Unit-1

Q.NO. 11, 20, 41, 43, 4

1) Explain the structure of business firm.

Strures of Business Firm

Sole-proprietorship | partnership | Limited liabity comp. | Co-operative enterprises | Pub. enterp.

Limited liabity comp. → public limited comp. | Private limited company

1) Sole-proprietorship
2) Partnership
3) Limited Liability Company
4) Co-operative enterprises
5) Public enterprises

1) Sole-proprietorship - A Small business operates as a Sole-proprietorship firm.

In this firm, equity capital is provided by the Individual. At the time of liquidation, if there is any shortage of ~~atte~~ value of assets, then fresh capital have to brought by the equity holder to pay the Creditors.

In this Business firm profit/loss it will face by individual equity holders

2) Partnership - In India, according to partnership act 1932, Section 4,

" Partnership is a relation b/w the persons to share their profit of business and also share their loss of the business by speanding the Capital

In this type of structure, there are two (or) more individuals who provide the equity capital. They only share the profit (or) loss in the business in a specific ratio. They the end the equity holders are also called as partners.

The partners have unlimited liability and they are only responsible for to pay the cliams of creditors

3) Limited liablity Company -

Limited liability company mostly adopted by the large firms.

In liability company, equity holders are required to contributed the limited share capital.

Limited liability company furtherly classified into two types they are

3.1) Pirate limited Company - It is also known as ~~do~~ closely held company in which less no. of individual are contribute the risk capital.

Here the public is not invited to take the risk capital and become the company's equity shareholder

3.2) Public limited Company - In Public limited Company, there are large no. of individual to contribute the risk capital. A part from this, in Public limited Company the risk capital are also contribute by the joint family, partnership firm, a body corpate, or any other entity.

4) Co-operative enterprises - A jointly owned Commercial enterprises (usually organised by consumers that produces and distributes goods and Services and run for the profit of owner

5) Public enterprises -

2) What is Joint Stock Company? Discuss the Source of Capital required by a joint stock Company

OR

Explain the Source of raising Capital

OR

What are the various Sources of Capital for a Company? Explain.

OR

Explain different Sources of Capital needed for a joint Stock Comp equity - The value of share issued by a company.

Sol: Joint Stock Company:

The limited liability Company is also known as "joint stock Company"

"Joint stock company is a business entity in which shares of company's stock can be purchase and sold by the shareholders. Each owner shareholder owns company stock in proportion, evidanced by their shares (celificate of ownership)

Source of Capital for a Company

The limited liabity company (or) joint stock company ~~may~~ use different source of capital which may long term and short term (source).

1. Long term source:
   a) Owner's Capital
      i) Equity shares / Capital
      ii) Preference Shares / capital
   b) Debt Capital
      i) Debentures
      ii) Loan from financial institution
2. Short term source
   a) Commercial Papers (CP's)
   b) Bills of Exchange

1. Long term source means Capital requirements for a period of more than 5 years to 10, 15, 20 years (or) may depend on other factors. Capital expenditures in fixed assets like plant & machinery, land and building, etc of business are funded use for long term sources of finance.

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(a) Owner Share/Capital

(a)(i) Equity Share : Equity share is main source of finance for any company giving (investors rights to) the right to Vote, for investors Share Profits and claim on assets.

Equity shares represent ownership position in a Company. Equity holder are the owners of the Company and elect the board of directors and enjoy voting rights.

Equity Share Capital are also called as risk capital, because if the Company is not performing well, the holders of equity shares will suffer. If the company is doing well the equity holders will get the benefits.

(a)(ii). Prefference share/capital –

Prefference shares holds a preferential right over equity shares with respect to the dividend. This right is applicable at the time of payment of Capital, repayment of Capital.

(b) Debt Capital

(b)(i) Debentures: Debentures are a debt Instrument used by the Companies and government to issue the loan.

The loan is issued on the bases of the company reputation at a fixed rate of Interest. The Debentures are also known as a bond b/w issuers and purchaser (b)(ii) Loan from a financial Institutions

Getting long term working capital in the form of loan from finantial institutions such as IDBI, IFCI, LIC and commercial bank etc., which is suitable for working capital.

It applies a fixed rate of Interest and can be repaid on installments basis.

2. Short term Source : means capital requirements for a period of 3 to 5 years, the main source of unsecured short-term financing are trade credit, bank loans, and commercial paper.

2(a). Commercial Papers : are money-market security issued (sold) by large corporation to get the funds to meet shord term debt

2(b). Bill of Exchange : using bills of exchange, it is possible to convert the sundary debtors into negotiable instrument.

A bills of exchange is nothing but an ~~undo~~ unconditional order place by the seller to his customer and demanding him to pay the amount of order

(3) Discuss the various stages of business cycle
(OR)
Various Phases of business cycle/ Trade cycle.

(i) Trough/Depression phase:

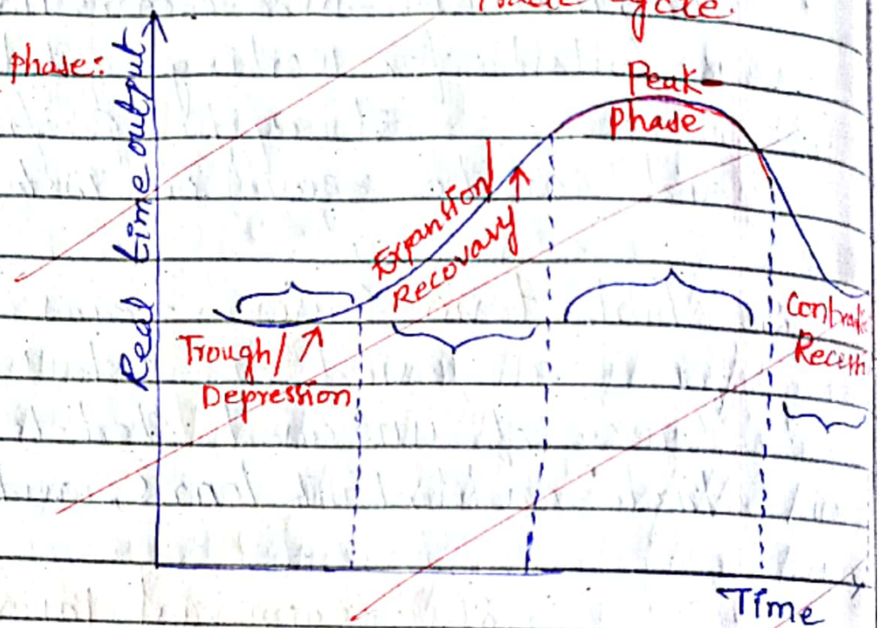

Fig. Four Phases of a Trade cycle /Business Cycle

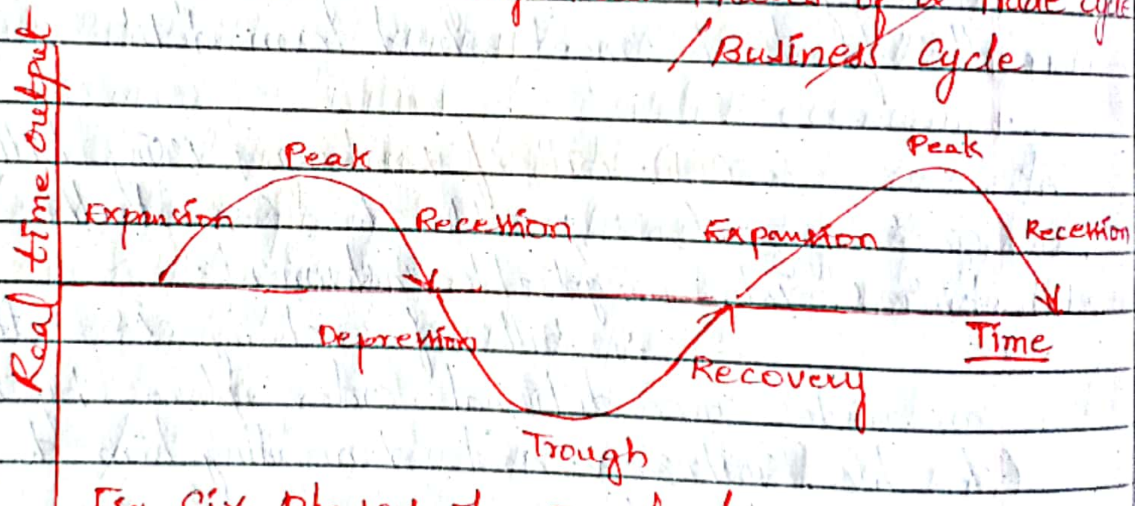

Fig. Six Phases of Trade/Business Cycle

#1 Expansion: The first stage in business cycle is expansion. In this stage, there is an ~~inde~~ increase in the economic Indicators such as employment, income, output, wages, profits, demand and supply of goods and services.

Debtors (Consumers) are generally paying their debt on time, velocity of money supply and investment is high.

this process is continued as long as economical condition is favorable to expansion

#2 Peak :- Peak is the second stage of business cycle. the maximum limit of growth is attained. The economic indicators such as (profit, employment income, demand and goods supply of good & service) do not growth further and their are at highest.

#3 Recession - Recession is the stage that follows the peak state. the economic Indicator such as employment, income, profit, demand and supply of goods and services are decline rapidly start to fall

Producers donot notice the decrease in demand and they produces more and more.

#4 Depression - Depression is the stage in which the economic indicators such as employment, income, profit, demand and supply of goods and services are continuesly decline (or) decline rapidly.

#5 Trough :- Trough indicate the economical growth becomes negative (-ve). the economical indicator such as employment, Income, pfit, demand and supply of goods and services are at lowest point. the economy is ~~reches~~ reached the tough.

#6 Recovary - Recovary is the State in which the economic comes to recover. there is a turnaround from the trough and economy ~~stage~~ stars recovering from -ve growth rate.

~~eoc~~ economic indicators such as employment, income, profit, demand and supply of goods and services are slowly increased

(4) What is a business cycle? Dicuss the phases/stages of business cycle and (list out the measures to be taken for protecting the interests of the business (OR) Measures for Controlling Business Cycle.

Business Cycle: Business cycle shows the variations in economic activities of capitalist economies.

It is also called as Trade cycle. In trade cycle aggregate such as Expansion, peak, Recession, Depression, Trough, Recovary continously take place ~~for~~ in a constant pattern

Phases/stages of business cycle: (above ans)

Measures for controlling Business Cycle / measure to protect the Interest of Business cycle.

Formal Measures - It reduces the primary reasons of ~~A~~ trade cycle and do not elimenate the primary reasons compleatly.

the following are the Formal Measures of Controlling the Business / Trade cycle.

(i) Monetary policy
(ii) State Fiscal Policy
(iii) State control of Private Investment
(iv) International Measures to Control Business Cycle

(i) Monetary Policy: Monetary policy as measure to Control business cycle fluctuation refers to (measures which are taken with) the view of Control money and credit supply in the ~~conto~~ country.

When we are in the ~~satet~~ state of full employment and we are facing inflation, then deflation policy may be apply (or) adopted.

The central bank can reduce the quantity of money in circulation in different measures such as increase in bank rate, selling of securities in market etc.

(ii) Fiscal Policy:

Fiscal policy as measure to control the business cycle fluctuation, It is considered to be a powerfull anti-cycle weapon in the hands of government.

Fiscal policy involves in the process of shaping the public finance and attainment of full employment without inflation.

(iii) State Control of private Investment

Some of economists are suggested that if a government taken control over the private investment can be great control of business cycle fluctuation within the limits. But some other economists disagree with the above statement that governments should control the private investment. Here the Low investment will reduce employment and income.

(iv) International Measures Control of Business cycle.

Today, Every contry has trade relations throughout the world. If their is any inflation (or) deflation in one Country, It can be effect throughout the all other countries.

For Example: If Saudi-Arabia is effected by the Petrol then it will effect to all other Countries also

(5) What do you understand by business economics? Discuss its nature and Scope.

Business economics

Business economics is a field of applied economics which studies the financial, organization Market-related, and environmental issues faced by corporations.

Business economics consists of subjects such as production factor, distribution, consumtion, Concept of scarcity.

Nature of Business economics

(i) Business economics is a science
(ii) It is based on Micro Economics
(iii) It Incorporates elements of Macro Analysis
(iv) It is an 'Art'
(v) programatic in Approach

(i) Business economics is a Science

It is a systematic body of knowledge which can establish a relationship between cause and effect.

(ii) It is based on micro Economics

We understand the basic difference b/w micro and macroeconomics; A business manager concentrat on achieving the objectives of his own organization. After all he (owner) only get the profit /loss and long term survival of the firm.

(iii) it Incorporates Elements of Macro Analysis

Even the all businesses focus on profitability and survival, a firm cannot operate in a vaccum. The external environment of economy like income, employment levels etc, affects the firm.

(iv) It is an Art.

Business Economic is an art because it requires practical application of rules and principle to achieve the objectives.

(v) programatic in approch.

microeconomics is purely theoritical and analyzes economics on other hand, Business economic is a programatic in approch. It tries to solve the problems which are face in real world.

Scope of Business economic

Demand and Forecasting Analysis
Production and Cost Analysis
Profit analysis
profit Management
Production Management
Investment Management
Investment and Capital Budgeting Decisions
Resource Allocation

Rewriting in order (easy to learn)

1) Resource Allocation
2) Demand and forecasting Analysis
3) Production and cost Analysis
4) Profit analysis
5) Investment Management
6) Investment and Capital Budgeting Decisions
* ~~7) Production Management~~ x
✓ ~~8) Profit Management~~ ✓

#1 Resource Allocation: Business Economics used advanced tools linear programing to create best program to utilize the resource.

#2 Demand and forecasting Analysis
Demand Analysis means to understand the buyer behaviour. It studies the prefference of the Coustomer/consumer
Foresting demand is a technique used to identify the ~~futu~~ future demand of consumer and ~~produ~~ try to produce that type of product.

#3 Production and Cost Analysis:

Business economist have the responsibilities of production

Production and cost Analysis depends on the Consumer. The product will design and produce on the bases of demand and the Capital of the Consumer.

Examples: production of Mobile phone (MI) MI produce best features and cost of the product is less

#4 Profit Analysis

Profit depend on the many factors like charging price, Market conditions, Product demand etc. The profit theories will help to manage the profit of the product.

#5 Profit Managment

Business economics mainly concentrates on its primary goal of a firm i.e., profit maximization. It deals with profit estimation and profit planning.

5 # Investment Management: Investment ~~of~~ on the goods will decided by design, quality, quantity and Investment policies

#6 Investment and Capital Budgeting Decision

Investment and Capital budget both are the financial Commitments. By taking a project and Commited to Invest on the project.

6) Discuss the importance and limitation of business economics.

1. Useful in Business organization
2. Help in Business planning
3. Helpful in profit control
4. Helpful in Profit planning
5. Useful in Demand casting
6. Helpful to chalking out Business Policies
7. Helpful in solutions for Taxation problem
8. Useful in co-ordination of Business Activities

* Understand consumer behaviour
* useful in decisions of cost