

**Paper 1- Fundamentals of Economics And
Management**

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Full Marks : 100

Time allowed: 3 hours

**Section – A
Part A**

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

- (i) What kinds of economics explain the phenomenon of cause and effect relation?
(a) Normative
(b) **Positive**
(c) Micro
(d) Macro
- (ii) LAC curve is also known as:
(a) Envelop curve
(b) Planning curve
(c) **Both of the above**
(d) None of the above
- (iii) Pure oligopoly is based on the _____ products.
(a) Differentiated
(b) **Homogeneous**
(c) Unrelated
(d) None of the above
- (iv) A firm earns normal profit when:
(a) When $AR=AC$
(b) When $MR=MC$
(c) **When $MR=AR=AC=MC$**
(d) None of the above.
- (v) If cross elasticity of demand=0, it means that goods are -
(a) Perfect complementary
(b) Perfect substitute goods
(c) **Unrelated goods**
(d) Nothing can be said
- (vi) During the slowdown of economy:
(a) **GDP is increasing at a slower rate**
(b) GDP is increasing
(c) GDP is decreasing
(d) None of these
- (vii) Who said economics is the study of choice making decision -
(a) **Robbins**
(b) walker
(c) pigou
(d) Ricardo
- (viii) The economy is said to be _____, when aggregate economic activity is declining.
(a) A turning point
(b) An expansion
(c) A trough
(d) **Contraction**

- (ix) There is no difference between firm and industry in case of:
- (a) **Pure monopoly**
 - (b) Pure oligopoly
 - (c) Perfect competition
 - (d) duopoly
- (x) Stagflation means _____
- (a) **Inflation with recession**
 - (b) Inflation galloping like a stag
 - (c) Inflation and increasing output
 - (d) Recession with stagnation
- (xi) If the demand for a product reduces by 2% as a result of an increase in the price by 10%, what is the price elasticity of demand for the product?
- (a) 0.20
 - (b) -0.40
 - (c) **-0.20**
 - (d) 0.40
- (xii) Under law of diminishing return, MP is zero when the TP is at the -
- (a) Minimum
 - (b) **Maximum**
 - (c) Nil
 - (d) Equal
- (xiii) When total product is maximum, marginal product is -
- (a) Falling
 - (b) **Zero**
 - (c) Rising
 - (d) Negative
- (xiv) Suppose the total cost of production of commodity x is ₹1,25,000. Out of this implicit cost is ₹35,000 & normal profit is ₹ 25,000. What will be the explicit cost of commodity x ?
- (a) 90,000
 - (b) 65,000
 - (c) **60,000**
 - (d) 1,00,000
- (xv) The goods which are perishable will have _____ market.
- (a) Huge
 - (b) Very long period
 - (c) Long period
 - (d) **Very short period**
- (xvi) Which of the following curves resembles the demand curve in a perfect completion?
- (a) Average cost curve
 - (b) **Marginal utility curve**
 - (c) Marginal cost curve
 - (d) Average utility curve
- (xvii) In a perfectly competitive market, the demand curve is-
- (a) Relatively inelastic
 - (b) **Unitary elastic**

- (c) Relatively elastic
- (d) **Infinitely elastic**

(xviii) A monopolist can increase his sale only by _____ the price of his product and thereby maximize his profit

- (a) Increasing
- (b) **Reducing**
- (c) Both (a) and (b)
- (d) None of the above

(xix) The credit instruments are issued on the basis of -

- (a) Capital reserve
- (b) **Cash reserve**
- (c) General reserve
- (d) Capital redemption reserve

(xx) Which of the following is not a method, by which banks create funds?

- (a) Share capital
- (b) Reserve funds
- (c) Borrowing from general public
- (d) **Investments**

(b) Match the following:

[5×1=5]

	Column 'A'		Column 'B'
1.	Creation of utility	A.	Prime factor
2.	Indivisible factor	B.	Monopoly
3.	Electricity of supply	C.	Loss of borrowers
4.	Price discrimination	D.	Increasing returns
5.	Deflation	E.	Production

Answer :

- 1.(E)
- 2.(D)
- 3.(A)
- 4.(B)
- 5.(C)

(c) State whether the following statements are True (or) False.

[5×1=5]

- (i) The instrument commercial paper has risen out of the changing industrial scenario.
- (ii) Moral situation is a qualitative technique.
- (iii) Public expenditure comes under the money policy.
- (iv) The firm in monopolistic competition earns abnormal profits in long run.
- (v) In imperfect market MR curve is a below the AR curve.

Answer :

- (i) **True.**
- (ii) **False.**
- (iii) **False**
- (iv) **True.**
- (v) **False.**

PART B

Answer any four questions out of six questions [4×5=20]

2. State whether the economics is positive science or normative science. [5]

Answer :

Economics as a positive science:

1. The positive science explains "what it is" but not "what ought to be"
2. It explains about the things as they are
3. It does not deal with value judgments.
4. According to Lionel Robbins economics is a Positive science.

Economics as a Normative Science:

1. A normative science explains what ought to be and what not ought to be.
2. It does relates to value judgments
3. It deals with good & bad (or) right and wrong.
4. According to Alfred Marshall economics is a normative science.
5. Economics is both positive and normative science

3. Describe the exception to the law of demand. [5]

Answer :

The following are the exceptions to the Law of Demand:

- 1. 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 low paid workers purchases more of bread when its price rises. That's why, this situation is known as Giffen Paradox.
- 2. Speculation:** Some times the price of a commodity might be increasing and it is expected to increase still further. The consumers will buy more of the commodity at the higher price than they did at the lower price. It is contrary to law of demand.
- 3. Conspicuous:** These are certain goods which are purchases to project the status and prestige of the consumer e.g., expensive cars, diamond jewellery, etc. Such goods will be purchased more at a higher price and less at a lower price.
- 4. Shares or Speculative market:** It is found that people buy shares of a company whose price is rining 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 a expect a further fall in price of such shares. Here the law of demand fails to apply.
- 5. 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.

4. Distinction between return to a variable factor and returns to scale. [5]

Answer :

The main differences between returns to a variable factor and returns to scale are as indicated below:

Returns to a Variable Factor	Returns to Scale
1. Operates in the short run or it is related to shortrun production-function.	1. Operates in the long-run or it is related to longrun production-function.
2. Only the quantities of a variable varied.	2. All factor-inputs are varied in the same factor are proportion.
3. There is change in the factor-proportion. Suppose on 1 acre land 1 labour is employed, then the land labour ratio is 1 : 1. Now if we add one more unit of labour on the 1 acre land, then land-	3. There is no change in factor-ratio. For instance, if a firm is employing 1 unit oflabour and 2 units of capital, then the labour-capital ratio is 1 : 2. Now if the firm increases its scale of operation and

labour ratio would become 1 : 2.	employed 2 units of labour and 4 units of capital, the labour-capital ratio still remains the same as 1 : 2.
4. No change in the scale of production. Because here all the factor-inputs are not changed.	4. There is change in the scale of production because here all the factor-inputs are varied in the same proportion.

5. State the features of perfect market.

[5]

Answer :

The perfect competition market has the following features:

- 1. 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.
- 2. 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.
- 3. 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 favorable. 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.
- 4. 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.
- 5. 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 fewer prices 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.

6. Describe the characteristics of money marketing.

[5]

Answer :

Characteristics of Money Marketing:

Indian money market has major features:

1. Short-term funds are borrowed and lent.
2. No fixed place for conduct of operations. Transactions are conducted even over the phone.
3. Dealing may be conducted with or without the help of brokers.
4. The short-term financial assets that are dealt in are close substitutes for money.
5. Funds are loaned for a maximum period of 1 year.
6. Presence of a large number of sub-markets.

7. What are the principles of commercial banks?

[5]

Answer :

Principles of Commercial Banks:

- 1. Principle of liquidity:** Deposits are repayable on demand or after expiry of a certain period. Everyday depositors either deposit or withdraw cash. To meet the demand for cash, all commercial banks have to keep certain amount of cash in their custody.
- 2. Principle of profitability:** The driving force of commercial enterprise is to generate profit. So it is true in case of commercial bank also.
- 3. Principle of Solvency:** Commercial bank should have financially sound and maintain a required capital for running the business.

4. **Principle of safety:** While investing the fund, banks are to be cautious because bank's money is depositor's money.
5. **Principle of collection of savings:** This is a very important principle for today's banking business. Commercial banks always seek huge amount of idle money from the clients. Now a day's banks fix up the target for their employees to generate more savings from the people.

Section – B
PART A

8. Answer all the questions :

(a) Choose the correct answer:

[20×1=20]

- (i) Management is a process:
(a) That is unanimous
(b) **Of optimum utilization of resources to achieve desired objectives.**
(c) That works well
(d) Of humiliating employees
- (ii) Delegation is must for _____.
(a) Centralization
(b) **Decentralization**
(c) Organisation
(d) Operation
- (iii) Downsizing is an aspect most closely associated with:
(a) **Staffing**
(b) Planning
(c) Organizing
(d) Controlling
- (iv) Which of the following is the principle of direction?
(a) Harmony of objectives
(b) Unity of Command
(c) Follow up
(d) **All of the above**
- (v) ____ was developed by US Navy Engineer's to plan and control the huge Polaris Submarine Program.
(a) MBO
(b) MBE
(c) CPM
(d) **PERT**
- (vi) CPC means
(a) Critical path control
(b) **Critical point control**
(c) Critical point complaint
(d) Critical point complex.
- (vii) ____ refers to assigning rank and responsibility
(a) Training
(b) Development
(c) Education
(d) **Placement**

- (viii) Subordinates may not like to accept delegation and shoulder responsibility due to the following reasons.
- (a) They lack self-confidence.
 - (b) When they are already overburdened with duties.
 - (c) When adequate information, working facilities and resources are not available.
 - (d) **All of the above**
- (ix) A teacher has ____ power over students.
- (a) Reward Power
 - (b) Referent power
 - (c) **Expert power**
 - (d) Coercive power
- (x) The supervisory load may become too heavy if the Span of Control is
- (a) **Wide**
 - (b) narrow
 - (c) Optimum
 - (d) None of the above
- (xi) Leadership process is interplay of three elements:
- (a) **The Leader, the follower and the situation.**
 - (b) The Leader, the followers and the subordinates.
 - (c) The Leader, the followers and the superiors.
 - (d) None of the above
- (xii) Democratic Leadership is also known as
- (a) Authoritarian Leadership
 - (b) Free-rein Leadership
 - (c) Laissez Fair Leadership
 - (d) **Participative Leadership**
- (xiii) The system that adopts a paternalistic approach towards the subordinates is
- (a) Exploitative Autocratic
 - (b) **Benevolent Autocratic**
 - (c) Consultative
 - (d) Democratic
- (xiv) A decision to launch a new production plant is
- (a) Programmed decision
 - (b) **Non-routine decision**
 - (c) Personal decision
 - (d) Organisational decisions
- (xv) Which of the following are the modern techniques for non-programmed decisions?
- (a) Creative techniques
 - (b) Participative techniques
 - (c) Heuristic techniques
 - (d) **All of the above**
- (xvi) PERT and CPM are ____ techniques.
- (a) Queuing Theory
 - (b) Simulation
 - (c) Linear Programming
 - (d) **Network**

(xvii) 'Control by exception' is also known as

- (a) Management by objectives
- (b) **Management by exception**
- (c) Critical point control
- (d) None of the above

(xviii) _____ leads to higher job satisfaction.

- (a) Planning
- (b) Budgeting
- (c) Supervision
- (d) **Motivation**

(xix) Which is said to be the carrier of message sent by a person to another?

- (a) **Medium**
- (b) Encoding
- (c) Decoding
- (d) Feedback

(xx) Tendency of people to interpret the same message in different ways may act as a _____ barrier.

- (a) **Semantic**
- (b) Emotions
- (c) Time pressure
- (d) Selective perception

(b) Match the following:

[5×1=5]

	Column 'A'		Column 'B'
1.	Strategies	A.	Flows upward
2.	filtering	B.	Laissez fair leadership
3.	Authority	C.	Hiding some meaning
4.	Responsibility	D.	Limitation of planning
5.	Free-rein	E.	Flows downward

Answer :

- 1. (D)
- 2. (C)
- 3. (E)
- 4. (A)
- 5. (B)

(c) State whether the following statements are True (or) False.

[5×1=5]

- (i) Autocratic leadership is also known as Democratic leadership.
- (ii) Theory X is based on a faulty conception of human nature.
- (iii) Authority can be regarded as the right of power to delegate responsibility and it emanates in a company from the shareholders to the board of directors, and down the scalar chain.
- (iv) The internal sources of recruitment doesnot include the employees on the payroll.
- (v) Directing involves issuing orders to subordinates and supervises how these orders are carried out by them and if necessary, motivate the employees for higher performance.

Answer :

- (i) False
- (ii) True
- (iii) True
- (iv) False
- (v) True

PART B

Answer any four questions out of six questions: [4×5=20]

9. Mention the steps in planning process. [5]

Answer: Steps in Planning Process:

The process of planning consists of a series of interrelated steps which varies depending on the size and complexity of the organization. The basic steps involved in the process of planning are –

- 1. Analysis of opportunities** – Planning starts with analysis of opportunities in the external environment as well as within the organization. Goals can be set only when a proper scanning of the environment, that reveals the opportunities that exist.
- 2. Establishing Objectives** – The next step in planning process involves establishing objectives for the whole organization, and for the different departments. Organisational objectives provide direction to the major plans
- 3. Determining planning Premises** – Planning premises refer to the environment in which the plans are to be implemented. The task of determining premises should only be continued to those aspects that are critical to the plan.
- 4. Identifying alternatives** – Different feasible alternatives need to be identified in order to achieve a particular objective, since there may be multifarious ways in which a particular goal can be accomplished.
- 5. Evaluation of alternatives** – Alternatives need to be evaluated in the light of goals. Those are set, and objectives to be achieved considering the various constraints and uncertainties that exist.
- 6. Selection of the best alternative** – The choice of the best alternative, i.e. the selection of the most appropriate course of action. Sometimes two or more contingency plans are kept as a backup considering the unpredictability of the future.
- 7. Implementing the plan** – Implementation or execution entails putting the plan into action. Managers need to consider a series of important decisions during implementation of the actions stated in the plan.
- 8. Reviewing the Plan** – Reviewing the plan help managers to evaluate the effectiveness of the plan. A system of thorough review and scrutiny can help in detecting deviations from the set plans and remedial measures can be taken accordingly.

10. State the principles of control. [5]

Answer :

Principles of Control :

The following principles of control summaries the substantive parts of the above discussion on the controlling function.

- 1. Principles of assurance of objective:** The task of control is to ensure that plans succeed by detecting deviations from plans and furnishing a basis for taking action to correct potential or actual deviations.
- 2. Principle of future-directed controls:** The more a control system is based on feed forward rather than simple feedback of information, the more managers have the opportunity to perceive undesirable deviations from plans before they occur and to take action in time to prevent them. Control, like planning, should ideally be forward-looking, because of time lags in the system of information feedback. Hence control

should be directed towards the future by devising proper information, forecasting, early warning and rapid response mechanisms.

3. Principle of control responsibility: The primary responsibility for the exercise of control rests in the manager charged with performance of the particular plans involved. There is unity of planning and control in each managerial position.

4. Principle of efficiency of controls: Control techniques and approaches are efficient if they detect and illuminate the nature and causes of deviations from plans with a minimum of costs or other unsought consequences. The results of control should be worth their costs—both in monetary and human terms. The adverse human consequences of control have especially to be guarded against.

5. Principle of direct control: Higher the quality of every manager in a managerial system, they would ensure a high quality of managerial decision making and action behavior.

11. Describe the importance of delegation.

[5]

Answer :

Importance of Delegation

Delegation is the dynamics of management and the essence of sound organisation. The importance of delegation is due the following advantages that it provides:

1. 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.
2. 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.
3. Delegation helps to improve the job satisfaction, motivation and morale of subordinates. It helps to satisfy their needs for recognition, responsibility and freedom.
4. By clearly defining the authority and responsibility of subordinates, a manager can maintain healthy relationships with them. Delegation increases interaction and understanding among managers and subordinates.
5. Delegation binds the formal organisation together. It establishes superior-subordinate relationships and provides a basis for efficient functioning of the organisation.

12. What are the qualities of a successful leader.

[5]

Answer:

Qualities of a Successful Leader

A leader must possess certain exemplary qualities by virtue of which he may be able to lead and guide his subordinates.

From a holistic perspective, the qualities which are necessary for a successful leader can be stated as follows:

- (1) 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 group as a member and works hard. A leader can help a business enterprise to achieve its objectives or goals.
- (2) Intelligence** – Leaders should have somewhat higher intelligence than the average of their subordinates. They should possess the ability to think scientifically, analyses accurately and interpret clearly and concisely and problems faced by the group.
- (3) Vision and foresight** – A leader should exhibit his trait of looking forward. He must have foresight to see and feel the future. He should take into account the happenings which are about to occur in future. This will enable him to maintain his influence over his subordinates.
- (4) Initiative** – The main task of a leader is to initiate suitable sequence of actions in proper time. Hence, leaders must possess a strong, crucial motivation to keep accomplishing something.
- (5) 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 cause of action. For this a leader should have conceptual clarity about the things, he is going to do. A confused leader may cause damage to the group or organization.

13. What are the quantitative techniques of decision making?

[5]

Answer :

Quantitative Techniques of Decision Making

(i) Linear programming: It is the technique for optimization of an objective function under given resources and constraints. The objective function is either maximization of some utility or minimization of some disutility. The technique is useful under conditions of certainty.

(ii) Probability decision theory: The basic premise of this theory is that the behavior of the future is probabilistic and not deterministic. Various probabilities are assigned to the 'state of nature' on the basis of available information or subjective judgment and the likely outcomes of the alternative courses of action are evaluated accordingly before a particular alternative is selected. Pay-off Matrices and 'Decision Trees' are constructed to represent the variables.

(iii) Game theory: It is a useful aid to the decision maker under conditions of competitive rivalry or conflict. The adversaries in the conflict are supposed to be involved in a game of gaining at the total or partial expense of each other. There are 'two-person', 'three-person' and 'n- person' games as also zero-sum and non-zero sum games.

(iv) Queuing theory: The technique is designed to find solutions to waiting line problems for personnel, equipment or services under conditions of irregular demand. The objective is to find optimum volume of facilities to minimize the waiting period, on the one hand, and the investment associated with building up and maintaining the facilities, on the other. Public transport systems, hospitals, and big departmental stores are some of the possible users of this technique.

(v) Simulation: It is a technique for observing the behavior of a system under several alternative conditions in an artificial setting. When the conditions of the environment are very complex and when it is not possible to find the one best way of doing things, it provides the manager a way out. The likely behavior of events and variables is observed and evaluated in a simulated setting. It is possible to experiment with various possibilities or alternatives in a simulated setting rather than in a natural setting.

14. State the principles of coordination.

[5]

Answer:

Principles of Coordination:

Principles for achieving effective coordination can be enumerated as below:

1. Principle of Early Stage - According to this principle, coordination must start at an early stage in the management process. It must start during the planning stage. This will result in making the best plans and implementing these plans with success.

2. Principle of Continuity - According to this principle, coordination must be a continuous process. It must not be a one-time activity. The process of coordination must begin when the organisation starts, and it must continue until the organisation exists.

3. Principle of Direct Contact - According to this principle, all managers must have a Direct Contact with their subordinates. This will result in good relations between the manager and their subordinates. This is because direct contact helps to avoid misunderstandings, misinterpretations and disputes between managers and subordinates.

4. Principle of Reciprocal Relations - The decisions and actions of all the people (i.e. of all managers and employees) and departments of the organisation are inter-related. So, the decisions and actions of one person or department will affect all other persons and departments in the organisation. Therefore, before taking any decision or action all managers must first find out the effect of that decision or action on other persons and

departments in the organisation. This is called the Principle of Reciprocal Relations. Co-ordination will be successful only if this principle is followed properly.

5. Principle of Effective Communication - Co-ordination will be successful only in the presence of an effective communication. Good communication must be present between all departments, within employees themselves and even between managers and their subordinates.