Paper 1- Fundamentals of Economics and Management

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Full Marks :100 **Time allowed: 3 hours**

ANSWER

PART A (50 Marks)
(Fundamentals of Economics)

I. Choose the correct answer from the given four alternatives: [10 ×1 = 10]

1.	(a)
2.	(a)
3.	(d)
4.	(c)
5.	(a)
6.	(b)
7.	(c)
8.	(a)
9.	(b)
10.	(d)

II. Fill in the blanks: [5×1=5]

1. General to Particular
2. Backward Bending
3. Maximum.
4. Monopolistic Competition
5. RBI (Reserve Bank of India)

III. Match the following [5×1=5]

1.	D
2.	E
3.	A
4.	B
5.	C

IV. State whether the following statements are True (or) False. [5×1=5]

1. : True

2. : False
3. : False
4. : True
5. : True

V. Give the answer in one sentence for any five from the following: [5×1=5]

1. **Marginal Utility:**

   It is the additional utility obtained by the consumer by the consumption of additional unit of a thing 'or' one more unit of a thing. The change in the total utility is also called marginal utility.

   $MU_n \frac{\Delta TU}{\Delta q}$ (or) $MU_N = TU_n - TU_{n-1}$

2. **Demand Foresting**:

   The success of the business firm depends upon the successful demand foresting. Estimation of future demand for product at present is called demand forecasting.

3. **Deficit Finance:**

   When the governments make the borrowings from the RBI or issue the new currency to fill the gap of the budget deficit, it is said to be deficit finance.

4. **Bank Rate:**

   The rate of interest charged by RBI from the commercial banks for the money lending [long-term] is called bank rate.

5. **Science and Technology:**

   Science means accumulation of knowledge. Technology means refinement in tools. For rapid economic progress, the application of science and technology (S and T) to agriculture, industry, transport and to all other economic and non- economic activities has become essential.

6. **Expansion of IDBI:**

   Industrial Development Bank of India (IDBI)

7. **Demand:**

   Demand means 'desire'. But in Economics, demand means desire backed by the purchasing power and willing to pay the price.

8. **Rent:**

   Rent is the remuneration of land. According to Devid Ricordo rent is the deferential surplus.

VI. Answer any One of the following questions. [1×10=10]

1. Where there a large number of buyers and sellers are engaged in the exchange of homogeneous goods without any restrictions is called perfect competition market.

   Definition:

"The more nearly perfect market is the stronger tendency for the same price to be paid for the same thing in all parts of the market". — Alfred Marshall

Features of Perfect Market:

The perfect competition market has the following features:

i. **Large number of sellers and buyers:**
There will be a large number of sellers and buyers for a good in this market. It means the output of a buyer or a seller is a small part of the total output. A single producer or seller cannot change the price by his actions. None of them is large enough to influence the price. Therefore a seller takes the price decided by the market. The producer is a price taker.

ii. **Homogeneous Commodities:**
Products in this market are similar in every aspect. A consumer gets the same good whenever he purchases. As a result there will be one price all over the market.

iii. **Free entry and exit:**
Any firm can enter into the production as per its desire. Finally it can leave the production at any time. This helps new firms to enter into business when conditions are favourable. As long as a firm earns super normal profits, it usually stays in competition. But when the firm ends up with losses, it would leave the market.

iv. **Mobility of factors of production:**
Factors of production will move from one production to another easily. This is also useful for free entry and exit of firms factors (land, labour, capital) move to the production activities where they get higher incomes.

v. **Absence of transport cost:**
Under perfect market transport costs should not be added in the price. If transport costs are added to the goods which are available at the less price at the near markets and they are available at the higher prices at distant markets, then existing of two prices for the same thing in different parts is against for perfect market. So transport cost should not be added.

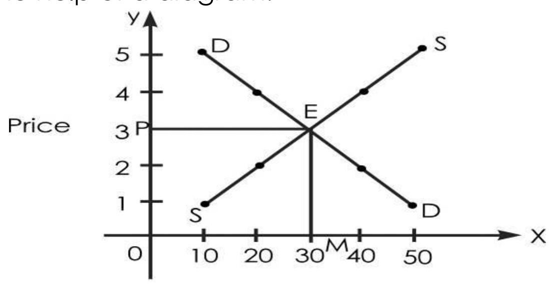
vi. **Perfect knowledge of market:**
Buyers and sellers in this market will have a clear knowledge about market conditions. So that there will be one price throughout the market. Because of perfect knowledge, sales and purchases of commodities take place as one price.

Price determination:

In a perfect situation price is decided by the market. Market brings about a balance between the commodities that come for sale and those demanded by consumers. It means the forces of supply and demand determine the price of the good. Equilibrium price is established at the point where the supply and demand are equal. A table helps us to understood and the changes in supply, demand and equilibrium price.

Price	Quantity demanded	Quantity supplied
1	50	10
2	40	20
3	30	30
4	20	40
5	10	50

The above table shows the demand and supply schedule of good. Changes in price are always causing a change in supply and demand. As price increases there is a fall in the quantity demanded. It means price and quantity demanded have negative relation. But rise in prices has increased the supply of goods. The relation between price and supply of goods is positive. Every time a change in price is causing some change in the supply as well as demand. At one price ₹ 3 it can be observed that quantity supplied and demanded are equal. This is called equilibrium price. This process is explained with the help of a diagram.



Quantity Demand and Supplied

In the above diagram demand and supply are shown on OX- axis, price is shown on OY-axis. In the diagram DD is the demand curve and SS is the supply curve. Both curves intersect at point E. It means the demand, supply are equal at OM level. So the equilibrium price is determine as OP.

2. **Central Bank:**

Central Bank is the apex of the banking system in a country. It controls, regulates and supervises the activities of the banks and the country's banking system.

In our country the Central Bank was established in 1935 under private management. It was nationalized by the Government in 1949 and named as RBI (Reserve Bank of India).

<u>Objectives of the Central Bank:</u>

The Central Bank functions with the objectives given below:

1. To maintain the internal value of currency.
2. To preserve the external value of currency.
3. To ensure price stability.
4. To promote financial institutions.

To promote economic development.

<u>Functions of a Central Bank:</u>

A Central Bank has the following functions:

i. Note Issue:

The Central Bank alone is authorized to issue the currency notes in a country. It has the monopoly of note issue as no other bank is permitted to do so. It also enables the Central Bank to control the supply of money as per the requirements of the economy.

ii. Banker to Government:

The Central Bank acts as a banker, agent and financial advisor to government in the following ways:

a. It maintains the accounts of the government funds.
b. It receives money and makes payments on behalf of the government.
c. It gives 'ways and means' advances to the government.
d. It issues new loans on behalf of the government.
e. It manages the public debt.

f. It undertakes foreign exchange transactions on behalf of the government.
g. It acts as the agent of the government in dealing with the international financial institutions like IMF and World Bank.
h. It advises the Government on all financial matters.

iii. Banker's Bank:

The Central bank acts as a banker's bank in the following manner:

a. Every bank maintains a certain minimum of cash reserves with the Central Bank as a statutory obligation.
b. It serves as a lender of last resort. This helps the commercial banks to overcome the problems of liquidity and will be able to meet the demand for withdrawals even in times of financial stringency.
c. It acts as a clearing house for the commercial banks to settle their inter-bank accounts. This is possible because all commercial banks have account with the Central Bank in which the Central Bank keeps their cash balances.

iv. Lender of last resort:

The Central Bank serves as lender of last resort not only to commercial banks but also to discount houses, and other credit institutions. They may approach the central bank when they face the problem of liquidity.

v. Controller of credit:

This is the most important function of the Central Bank. It controls the volume of credit in the economy through appropriate monetary policy. It takes steps to reduce the credit in case of inflation.

vi. Custodian of foreign exchange reserves:

The Central bank maintains the reserves of foreign exchange and regulates their use. It has the responsibility to maintain the stability of the exchange rate of the native currency in terms of the foreign currency.

VII. Answer any two of the following **[2×5 = 10]**

1. Determinants of Elasticity of Demand:

(i) Nature of the commodity

(ii) Availability of substitutes

(iii) Variety of uses

(iv) Possibility of postponement of consumption

(v) Durable goods

(i) Nature of the commodity:

In the case of necessaries the demand is less elastic (or) comparatively inelastic. For example rice, salt, pulses, matchbox etc.

On the other hand the elasticity of demand for luxuries is more elastic. For example, TV, DVD players, Gold, Diamonds etc.

Comfort goods have unitary elastic demand.

(ii) Availability of substitutes:

If a commodity has substitute goods, the elasticity for that commodity is more elastic. For example, lux soap and pears soap, ponds cream and Lakme cream.

(iii) Variety uses:

If the goods have several uses, the elasticity of demand for it is more elastic. For example, milk, coal, electricity etc.

(iv) Possibility of Postponement of consumption:

There are certain goods which can be postponed for purchase. In case of these goods, the demand is elastic. But in the case of life saving medicines the demand will be inelastic because we cannot postpone the purchase of such goods.

(v) Durable goods:

In case of durable goods the elasticity of demand will be less, but in case of perishable goods the elasticity of demand will be more.

2. Monopoly Market:

The word Monopoly is derived from two words 'Mono' and 'Poly'. Mono means Single and Poly means seller. Where there is a only one seller or one producer or one firm it is said to be monopoly market. The single seller supplies the commodities to the entire market and the product supplied by the monopolist is not have close substitutes. There are some restrictions for other producers to enter into the market. As a result monopoly has no competition in the market.

Features of Monopoly:

The monopoly market has the following features:

i. Single firm:

A single firm produces the commodity in the market. There is only one seller or one producer or one firm.

ii. No close substitutes:

The produce supplied by the monopolist will not have close substitutes in the market. A consumer will not find a substitutes commodity for the monopoly products.

iii. Strong barriers to enter:

New firms cannot enter in the production due to the certain restrictions in market i.e. huge investment, lack of technology, patents etc. prevent the new firms to enter the market.

iv. Firm and Industry are same:

As there is one firm in monopoly market there is no difference between firm and industry.

v. Price maker:

In this market the producer can determine the price of the commodity so the producer in the market is said to be price maker.

vi. Nature of AR & MR curves:

The average Revenue Curve (AR) and Marginal Revenue Curve (MR) both are slopes downwards from left to right because when a seller wants to sell the more of output he must reduce the price when the price is decreased both AR & MR are declining.

vii. Price discrimination:

The monopolist can charge the different prices from the different customers for the same thing or services. The price is not uniform as in the perfect market competition.

viii. Maximum profits:

The main aim of monopoly is to earn to get the maximum profits.

3. Types of Inflation:

Inflation is divided into different types based on rate of inflations and the causes of inflation. They are detailed below.

A. Based on rate of inflation:

Based on rate of inflation it may be categorized into following types:

a. Creeping inflation:

When rise in the prices is very slow and small, it is called creeping inflation. The rate of inflation does not exceed 3% per annum. It is the mildest form of inflation. It is not harmful.

b. Moderate inflation:

When the rate of inflation in the range of 4 - 10 per cent per annum, it is called moderate inflation. This is harmful to the economy.

c. Galloping inflation or Hyper inflation:

If the inflation rate exceeds 10 percent, galloping inflation occurs. It may also be called hyper inflation.

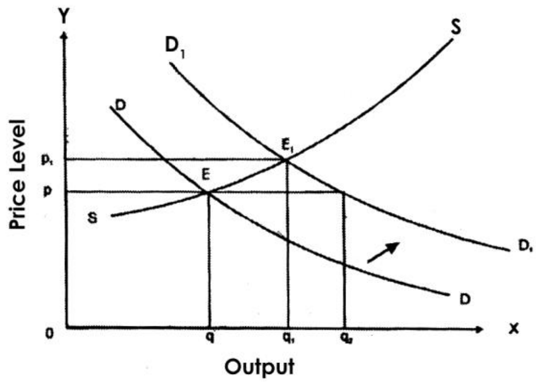
B. On the basis of Cause:

On the basis of cause, inflation is classified into two types.

(i) **Demand-Pull inflation:**

Inflation, caused by the increase in the aggregate demand for commodities over aggregate supply is called demand-pull inflation. Aggregate demand increases due to increase in the income level of people caused by increased public spending and economic development. If the demand is responsible for the rise of price level it is said to be demand pull inflation.

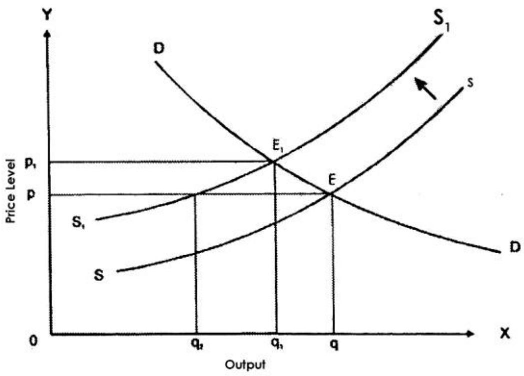
Diagram:



(ii) Cost Push inflation:

Inflation is caused by rise in the cost of production is called cost-push inflation. production may rise due to increase in wages forced by trade unions or government. If the cost of production is responsible for the rise of the price level it is said to be cost push inflation. It is also called supply side inflation.

Diagram:



C. On the basis of Government:

i. Open inflation:

When the government does not control the prices through administrative measures and leave it to the market forces such type of inflation is called open inflation.

ii. Suppressed inflation:

When the government imposes restrictions or controls price through administrative measures, suppressed inflation exists. When the government lifts the control, open inflation reappears.

D. According to Keynes there are two types of inflation

1. True inflation
2. Semi inflation

True inflation is formed after the full employment situation, semi inflation is formed before reaching the full employment.

4. Functions of money.

Money plays a significant role in the modern economic life of the human beings.

Evolution of Money:

The term 'Money' was derived from the name of Goddess "Juno Moneta" of Rome.

Definition of Money:

Money was invented to overcome the difficulties of the barter system. Several economists defined money in several ways:

a. Robertson: Robertson defined money as "anything which is widely accepted in payments for goods or in discharge of other kinds of business obligations".
b. Seligman: According to Seligman's definition, "Money is one that possesses general acceptability".
c. Walker: According to Walker, "Money is what money does".

Functions of Money:

Money has many important functions to perform. These functions may be classified as follows:

I. Primary Functions.
   a. Medium of Exchange.
   b. Measure of Value.
II. Secondary functions
   a. Store of value.
   b. Standard of deferred payments.
   c. Transfer of money.
III. Contingent functions.
   a. Measurement and distribution of national income.
   b. Money equalizes marginal utilities/productivities.
   c. Basis of credit.
   d. Liquidity

I. Primary functions:

The primary functions of money are really the technical and important functions of money. They are of two types:

a. **Medium of Exchange:**

Money serves as a medium of exchange. Money facilitates exchange of commodities without double coincidence of wants. Any commodity can be exchanged for money. People can exchange goods and services through the medium of money.

b. **Measure of Value:**
The value of each commodity is expressed in the units of money. We call it the price. In view of this function of money, the values of different commodities can be compared and the ratios between the prices of different commodities can be determined easily.

II. Secondary functions:

Money has the following secondary functions:

a. **Store of value:**
The value of commodities and services can be stored in the form of money. Certain commodities are perishable. If they are exchanged for money before they perish, their value can be preserved in the form of money.

b. **Standard of deferred payments:**
Money serves as a standard of deferred payments. In the modern economies most of the business transactions take place on the basis of credit. An individual consumer or a business man may now purchase a commodity and pay for it in future. Similarly one can borrow certain amount of money now and repay it in future.

c. **Transfer of money:**
Money can be transferred from one person to another at any time and at any place.

III. Contingent functions:

Besides the primary and secondary functions, money has certain contingent functions also. They may be stated as follows:

a. **Measurements and distribution of national income:**
Nations income of a country can be measured in money by aggregating the value of all commodities. Similarly national income can be distributed to different factors of production by making payments to them in money.

b. **Money equalizes marginal utilities/productivities:**
The consumers can equalize the marginal utilities of different commodities purchased by them with the help of money. They can thus maximize their satisfaction. Similarly the firms can also equalize the marginal productivities of different factors of production and maximize their profits.

c. **Basis of credit:**
Credit is created by banks from out of the primary deposits of money. The supply of credit in an economy is dependent on the supply of nominal money. It is not possible to create credit if there is no reserve money.

d. **Liquidity:**
Money is the most important liquid asset. In terms of liquidity it is superior to all other assets.

PART B (50 Marks)
(Fundamentals of Management)

I. Choose the correct answer from the given four alternatives: [10×1 =10]

1. (b)
2. (d)
3. (a)

4. (d)
5. (b)
6. (e)
7. (c)
8. (b)
9. (a)
10. (d)

II. Fill in the blanks: **[5×1 = 5]**

1. F. W. Taylor
2. Delegation
3. Graicunas
4. Participative Leadership
5. Self – esteem

III. Match the following **[5×1 =5]**

1. C
2. D
3. E
4. A
5. B

IV. State whether the following statement is True (or) False. **[5×1 =5]**

1. False
2. True
3. True
4. False
5. False

V. Define any Five of the following: **[5×1 =5]**

1. <u>Delegation of Authority</u>

Delegation of Authority is "the process a manager follows in dividing the work as signed to him so that he performs that part which only he, because of his unique organizational placement, can perform effectively and so that he can get others to help with what remains".

2. <u>Centralisation</u>

Centralisation implies the concentration of Authority at the top level of the organization. According to Allier, "Centralisation is a systematic and consistent reservation of authority at central points within an organization".

3. **Unity of Command**

At one time a subordinate should receive command and be accountable to only one superior. If a person reports to two superiors for the same job, confusion and conflict will arise. He may receive conflicting orders and his loyalty will be divided. Therefore, dual subordination should be avoided.

4. **Scalar Chain**

Scalar chain is the chain of superior existing from the highest authority to the lowest ranks. It is one of superior existing from the highest authority to the lowest rants. It is one of the important participles of management.

5. **Democratic Leadership**

A consultative of democratic leader takes decision in consultation and participation with the subordinates. He decentralizes authority and allows the subordinates to share his power. The leader does what the group wants and follows the minority opinion. A democratic leader provides freedom of thinking and expression. He listing to the suggestions, grievances and opinions of the subordinates.

6. **Decoding**

It involves interpretation of the message by the receiver . Interpretation of message largely depends on the perception, past experience and attitudes of the receiver.

7. **Apathetic Groups**

These groups possess consistently indifferent attitudes towards informal groups and are characterized by dispersed, lack of cohesiveness, internal disunity and conflict.

8. **Meaning of Conflict**

Conflict is inequitable whenever two or more people interact, whether in the work place or at home. Conflict can occur between two or more individuals, two or more groups, or an individual and a group. When dealing with conflict in an organization, it is important to remember to address the issue, not the people .

VI. Answer any four of the following questions. [4×5=20]

1. The Neo Classical Theory of Organisation:

The Neo-classical organization theory is commonly identified with the human relations movement pioneered by Elton Mayo. The foundations of this theory were laid down by the Hawthorne.

Experiments conducted by Mayo and his associates. These experiments to revealed that informal organization and socio – psychological factors exercise much greater influence on human behavior than physiological variables. Therefore, Neo- classical theory is popularly known as 'Behavioral Theory of organisation' or 'Human relations Approach'.

The main propositions of Neo- classical theory are as follows.

(i) The organization in general is a social system composed of several interacting parts.

(ii) Within a formal organization there exists an informal organization. They two affect each other.

(iii) Human beings are interdependent. Their behavior can be predicted in terms of social and psychological factors at work.

(iv) Motivation is a complex process. Many socio – psychological factors operate to motivate people at work.

(v) Human being do not always act rationally. They often behave irrationally in terms of the rewards they seek from the work.

(vi) A conflict between organizational and individual goals often exists. There is, therefore, a need to reconcile the goals of the individual with those of the organization.

(vii) Team work is essential for efficient functioning of organizations. But this is not automatic and has to be achieved.

Neo-classical writers gave an organizational design which is a modification of classical structure in the following ways;

(a) Flat Structure

(b) Decentralization

(c) Informal organization.

Weakness of Neo- classical theories: -

(i) Neo – classical theory cannot be applied to all situations. No particular structure will serve the purposes of all organizations.

(ii) Neo-classical theory lacks a unified approach. It is simply a modification of the classical model.

(iii) Many of the assumptions on which neo- classical theory is based are not true. For instance, the assumption that it is always possible to find out a solution that satisfies everybody is not true.

2. The steps in the process of Delegation of authority:

The process of delegation involves the following steps: -

(i) <u>Determination of results expected:</u> -

A manager has to define the results he wants to obtain from his subordinates for achievement of organizational objectives.

(ii) <u>Assignment of Duties: -</u>

The manager then assigns specific duties or tasks to each subordinate. He must clearly define the function of each subordinate. While assigning duties and responsibilities, he must ensure that the subordinates understand and accept their duties. Duties should be assigned according to the qualifications, experience and aptitude of the subordinates.

(iii) <u>Granting of Authority: -</u>

Enough authority must be granted so that subordinates can perform their duties. By granting authority. Subordinates are permitted to use resources, to take decisions and to excise discretion.

(iv) <u>Creating accountability for performance: -</u>

The subordinates to whom authority is delegated must be made answerable for the proper performance of assigned duties and for the excise of the delegated authority. The extent of accountability depends open the extent of delegation of authority and responsibility.

3. Difference between Power and Authority: -

Authority	Power
(i) Right to do some thing	(i) Ability to do some thing
(ii) Derived from organizational position	(ii) Derived from many sources

	personal, institutional.
(iii) Always flow downward can be delegated	(iii) Flows in all directions – cannot be delegated
(iv) Legitimate –resides in position.	(iv) May be illegitimate
(v) Narrow term – one source or subset of power	(v) Broad concept – can achieve results when authority fails.
(vi) Visible from organizational chart	(vi) Not visible from organizational chart

4. Comparison between Theory X and Theory Y:

Theory X	Theory Y
(i) Inherent dislike for work	(i) Work is natural like rest or play.
(ii) Combination and prefer to be directed by others.	(ii) Ambition and capable of directing their others own behavior.
(iii) Avoid responsibility	(iii) Accept and seek responsibility under proper conditions.
(iv) Lack of creativity and resist change	(iv) Creativity widely spread.
(v) Focus on lower level (physiological and safety)	(v) Both lower level and higher order needs to motivate workers like social, esteem and self – actualization are sources of motivation.
(vi) External control and close supervision required to achieve organizational objectives.	(vi) Self – direction and self – control.
(vii) Centralization of authority and autocrat leadership	(vii) Decentralization and Democratic leadership.
(viii) People lack self – motivation	(viii) People are self – motivated.

5. Features of Cohesive groups:

Groups in high cohesion are likely to exhibit the following characteristics:

(i) They have relatively few members

(ii) Members have similar interests and backgrounds.

(iii) They enjoy a high degree of status within the organization.

(iv) Members have ready access to one another, that facilitates maintenance of interpersonal communication.

(v) Leader of such groups rewards Co- operative behavior.

(vi) They are pressured or threatened by some common outside force.

(vii) They enjoy a history of past success.

6. Causes of organizational conflict: -

(i) Managerial Expectations: -
It is the job of an employee to meet the expectations of his manager, but if those expectations are misunderstood, conflict can arise. A manager should also encourage his/her employees to ask questions about their goals, and hold regular meetings to discuss the goals and how best to reach them.

(ii) Breakdown in Communication:
If a department requires information from another department in order to do its job, and the second department does not respond to the request for information, a conflict can arise. When people or departments are late in responding to information requests, or they are withholding information on purpose, it is best to address the situation immediately with a personal meeting with both sides to resolute the situation.

(iii) Misunderstanding the formation:
According to mediation expert Robert D. Benjamin , internal conflict can sometimes arises as the result of a simple misunderstanding. One person may misunderstand information, and that can trigger a series of conflicts. In order to deal with this kind of situation, it is best to have the persons admit their misunderstanding and work with the affected particulars to remedy the situation.

(iv) Lack of Accountability: -
One source of frustration is a lack of accountability. If something has gone wrong, and no one is willing to take responsibility for the problem, this lack of accountability can start to permeate throughout the entire company until the issue is resolved.