

Paper 1 - Fundamentals of Economics and Management

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Full Marks :100

Time allowed: 3 hours

The figures in the margin on the right side indicate full marks.

This question paper has two sections.

Both the sections are to be answered subject to instructions given against each.

Section A

I. Choose the correct answer from the given four alternatives: [20 × 1 = 20]

1. All economic questions arise from the fact that
 - (a) inflation is inevitable.
 - (b) both wants and resources are unlimited.
 - (c) unemployment is inevitable.
 - (d) resources are scarce.**

2. Economic theory assumes that the goal of firms is to maximize
 - (a) sales
 - (b) total revenue
 - (c) profit**
 - (d) price

3. Money market deals with _____.
 - (a) short term credit**
 - (b) long term credit
 - (c) both a & b
 - (d) none of the above

4. Certificate of deposits are issued by the banks to _____.
 - (a) individual
 - (b) companies
 - (c) P.S.U.s
 - (d) all the above**

5. Generally commercial bills are prepared for the period of _____ days.
 - (a) 90**
 - (b) 180
 - (c) 360
 - (d) 365

6. Marginal revenue is
 - (a) total revenue minus total cost
 - (b) total revenue divided by quantity of output

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- (c) the change in total revenue divided by the change in output
(d) the change in total revenue divided by the change in the quantity of an input used
7. If a firm shuts down in the short run and produces no output, its total cost is
(a) zero
(b) equal to variable cost
(c) equal to fixed cost
(d) explicit costs only
8. Repo transactions means
(a) Sale of securities by the holder to the investor with the agreement to purchase them at a predetermined rate and date.
(b) Sale of securities by the holder to the investor with the agreement to resell them at a pre-determined rate and date.
(c) Sale and purchase of securities by the holder to the investor with the agreement to purchase them at the prevailing rate and date.
(d) Sale of securities by the holder to the investor to the investor with the agreement to purchase them at market driven rate.
9. EXIM Bank is authorized to raise loan from_____
(a) Reserve Bank of India
(b) Government of India
(c) International Market
(d) Trading activities
10. Which of these affects the demand for money?
(a) Real Income
(b) Price level
(c) Rate of Interest
(d) All of the above
11. When the price of complementary products falls, the demand of the other product will
(a) Fall
(b) Increases
(c) Remain stable
(d) Drops by 25%
12. Cross elasticity of unrelated products will be
(a) Infinite
(b) zero
(c) >1
(d) <1
13. Change in cost of production of the concerned goods causes.
(a) The demand curve to shift
(b) The supply curve to shift
(c) Increase in quantity demanded

- (d) Decrease in quantity supplied
14. A goods can be considered inferior goods in economics if increase in disposal income of the consumer causes
- (a) An increase in demand
 - (b) No change in demand
 - (c) Decrease in demand**
 - (d) Less than proportionate change in demand
15. Which of the following is /are an essential feature of the market
- (a) Buyers
 - (b) Sellers
 - (c) Price
 - (d) All the three**
16. Bonds and Government Securities refer to _____ money.
- (a) Near**
 - (b) Call
 - (c) Optional
 - (d) None of the above
17. In the long run a firm in perfect competition earns
- (a) Normal profit only**
 - (b) Abnormal profit
 - (c) Average profit
 - (d) 8.33% of capital employed
18. Variable factor means those factors of production
- (a) Which can be only charged in the long run
 - (b) Which can be changed in the short run**
 - (c) Which can be never be changed
 - (d) Any of the above
19. Human wants are
- (a) limited
 - (b) unlimited**
 - (c) undefined
 - (d) none
20. Economic resources are
- (a) Unlimited
 - (b) Limited in supply and use**
 - (c) Limited in supply but have alternative uses
 - (d) Unproductive

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II. Match the following

[5×1=5]

	Column 'A'		Column 'B'
1.	Land	A	Adam Smith
2.	Central Bank	B	Fixed factor
3.	Wealth of Nation	C	Demand Curve
4.	Fiscal policy	D	Credit Control
5.	Contraction of demand	E	Public Debt

Answer:

	Column 'A'		Column 'B'
1.	Land	B	Fixed factor
2.	Central Bank	D	Credit Control
3.	Wealth of Nation	A	Adam Smith
4.	Fiscal policy	E	Public Debt
5.	Contraction of demand	C	Demand Curve

III. State whether the following statement is True (or) False.

[5×1=5]

1. Production function explains the relationship between input and output.
2. The supply curve in case of land is parallel to X-axis
3. There is an inverse relationship between price and demand.
4. Indian Railways is an example of oligopoly.
5. Average product is at its maximum, when $AP = MP$.

Answer:

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

IV. Answer any four of the following questions.

[4×5=20]

1. What are the exceptions to the laws of demand?

5

Answer:

I. Giffen Paradox (Necessary goods):

In the case of necessary goods the law of demand cannot be operated. This is observed by British economist, the Sir Robert Giffen. He observed in London the law paid workers purchases more of bread when its price rises. That's why, this situation is known as Giffen Paradox.

II. Speculation:

Some times the price of a commodity might be increasing and it is expected to increase still further. The consumer will buy more of the commodity at the higher price than they did at the lower price. It is contrary to law of demand.

III. Conspicuous:

These are certain goods which are purchases to project the status and prestige of the consumer. For e.g.: expensive cars, diamond jewellery, etc. such goods will be purchased more at a higher price and less at a lower price.

IV. Shares of speculative market:

It is found that people buy shares of that company whose price is rising on the anticipation that the price will rise further. On the other hand, they buy less shares in case the prices are falling as they expect a further fall in price so such shares. Here the law of demand fails to apply.

V. Bandwagon effect:

Here the consumer demand of a commodity is affected by the taste and preference of the social class to which he belongs to. If playing golf is fashionable among corporate executive, then as the price of golf accessories rises, the business man may increase the demand for such goods to project his position in the society.

VI. Illusion:

Sometimes, consumers develop a false idea that high priced goods will have a better quality instead of a low priced good. If the price of such a good falls, they feel that its quality also deteriorates and they do not buy, which is contrary to the law of demand.

2. State the functions of Indian Money Market.

5

Answer:

Following are the functions of Indian Money Market:

- (i) It links lenders and borrowers of short-term funds. It is purely a market for short term funds or financial assets.
- (ii) It provides working capital requirements of industry, trade and agriculture.
- (iii) It provides financial assets with high a degree of liquidity- call money, treasury bills, commercial bills etc.
- (iv) It helps trade and commerce by developing a bill market, and acceptance market.
- (v) It enables the Government to raise short-term loans with Treasury bill market.
- (vi) It is controlled and regulated by RBI.
- (vii) It makes the monetary policy effective.
- (viii) It provides opportunities for lending the surplus funds of individuals, banks and other institutions.
- (ix) It helps the central bank in maintaining stability of the value of the currency unit.

3. What should be the essentials of a sound banking system?

5

Answer:

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Essential of Sound Banking System: A sound banking system promotes all round economic development of an economy. A good bank must have the following features:-

- (a) **Adequate Liquidity:** A bank must keep sufficient cash in hand to meet the claim of depositors, otherwise they would be insolvent. A bank failure not only affects depositors but banks also. People would not more keep funds with banker. It ensures safety of a bank. Unless a bank is safe it cannot render its social services.
- (b) **Expansion of banking:** Banking facilities should spread throughout the economy. It must also cover all sections of people in need of funds and all productive activities. The less-developed regions should get more banking facilities than others. Thus, diffusion of banking offices is essential.
- (c) **Investment and loan policies:** A sound banking system must have a sound investment policy whereby it can optimize the twin goals of liquidity and profitability. If loan and investments are wrong, a bank suffers loss or face liquidity shortage. A prudent banker should carefully determine the composition and character of its loans and advances so as to optimize earning without endangering safety and solvency.
- (d) **Human factor:** The soundness of a bank depends much on the quality of banker. Banking being a practical affair, rigid application of bank laws are not always fruitful. Much depends on the discretion of men piloting the ship. Sound banking thus, depends more on banking personnel than on banking laws.

4. Explain about the law of diminishing marginal utility

5

Answer:

Law of Diminishing Marginal Utility:

The law of D.M.U explains the common experience of every consumer. It is based upon one of the characteristics of wants i.e. "A particular want is suitable". According to this law when a person goes on increasing the consumption of any one commodity the additional utility derived from the additional unit goes on diminishing. So, it is called law of diminishing marginal utility. The law of D.M.U was firstly profounded by H.H. Gossan in 1854. The law of D.M.U was developed by Alfred Marshall.

Main Points:

1. When total utility increases, then the Marginal diminishes.
2. When the total utility reached the maximum, then the marginal utility is zero.
3. When the total utility goes on diminishing then the M.U becomes negative.

5. State the features of oligopoly market.

5

Answer:

Oligopoly Market:

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The word oligopoly is derived from two Greek words oligo and pollien, oligo means "A few" pollien means seller. Where there are a few firms of few producers or few sellers, it is said to be oligopoly market.

For example: Automobile industry, gas industry etc.

A market with a small number of producers is called oligopoly. The product may be homogeneous or there may be differences. Since producers are a few each firm produces a large portion of the output. It is a market with competition among the few. This market exists in automobiles, electrical and cigarettes etc.

- 1. Less number of firms:** The numbers of producers are a few that is around fine in this market. Each one produces a large part of the total output. He can control the output in the market. A firm can change the price by supplying either more or less.
- 2. Interdependence:** In the oligopoly market the decisions of every producer affect other producers. This is due to less number of producers in the market. A change in the decisions of a producer (output or price) makes the other producers to change their decisions.
- 3. Selling costs:** Sometimes commodities are produced with small differences. Then each firm makes a huge expenditure on advertisements. It is in the oligopoly that we can see the highest expenditure on selling costs.
- 4. Uncertainty:** It will be difficult to guess what kind of demand curve will be there for a firm. Every time when a producer changes his decision, other producers will also change their decision. Therefore, it is not possible to expect price, output conditions to be the same in this market.
- 5. Rigid price:** In this market firms will not change the price, they follow a rigid price. A firm cannot increase price because other firms will not raise their prices. The firm that increases the price will be put to loss. If one firm reduces its price other will also do the same. Therefore, all the firms will follow a price without making any changes in it. Hence it is called rigid prices.

6. Differentiate between returns to a variable factor and returns to scale.

5

Answer:

Differentiate between returns to a variable factor and returns to scale:

	Returns to a Variable Factor	Returns to Scale
1	Operates in the short run or it is related to short-run production-function.	Operates in the long-run or it is related to long-run production-function.
2	Only the quantities of a variable varied.	All factor-inputs are varied in the same factor are proportion.
3	There is change in the factor proportion.	There is no change in factor ratio.
4	No change in the scale of production. Because here all the factor-inputs are not changed.	There is change in the scale of production because here all the factor-inputs are varied in the same

Section B

I. Choose the correct answer from the given four alternatives:

[20 × 1 = 20]

1. _____ decisions are repetitive and routine.

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- (a) Organisational Decisions
(b) Non-routine Decisions
(c) **Programmed Decisions**
(d) Non - Programmed Decisions
2. The criteria for evaluating the alternative in decision making is _____ .
(a) Resources available
(b) Time Constraint
(c) Accomplishment of common goals
(d) **All of the above**
3. Who avoids power and relinquishes the leadership position?
(a) Autocratic Leader
(b) Democratic Leader
(c) **Free rein Leader**
(d) All of the above
4. _____ without corresponding controls are apt to hollow hopes
(a) **Planning**
(b) Organising
(c) Staffing
(d) Directing
5. Labour absenteeism and labour turnover are reduced in case of
(a) Autocratic Leader
(b) **Democratic Leader**
(c) Free rein Leader
(d) None of the above
6. Manpower planning is also known as _____
(a) Human Resource Accounting
(b) **Human Resource Planning**
(c) Manpower Management
(d) All of the above
7. System 2 managers are _____
(a) Exploitative Autocratic
(b) **Benevolent Autocratic**
(c) Consultative Autocratic
(d) Democratic Autocratic
8. Duties should be assigned according to _____ of the subordinates.
(a) Qualification
(b) Experience
(c) Aptitude
(d) **All of the above**
9. Managers are reluctant to delegate authority due to the _____ reason.
(a) Lack of confidence in his subordinates
(b) Fear of losing his importance

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- (c) Their likelihood to dominate the whole show
(d) **All of the above.**
10. Delegation takes place between
(a) Superior and subordinate
(b) Peers
(c) Subordinates and peers
(d) **All of the above**
11. _____ emphasized that harmony of objectives is crucial to the success of direction.
(a) **F.W. Taylor**
(b) Henry Fayol
(c) Peter Drucker
(d) William Terry
12. Span of control is based on the theory of relationship propounded by _____.
(a) **Graicunas**
(b) George Terry
(c) Barnard
(d) Simon
13. _____ involves the selection of language in which the message is to be given.
(a) Medium
(b) Decoding
(c) **Encoding**
(d) Feedback
14. Tendency of people to interpret the same message in different ways may act as a _____ barrier.
(a) **Semantic**
(b) Emotional
(c) Language
(d) Time
15. Current Control may also be regarded as _____.
(a) **Steering Control**
(b) Internal Control
(c) External Control
(d) None of the above
16. Which leadership style permits quick decision making?
(a) Democratic style
(b) **Authoritarian style**
(c) Free-reign
(d) All of the above
17. _____ refers to assigning rank and responsibility.
(a) Training

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- (b) Development
(c) **Placement**
(d) Education
18. External sources of recruitment include:
(a) Employment Exchanges
(b) Advertisements
(c) Employee walk-ins
(d) **All of the above**
19. Filtering means _____
(a) **Hiding some messages**
(b) Disclose the information
(c) Sending message
(d) None of the above
20. _____ implies diffusion of authority throughout the organization.
(a) Delegation
(b) Centralisation
(c) **Decentralisation**
(d) None of the above

II. Match the following

[5 × 1 = 5]

	Column 'A'		Column 'B'
1.	Group discussion	A	Flows upwards
2.	Schedules	B	Oral Communication
3.	Power	C	Single use plan
4.	Responsibility	D	Flows downwards
5.	Authority	E	Ability to do something

Answer:

	Column 'A'		Column 'B'
1.	Group discussion	B	Oral Communication
2.	Schedules	C	Single use plan
3.	Power	E	Ability to do something
4.	Responsibility	A	Flows upwards
5.	Authority	D	Flows downwards

III. State whether the following statement is True (or) False.

[5×1=5]

1. **The ability to grant or withdraw rewards is a key source of power.**
2. **Responsibility is absolute and can be delegated.**
3. **Tactical decisions are made repetitively following certain established rules, procedures and policies.**
4. **The distinction between maintenance factors and motivating factors are fixed.**

5. The final step in decision making process is selection of an alternative.

Answer:

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

IV. Answer any four of the following questions.

[4 × 5 = 20]

1. State the demerits of on-the-job training?

5

Answer:

Demerits of on-the-job training:

On-the-job training suffers from the following demerits:-

1. The trainee may learn in a haphazard manner. Since there is no direction under which the trainee learns while performing job, there would be disorganized learning on the part of the trainee.
2. Sometimes, inexperienced handling of machines and tools by the trainees may result in colossal losses to the organisation.
3. The productivity of employees who is undergoing training on-the-job would be dismal and disappointing. Further it affects the flow of work when the production undergoes different processes.
4. Sometimes it becomes very difficult for the trainee to work as well as learn. In spite of these limitations, on-the-job training is considered suitable to supervisors, operatives, and lower-level executives.

2. Write a note on Manpower Planning.

5

Answer:

Manpower Planning –

Also known as human resource planning, the manpower planning is “a process of determining and assuring that the organisation will have an adequate number of qualified persons, available at the proper times, performing jobs which meet the needs of the entire enterprise and which provide satisfaction for the individuals involved” (Dale S. Beach).

Manpower planning consists of the following steps:-

- (a) Determination of the organisational objectives;

- (b) Determination of the skills and expertise required to achieve the organisational objectives;
- (c) Estimating the additional human resource requirements in the light of the organisation's current human resources;
- (d) Development of action plans to meet the anticipated human resource needs.

The main points in human resource planning are: current assessment, future assessment of the human resource needs and the development of future programme as well as career development.

3. Write a note on approaches to planning.

5

Answer:

Approaches to Planning

Independent of the above philosophies of planning, we may identify four different approaches to planning in actual practice in various organisations. These approaches are described as follows:

- (a) **Top-down approach:** As the name indicates, top management takes the initiative in formulating major objectives, strategies, policies and derivative plans in comprehensive manner and communicates them down the line to middle and supervisory management levels for translating them into performance results. Managers other than those at top levels have little role in planning; they have only to concentrate on implementation and day-to-day control.
- (b) **Bottom-up approach:** This is a virtual reversal of the above approach in the sense that the plan proposals originate at the supervisory management level, travel up the management hierarchy in a step-by-step manner and reach the top management level for review and approval. In this approach top management generally refrains from giving any guidelines to lower management levels on what to plan and how.
- (c) **Composite approach:** Here the top management provides broad parameters and guidelines to line executives at middle and lower management levels, allows the needed flexibility and support to formulate tentative plans, which are reviewed and finalized by top management in consultation with all the managers at the appropriate levels. The approach is useful to evolve corporate-wide plans also, which partly draw inspiration from the planning ideas and perspectives generated at the lower level.
- (d) **Team approach:** In the approach, the task of planning is entrusted to a select team of managers, whether they are line managers or staff experts. The team functions under the leadership of the chief executive. It does not finalize plans as such but initiates the planning process, identifies the areas of problems and opportunities, examines the internal and external environment, collects information, solicits ideas and formulates tentative proposals for consideration by

the chief executive. The team is used by the latter as his brains trust; it may even be asked to monitor the progress of plans and review performance.

4. State the conditions to be fulfilled for effective decentralization.

5

Answer:

Effective Decentralisation

Effective decentralisation requires fulfillment of the following conditions:

- (i) **Appropriate centralisation:** Decentralisation can be effective when there is a centralised authority for overall planning and control. The central authority ensures close coordination between various operating units. Without such a cementing force, the decentralised organisation may fall apart into pieces.
- (ii) **Development of managers:** Effective decentralisation requires a large number of highly competent managers who are capable of working independently. In order to develop such executives, top management must delegate authority and allow the subordinates to learn through experience in making decisions.
- (iii) **Open communication:** A sound communication system should be established to ensure continuous interaction between superiors and subordinates. Necessary feedback on operating results should be made available to superiors. Open communication system will enable managers to provide advice and guidance to subordinates.
- (iv) **Coordination:** Decentralisation tends to create rivalry and cooperating divisions. Departmental managers compete for scarce resources. Effective coordination is essential to prevent such disintegrating tendencies. Interdepartmental coordination helps to prevent the danger of fragmentation. Committees, liaison officers and other mechanisms of coordination may be used to ensure coordination.
- (v) **Adequate controls:** Effective decentralisation needs an appropriate control system that will distribute the resources, lay down standards of performance and exercise control to ensure that the various operating units are working in the desired direction.

5. Describe the term 'Management Audit' and state its functions.

5

Answer:

Management Audit:

The term 'Management Audit' is defined as a systematic evaluation of the functioning, performance and effectiveness of management of an organisation. It is thus an independent appraisal of an organization's management by an outside firm.

Depending on the preferences and perspectives of top management audit may cover all or some major facts of functioning of the organisation and its management. A few major areas which could be exposed to the search lights of management audit are listed as follows:

- (1) Formulation of organisational objectives, strategies, policies and programmes of action and the manner in which they are pursued, as also the extent of success achieved.
- (2) Design and operation of organisational structures of roles, activities and relationships.
- (3) The manner and efficiency with which resources and assets are mobilised, developed, allocated, utilised and safeguarded, including the human resources.
- (4) Design and functioning of various systems and operations within the organisation.
- (5) The manner in which the management team anticipates and sizes up external environmental elements and designs appropriate adaptive strategies to cope with them.
- (6) The internal organisational climate - to what extent it is conducive for co-operation, harmony, creativity, productivity and satisfaction.
- (7) The quality of managerial decisions: their soundness, timeliness and effectiveness

6. Discuss the importance of staffing.

5

Answer:

Importance of staffing:

Undoubtedly, staffing is a vital function of management more importantly because:

- (i) It facilitates discovery of competent and qualified people to take up various positions the organisation;
- (ii) It enhances productivity by placing right people on the right jobs;
- (iii) It helps in estimating the staffing requirements of the organisation in future (through manpower planning);
- (iv) It prepares the personnel to occupy the top positions within the organisation.
- (v) It helps development of people through the programmes of training and development;
- (vi) It helps the organisation to make the best use of existing workforce;
- (vii) It ensures adequate and equitable remuneration of workforce.
- (viii) It results in high employee morale and job satisfaction by placing the right people on right jobs;
- (ix) It makes the top management aware of the requirements of manpower arising from transfer, promotion, turnover, retirement, death etc. of the present employees.

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When the staffing function is performed effectively, the above payoffs would accrue to the organisation.