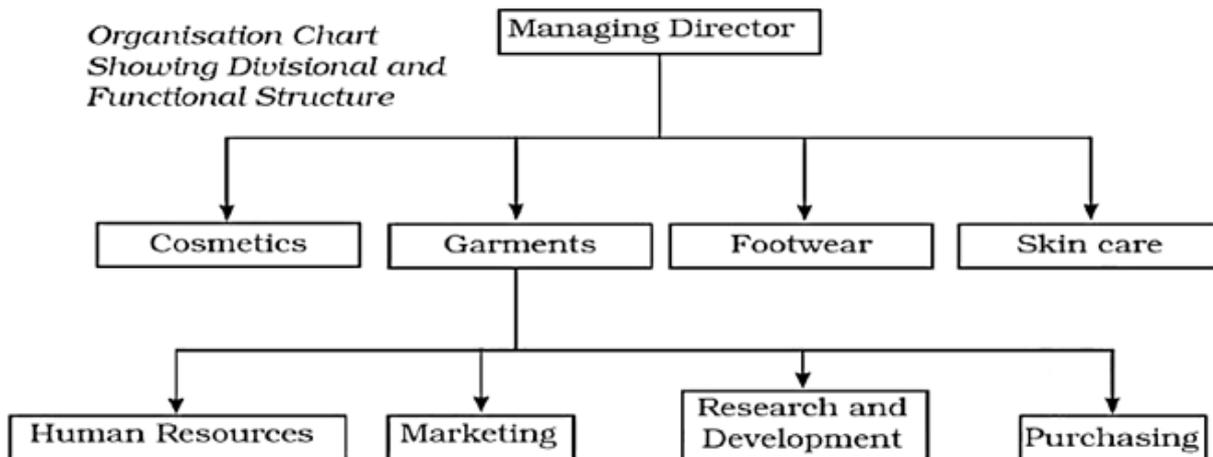
**VIII. Answer any two of the following questions . Each question carries 5 marks: (2X 5=10)**

44) As a general manager, list out any ten Fayol's principles of Management which you would like to adopt in your business organisation.

Ans: As a general manager, I would like to adopt the following Ten Fayol Principles:

- a) Division of work
- b) Authority and responsibility
- c) Discipline
- d) Unity of command
- e) Unity of direction
- f) Subordination of individual interest to general interest
- g) Remuneration to employees
- h) Centralization and decentralization
- i) Scalar chain
- j) Order

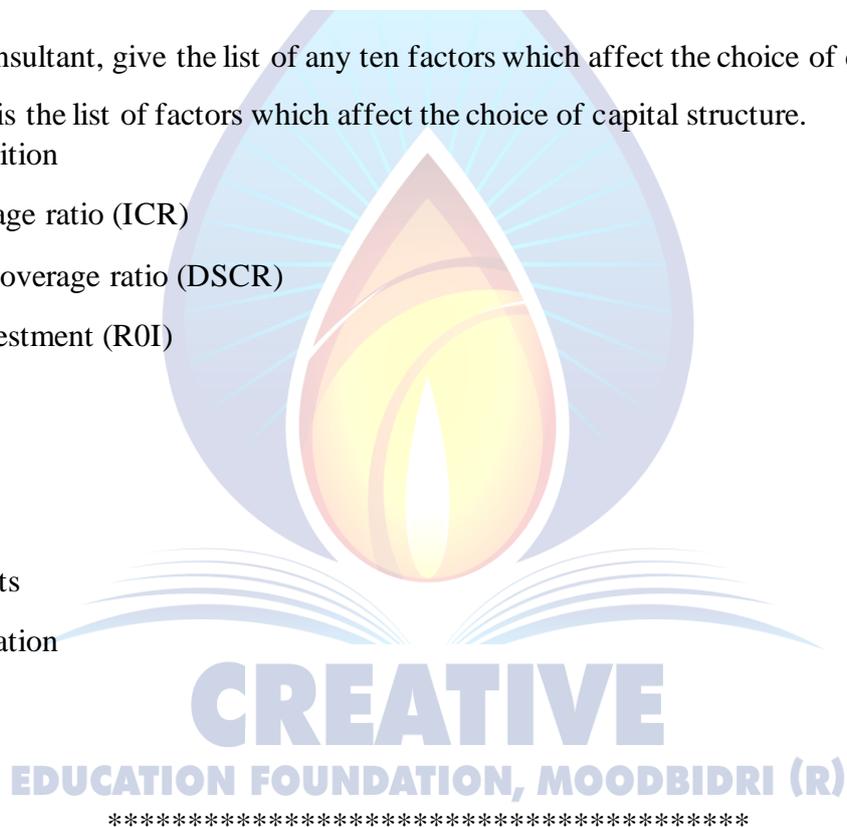
45) Draw the organisation chart showing divisional and functional structure.



46) As a financial consultant, give the list of any ten factors which affect the choice of capital structure.

**Ans:** Following is the list of factors which affect the choice of capital structure.

- a) Cash flow position
- b) Interest coverage ratio (ICR)
- c) Debt service coverage ratio (DSCR)
- d) Return on investment (ROI)
- e) Cost of debt
- f) Tax rate
- g) Cost of equity
- h) Floatation costs
- i) Risk consideration
- j) Flexibility



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