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

II. Fill in the blanks: [5×1=5]

1. Welfare (or) Marshall
2. Oligopoly
3. Real GNP/Population
4. Transaction
5. Commercial

III. Match the following [5×1=5]

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

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

1. : False

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

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

1. **Selling costs**

An important feature of monopolistic competition market is that every firm makes expenditure to sell more output. Advertisement through newspapers, journals, electronic media, sales representatives, exhibitions, free sampling help to promote the sales. Lot of expenditure is made on these items under this market.

2. **Economic Growth**

The expansion in the capacity of an economy to produce goods and services over a period of time is called Economic growth. An outward shift of production possibilities frontier of an economy also called Economic growth.

3. **Gresham's law**

The Law states that bad money drives good money out of circulation. This is true in case of bimetallism where two metal standard (gold and silver) operate side by side. In such a case one metal currency drives the other out of circulation. If also means cheap money drives out dear money. If a country uses both money as well as metal money, People will use the paper and hold the metal money.

4. **Overdraft**

This is a facility allowed by the bank to the current account holders. They are allowed to withdraw money with or without security in excess of the balance available in their account up to a limit. Interest is charged on the amount of actual withdrawal.

5. **Density of population**

Density of population indicates the number of the people living per square kilometer. The density of population in India is 412 per sq.km. In USA it is 34 and in China it is 143.

6. **Marginal revenue.**

It is the additional revenue obtained by the firm (or) producer by the selling of additional unit of a thing (or) one more unit of a thing. The change in the total revenue is also called marginal revenue

$$MR = \frac{\Delta TR}{\Delta Q}$$

Or

$$MR = TR_n - TR_{n-1} \text{ units}$$

7. **Monopoly**

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.

8. **RBI**

Reserve bank of India.

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

1. National income is the total market value of all goods & services produced in a country during a given a period of time.

Definitions:

According to **Pigou,** "National Income is that part of the objective income of the community including of course income derived from abroad which can be measured in money".

"The Labour & Capital of a country acting upon its natural resources produce annually a certain net aggregate of commodities material and immaterial including services of all kinds. This is the true net annual income or revenue of a country" - Marshall

Methods of Calculating National Income: There are three methods of measuring national income —

i. Output method.
ii. Income method.
iii. Expenditure method.

i. Output method:

It is also known as inventory method or commodity service method. In this method we find the market value of all final goods and services produced in a country during a given period of time. The entire output of final goods and services are multiplied by their respective market prices to find out the gross national product.

NI = $[P_1Q_1 + P_2Q_2 + \ldots\ldots P_nQ_n]$ - Depreciation - Indirect Taxes + Net Income from abroad.

Where;

NI = National Income

P = Price of the goods or service.
Q = Quantity of goods or service produced
1,2.......n are the various goods and services produced.
The values of raw material, intermediary goods etc, should not be included. Only final goods should be taken into account.
Here we find out the value added in the different sectors like Agriculture, Government Professionals, industry and Service Sectors. Hence it is also called "Value Added Method".

ii. Income Method:

In this method the incomes earned by all factors of production are aggregated to arrived at the national income of a country. The four factors of production receive incomes in the form of wages, rent, interest and profits. This is also national incomes at factor cost.

NI = W + I + R + P + Net Income from abroad. Where,
NI = National Income
W = Wages
I = Interest
R = Rent
P = Profits
This method gives us National Income according to distributive shares. (The most important income share is that of labour).

iii. Expenditure Method:
In this method we add the personal consumption expenditure of households, Expenditure of the firms, Government purchase of goods and services, net exports plus net income from abroad.
NI = EH + EF + EG + Net Exports + Net Income from abroad.

Here National Income = Private final consumption expenditure + Government final consumption expenditure + Net domestic capital formation + Net Exports + Net income from abroad.
Care should be taken to include spending or expenditure made on final goods and services only.

Difficulties in Estimating the National Income:
There are so many difficulties in estimating the National Income. They are classified in to two categories.
They are -
(I) Conceptual difficulties
(II) Statistical difficulties

(I) Conceptual Difficulties

1. No practicable methods exists for inclusion of some items in National income (NI), Such as _ services for which no remuneration is paid, goods that are marketed sold at a price but are used for self- consumption etc.
2. It is not always possible to make a clear distinction between primary, intermediate and final goods.
3. The price that should be chosen to determine the money value of national product is a difficult question.
4. Debate regarding inclusion of income of foreign companies in National income estimates since, al large part of such income is remitted out of the country.

(II) Statistical Difficulties:

1. Changes in the price level involve the use of Index numbers which have their inherent difficulties.
2. Official statistics are not always accurate as it is based on guess work and sample survey.
3. Methods of computing National Income are not the same in all countries.
4. The statistical data are often not available.

2. Commercial Banks:-
A commercial bank is a financial intermediary. It accepts the deposits from the surplus units and lends these financial resources to the deficit units.
The main aim of the commercial banking sector is profit making

A bank is a financial institution. It is a profit-making business firm dealing with money. Modern banks in India are joint stock companies registered under the Indian Companies Act.

Definition of Bank:
Sayers define bank as, "an institution whose debts (bank deposits) are widely accepted in settlement of other peoples debts".
According to **Crowther,** a bank "collects money from those who have it to spare or who are saving it out of their incomes and lends this money to those who require it'.

Functions of Commercial Banks:
Commercial Banks play a very prominent role in the financial system of an economy. They perform a variety of functions as discussed below:

A. Acceptance of deposits:
One of the primary functions of a commercial bank is to accept deposits from the public. The deposits accepted by the banks are of the following types.

a. Current deposits:
These are the deposits made into the current account of a bank. They are most convenient to the businessmen, public authorities and joint stock companies because there are no restrictions on the number and the amount of withdrawals.

b. Savings deposits:
These deposits are made into a savings bank account of the bank. They are most convenient to the small businessman, salaried employees, artisans and people belonging to the low and middle income groups. The interest paid on these deposits is comparatively low and is around 4% per annum.

c. Term deposits:
They are also called fixed deposits because the money is deposited with the bank for a fixed period of time. The deposit can be withdrawn after the expiry of maturity period. The minimum period of deposit is 15 days. The rate of interest varies from 6% per annum to 12% per annum.

d. Recurring or cumulative deposits:
These are the variants of fixed deposits. These deposits are very convenient to those who cannot save huge amounts at a time. These deposits carry interest at a rate more than that of savings bank and less than that of a term deposit.

B. Payment of loans and advances:
Another primary function if the commercial bank is to give loans and advances to different sections of the public like traders, industrialists, farmers, artisans etc.

a. Demand loans/call loans:
A demand loan is a loan that should be repaid on demand by the bank. It does not have a specified maturity period. This loan is a kind of advance made with or without security. These are also called call loans. Normally call loans are given to other banks or financial institutions for a day or a few days.

b. Short term loans:
These loans are given for a specified short period. They are sanctioned to businessmen and farmers etc. to finance working capital. Individuals may also receive such loans as personal loans. They are given against security.

c. Cash credits:
A cash credit refers to an arrangement by which the bank allows its customer to borrow money upto a specified limit from an account opened for the purpose. The customer need not withdraw the entire amount in one installment.

d. Overdraft:
This is a facility allowed by the bank to the current account holders. They are allowed to withdraw money with or without security in excess of the balance available in their account up to a limit. Interest is charged on the amount of actual withdrawal.

e. Discounting of bills of exchange:
Bills of exchange are undertakings written by the buyers and given to sellers when the transaction is made on credit basis. The buyers undertakes to make payment after a specified period or on a specified future date. The traders who posses such bills of exchange with them may approach the banks for discounting of the bills of exchange when they need money.

f. Credit cards:
Now a days the banks have devised new methods of giving loans to the customers. One such popular method is issuance of the credit card. A credit cardholder can use his card to purchase goods on credit from specified firms and shops and also withdraw cash subjects to certain regulations.

C. Creation of Credit:
The commercial banks create credit. This is a unique function of commercial banks. Credit is created from out of the primary deposits of money the customers received from the public. Part of the total amount of these deposits is given as loans and advances to its customers.

D. Agency Functions:
Commercial banks perform certain agency functions also:

a. Collection of cheques, drafts, bills of exchange etc. of their customers from other banks.
b. Collection of dividends and interest from business and industrial firms.

c. Purchase and sale of securities, shares, debentures, government securities on behalf of the customers.
d. Acting as trustees and keeping their funds in safe custody, acting as executors and executing the will of the customers after their death.
e. Making payments such as insurance premium, income-tax, subscriptions etc. on behalf of their customers as per their advice.

E. General Utility Functions:

Besides the above agency functions, the commercial banks provide certain general utility services to their customers.

a. They provide locker facility for the safe custody of the silver, gold ornaments, important and valuable documents.
b. They transfer money of the customers from one bank to the other by way of demand drafts, mail transfer.
c. With the use of computers and internet facility, now-a-days the banks are facilitating on-line transfer of money from one bank to the other.
d. They issue letters of credit to enable the customers to purchase commodities on the basis of credit.
e. They endorse and provide guarantee to the shares issued by the joint stock companies and help them in rising capital.
f. Traveller's cheques are issued by the commercial banks to avoid the risk of carrying of cash.
g. They provide foreign exchange to the customers for exports and imports in connection with their business.
h. They convey information on behalf of their customers to the businessmen operating in other places and also collect information of such businessmen and provide it to the customers.
i. Recently the commercial banks have been establishing ATMs (Automated Teller Machines) at different locations so as to enable their customers to withdraw cash from their accounts at any ATM at any time in a day.

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

1. Central Problems of All economies

Due to the scarcity of resources every economy should faces some problems. The central problems of all economics are explained as follows:

What to produce:

If the present is given importance the resources are diverted for the production of consumer goods. If future is given importance resources are diverted for the production of capital goods.

How to produce:

This problem is arised because of un availability of some resources. A country may produce by labour Intensive technique 'or' capital Intensive technique, depending upon Its man power and stock of capital.

For whom to produce:

A country may produce mass consumption goods at a large (for poor people) 'or' goods for upper classes. It is depend upon policies of the government.

2. Features of Perfect Competition 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 the goods are available at the less price at the near markets and they are available at the higher prices at distant markets. 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.

3. Differences between Fixed costs and variable costs:

Fixed costs:
The costs which don't change with change of the output are called fixed costs. It means output may be increase (or) decrease but no change in these costs. When the output is stopped the producer must incurred this cost. Even the output is zero the fixed cost is positive. The fixed cost curve (TFC) will be parallel to OX-axis.
Ex: expenditure on the land, building, salaries of permanent employees, interest payment, insurance premium etc.

Variable costs:-
Costs which are changed with change of the output are called variable costs. It means when the output is increased these costs are also increased, when the output is decreased these costs are also decreased. When the output is zero these costs are also zero. The TVC curve will be sloped upwards from "left to right" and it is started from the origin. Ex: Expenditure on raw material, power, fuel, wage of daily labourers etc.

Fixed costs	Variable costs
1. Fixed costs do not vary with quantity of output.	1. Variable costs vary with the quantity of output.
2. They are related with the fixed factors.	2. They are related with the variable factors.
3. They do not become zero. They remain same even when production is stopped.	3. They can become zero when production is stopped.
4. A firm can continue production when fixed costs are not recovered.	4. Production should at least recover the variable cost.

4. Internal Economies:
When a firm expands its size of business (or) increases its output, it get some advantages. They are called internal economies. These internal economies are related to a single firm and not related to all other firms in the industry.

Types of the internal economies:-

1. Labour economies:

Division of labour and specialization are possible more in large-scale operations. Different types of workers can specialize and do the job for which they are more suited. As a result of this quality and speed of work both improve.

2. Technical economies:

A large firm will be able to install large capacity of machines in place of small sized machines. It also adopts latest technologies. These will give mechanical advantage over small firms and costs will be minimum.

3. Managerial economies:

Highly talented managers of specialized skills will be employed by large firms. It helps to makes better decisions in the production.

4. Marketing economies:

Large scale purchase of raw materials and sale of finished goods gives the advantage of transport concessions to the firm. Advertisement costs will be less due to large output sales.

5. Financial economies:

Large firms will be able to borrow credit easily. These firms will be able to offer securities and their goodwill in the market enable them to borrow at reasonable rate of interest. They also raise capital by attracting investors.

6. Research and Development:

Improvements in technology efficient use of resources improvement in quality of products depend on research. Only large firms can afford to bear the expenditure on research.

7. Economies Related to Transport and Storage costs:

Large firms are able to enjoy freight concession from railways and road transport. Because a large firm uses it s own transport means and large vehicles, the per unit transport costs would fall. Similar, a large firm can also have its own storage godowns and can save storage costs.

8. Risk bearing economies:

Generally large firms diversify their production into different goods and services. Therefore, even if there is a loss in one item of good it can be covered by profit in other goods.

PART B (50 Marks)
(Fundamentals of Management)

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

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

10. (b)

II. Fill in the blanks: **[5×1 = 5]**

1. Max Weber
2. Parity
3. Dissatisfaction
4. Laissez – Fair Leadership
5. Conflict

III. Match the following **[5×1 =5]**

1. C
2. E
3. D
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. True

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

1. **Span of Control:**

Span of management is also known as span of control, span of supervision. It represents the numerical limit of subordinates to be supervised and controlled by a single supervision. This principle is based on the theory of relationships propounded by Graicunas.

2. **Planning:**

Planning is defined as the activity by which managers analyze present conditions to determine ways of reaching a desired future stage. It embodies the skills of anticipation, influencing and controlling the nature and direction of change.

3. **Control:**

Control refers to the task of ensuring, that activities are producing the preset targets or goals. It is aimed at monitoring the outcome of activities, reviewing feedback information about this outcome, and if necessary take corrective action.

4. **Espirit de Corps:**

It is one of the Fayols fourteen principles of management. It means team work is essential for the success of an organization.

5. **Encoding:**

Encoding involves the section of language in which the message is to be given. The medium of expression may be speaking, writing, signaling, gesturing, physical contacting, handshake, hitting etc.

6. **Motivation:**

The term 'motivation' has been derived from the word 'motive'. Motive means the urge to do something. Motivation may be defined as the process of inducing or inspiring people to take the desired course of action.

7. **Strategic Groups:**

In case of strategic groups there is consistent antagonism, continuous pressures, high degree of internal unit and usually good production record in the long run.

8. **Adjourning:**

In Adjourning stage the group prepares to disband. The high task performance is no longer the required goal. The attention is towards the wrapping up of the activities and responses of the group members. The responses of group members vary in this stage.

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

1. **The principles of Bureaucratic management:**

Weber noted six major principals: -

(i) A formal hierarchical structure: -
Each level controls the level below and is controlled by the level above. A formal hierarchy is the basis of central planning and centralized decision making.

(ii) Management by rules: -
Controlling by rules allows decisions made at high levels to be executed consistently by all lower levels.

(iii) Organization by functional specialty: -
Work is to be done by specialists, and people are organized into units based on the type of work they do or skills they have.

(iv) An "Up – focused" or "in focused" mission: -
If the mission is described as: "Up – focused", then the organization's purpose is to serve the stock holders, the board. If the mission is to serve the organisation itself and those within it, then the mission is described as "in – focussed".

(v) Purposely impersonal:-
The idea is to treat all employees equally and customers equally and not be influenced by individual differences.

(vi) Employment based on technical qualifications: -
Selection and promotion is based on technical qualifications.

2. **The advantages of Forecasting:**

(i) Forecasting plays an important role in planning. In fact, plans are based on forecast.

(ii) Forecasting helps the organization to derive the benefits from the environmental changes and protect from the advance effects.

(iii) Forecasting helps the manager to unify and coordinate the activities in the enterprise.

(iv) Forecasting facilitates control by identifying the weak spots in the organization.

(v) Forecasting helps the enterprise in the achievement of objectives effectively and smoothly.

3. **The importance of delegation of authority:**

(i) It enables the managers to distribute their workload to others. By reducing the workload for routine matters, they can concentrate on more important policy matters.

(ii) Delegation facilitates quick decisions because the authority to make decisions lies near the point of action. Subordinates need not approach the boss every time need for a decision arises.

(iii) Delegation helps to improve the job satisfaction, motivation and morale of subordinates. It helps to satisfy their needs for recognition, responsibility and freedom.

(iv) Delegation increases interaction and understanding among managers and subordinates.

(v) Delegation binds the formal organization together. It establishes superior – subordinate relationships and provides a basis for efficient functioning of the orgatisation.

(vi) Delegation enables a manager to obtain the specialized knowledge and expertise of subordinates.

4. **The qualities of a successful leader:**

(i) Physical energy and stamina: -
A leader should have a good personality, charming manners and ability to work hard. A leader will be successful only when he acts with the groups as a members and works hard.

(ii) Intelligence: -

Leaders should have somewhat higher intelligence than the average of their subordinates. They should possess the ability to think scientifically analyse accurately and interpret clearly and concisely and problems faced by the group.

(iii) Vision and foresight: -
A leader should exhibit his trait of looking forward. He must have foresight to see and feel the future.

(iv) Initiative: -
The main task of a leader is to initiate suitable sequence of acting in proper time. Hence leaders must possess a strong, crucial motivation to keep accomplishing some thing.

(v) Self – Confidence: -
Self – confidence is essential to motivate the subordinates and boost up their morale. He should have confidence in himself whenever he takes any decision or initiates any caused if action.

(vi) Open mindedness or flexibility:
A leader should be flexible or open minded i. e. he should be ready to absorb new ideas as may be demanded by the situation.

(vii) Sense of responsibility: -
A leader should be prepared to shoulder the responsibility for the consequences of any steps he contemplates or takes.

(viii) Human relations: -

A leader should possess the human relations attitude. He should be able to deal with people and secure their willing co – operation.

5. **The reasons for group Formation:**

People seek to join groups since the groups give the members a stability and enhances their achievement capacity. The main reasons propelling individuals to join groups are:

(i) Have a sense of Security:
The group enables the person to reduce a sense of insecurity and have stronger feeling with few self – doubts and more resistant to threats when they are a part of the group.

(ii) Have a status: -
The persons in a group can be easily recognized and a status is achieved by them.

(iii) Develop Self- esteem: -
The groups can help a person develop a sense of "to – belong". This provides with feeling, of self worth and develops confidence in its members.

(iv) Affiliation : -
The group can fulfill social needs. People enjoy the regular interaction that comes with the group membership.

(v) Power: -
The power is derived on the strength of closeness of the group members with greater power achieved when in group then if a person is alone or individually.

(vi) Goal achievement: -
The goal can be achieved more easily when a group effort is present as "united we stand, divided we fall".

6. **The ways of managing conflicts in organization:**

(i) Positive Perspective

(ii) Grievance procedure

(iii) Get to the Cause

(iv) Equal attention and importance

(v) Resolution participation.

(i) Positive Perspective

To accept conflict as a natural growth process that influence the company culture to view constitutes conflict positively. Conflict can be an asset to your small business if it is handled properly.

(ii) Grievance procedure: -
Creation of a formal grievance procedure for all employees. Let employees at all levels of the organization know that their voices will always be heard and respond promptly and reasonably to employees' issues. This can prevent bad feelings from growing into resentment and bitterness.

(iii) Get to the cause:-
It is necessary to focused on deep – rooted causes rather than superficial effects when assessing conflicts. Parties to conflict claim to have issues with the behavior of co – worker or the outcome of company policies and work procedures, but this issues are likely being caused by something deeper.

(iv) Equal attention and importance: -
It is necessary to give all parties to a conflict an equal voice, regardless of their position, length of service or political influence. Conflict participants can become defensive, if they feel they are being marginalized or are going through a process leading to a pre-determined outcome.

(v) Resolution participation: -
Involvement of all parties, when drafting conflict resolutions is necessary. The theory of management by objectives (MBO) states that employees are generally more committed to goals that they have helped to create. The same holds true for conflict resolutions.