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There are five questions in this assignment which carried 100 marks.

Answer all the questions. Please go through the guidelines regarding assignments given in the Program Guide for the format of presentation.

Attempt all the questions:

Q1. What are the essential features of business? List different objectives of business. (10+10)

Ans.

Essential features of business:-

1. Economic activity:

Business is an economic activity of production and distribution of goods and services. It provides employment opportunities in different sectors like banking, insurance, transport, industries, trade etc. it is an economic activity corned with creation of utilities for the satisfaction of human wants.

It provides a source of income to the society. Business results into generation of employment opportunities thereby leading to growth of the economy. It brings about industrial and economic development of the country.

2. Buying and Selling:

The basic activity of any business is trading. The business involves buying of raw material, plants and machinery, stationary, property etc. On the other hand, it sells the finished products to the consumers, wholesaler, retailer etc. Business makes available various goods and services to the different sections of the society.

3. Continuous process:

Business is not a single time activity. It is a continuous process of production and distribution of goods and services. A single transaction of trade cannot be termed as a business. A business should be conducted regularly in order to grow and gain regular returns.

Business should continuously involve in research and developmental activities to gain competitive advantage. A continuous improvement strategy helps to increase profitability of the business firm.

4. Profit Motive:

Profit is an indicator of success and failure of business. It is the difference between income and expenses of the business. The primary goal of a business is usually to obtain the highest possible level of profit through the production and sale of goods and services. It is a return on investment. Profit acts as a driving force behind all business activities.

Profit is required for survival, growth and expansion of the business. It is clear that every business operates to earn profit. Business has many goals but profit making is the primary goal of every business. It is required to create economic growth.

5. Risk and Uncertainties:

Risk is defined as the effect of uncertainty arising on the objectives of the business. Risk is associated with every business. Business is exposed to two types of risk, Insurable and Non-insurable. Insurable risk is predictable.

Predictable factors are controllable to some extent, such as:

a) Taxes

b) Change in the volume of expected sales

c) Cost of supplies and equipment

d) Overhead costs

e) Salaries

f) Cost of goods and services offered

Unpredictable factors include:

a) Changes in trends and tastes of customers.

b) Impact of the local economy on customer base.

c) Any unexpected action taken by your competitors.

The calculation and management of the risk is vital to ensure the success of a business firm. Insurance and Risk management helps in minimizing the risk associated with the business.

6. Creative and Dynamic:

Modern business is creative and dynamic in nature. Business firm has to come out with creative ideas, approaches and concepts for production and distribution of goods and services. It means to bring things in fresh, new and inventive way.

One has to be innovative because the business operates under constantly changing economic, social and technological environment. Business should also come out with new products to satisfy the growing needs of the consumers.

7. Customer satisfaction:

The phase of business has changed from traditional concept to modern concept. Now a day, business adopts a consumer-oriented approach. Customer satisfaction is the ultimate aim of all economic activities.

Modern business believes in satisfying the customers by providing quality product at a reasonable price. It emphasize not only on profit but also on customer satisfaction. Consumers are satisfied only when they get real value for their purchase.

The purpose of the business is to create and retain the customers. The ability to identify and satisfy the customers is the prime ingredient for the business success.

8. Social Activity:

Business is a socio-economic activity. Both business and society are interdependent. Modern business runs in the area of social responsibility.

Business has some responsibility towards the society and in turn it needs the support of various social groups like investors, employees, customers, creditors etc. by making goods available to various sections of the society, business performs an important social function and meets social needs. Business needs support of different section of the society for its proper functioning.

9. Government control:

Business organisations are subject to government control. They have to follow certain rules and regulations enacted by the government. Government ensures that the business is conducted for social good by keeping effective supervision and control by enacting and amending laws and rules from time to time.

Some important acts framed by the government include:

i. The Competition Act, 2002

ii. Foreign Exchange Management Act, 1999

iii. The Environment Act, 1986

iv. Indian Companies Act, 1956

v. Consumer protection Act

10. Optimum utilisation of resources:

Business facilitates optimum utilisation of countries material and non-material resources and achieves economic progress. The scarce resources are brought to its fullest use for concentrating economic wealth and satisfying the needs and wants of the consumers.

Business Objectives:

All business activity is self-interested and competitive, and this competition may benefit people and society when it leads resources to be employed in their most profitable use. Business Organizations are economic in nature but they also have human and social aspects associated with them. Some of the main economic of any business enterprise are:

- Earning of satisfactory profits and a fair return on investment for stakeholders
- Creation of new customers and markets to sustain growth
- Making innovations and improvements in goods and services
- Providing employment opportunities
- Supply of quality goods and services at reasonable costs
- Avoidance of profiteering and unfair practices
- Fair deal to employees in terms of wages and incentives
- Providing better working conditions and environment to the employees

- Provide job satisfaction

Q2. What is capital structure? Describe factors that determine the capital structure. (2+18)

Ans.

Capital structure refers to the specific mix of debt and equity used to finance a company's assets and operations. From a corporate perspective, equity represents a more expensive, permanent source of capital with greater financial flexibility. Financial flexibility allows a company to raise capital on reasonable terms when capital is needed. Conversely, debt represents a cheaper, finite-to-maturity capital source that legally obligates a company to make promised cash outflows on a fixed schedule with the need to refinance at some future date at an unknown cost.

Factors Determining Capital Structure

Trading on Equity- The word "equity" denotes the ownership of the company. Trading on equity means taking advantage of equity share capital to borrowed funds on reasonable basis. It refers to additional profits that equity shareholders earn because of issuance of debentures and preference shares.

It is based on the thought that if the rate of dividend on preference capital and the rate of interest on borrowed capital is lower than the general rate of company's earnings, equity shareholders are at advantage which means a company should go for a judicious blend of preference shares, equity shares as well as debentures. Trading on equity becomes more important when expectations of shareholders are high.

Degree of control- In a company, it is the directors who are so called elected representatives of equity shareholders. These members have got maximum voting rights in a concern as compared to the preference shareholders and debenture holders. Preference shareholders have reasonably less voting rights while debenture holders have no voting rights. If the company's management policies are such that they want to retain their voting rights in their hands, the capital structure consists of debenture holders and loans rather than equity shares.

Flexibility of financial plan- In an enterprise, the capital structure should be such that there is both contractions as well as relaxation in plans. Debentures and loans can be refunded back as the time requires. While equity capital cannot be refunded at any point which provides rigidity to plans. Therefore, in order to make the capital structure possible, the company should go for issue of debentures and other loans.

Choice of investors- The company's policy generally is to have different categories of investors for securities. Therefore, a capital structure should give enough choice to all kind of investors to invest. Bold and adventurous investors generally go for equity shares and loans and debentures are generally raised keeping into mind conscious investors.

Capital market condition- In the lifetime of the company, the market price of the shares has got an important influence. During the depression period, the company's capital structure generally consists of debentures and loans. While in period of boons and inflation, the company's capital should consist of share capital generally equity shares.

Period of financing- When company wants to raise finance for short period, it goes for loans from banks and other institutions; while for long period it goes for issue of shares and debentures.

Cost of financing- In a capital structure, the company has to look to the factor of cost when securities are raised. It is seen that debentures at the time of profit earning of company prove to be a cheaper source of finance as compared to equity shares where equity shareholders demand an extra share in profits.

Stability of sales- An established business which has a growing market and high sales turnover, the company is in position to meet fixed commitments. Interest on debentures has to be paid regardless of profit. Therefore, when sales are high, thereby the profits are high and company is in better position to meet such fixed commitments like interest on debentures and dividends on preference shares. If company is having unstable sales, then the company is not in position to meet fixed obligations. So, equity capital proves to be safe in such cases.

Sizes of a company- Small size business firms capital structure generally consists of loans from banks and retained profits. While on the other hand, big companies having goodwill, stability and an established profit can easily go for issuance of shares and debentures as well as loans and borrowings from financial institutions. The bigger the size, the wider is total capitalization.

Q3. Discuss various arguments in support of and against advertising. (20)

Ans.

There can be two types of arguments, in favour of advertising and against advertising.

Advantage: Arguments in Favour of Advertising

The arguments imply social significance or usefulness of advertising:

1. Stimulate Production:

Advertising has positive impact on demand. Demand for products can be increased. Naturally, an increased demand stimulates production. More production means more prosperity.

2. Stimulate National Income:

Advertising can contribute to national income by generating more consumptions, demand, and production.

3. Employment Opportunities:

It can ease unemployment problems by generating more employment opportunities.

4. Commercialization of Inventions:

Advertising is useful to commercialize or materialize new useful inventions. New inventions benefit the society.

5. Public Acceptance:

Advertising prepares people to accept and use new and standard products.

6. Informative:

Advertisement is a good source of information. It can increase awareness about different products and special offers related to products. Availability of adequate information can help customers select the most suitable products/brands.

7. Mass Production and Mass Distribution:

Advertising has significant role for mass production and mass distribution. It affects positively in all aspects of mass production and mass distribution.

8. Educative Value:

It can educate the society about new products, new uses, improvements in products, and other aspects. People can learn a lot of useful things by advertising.

9. Adaptive Value:

Advertising makes people start using new products. It has a high convincing value. Customers and company both have benefits.

10. Improved Standard of Living:

Naturally, availability of useful information, mass production and mass distribution, and many other such positive outcomes of advertising improve living standard of people.

11. National and international Market:

Advertisement is instrumental in generating national and international trade. People of the globe can access useful products easily.

12. Entertaining Value:

Most advertisements are capable of entraining people. People like to see, hear, or read advertisements in different media. It provides the useful information in an interesting way. It helps release tension or stress.

Disadvantage: Arguments against Advertising

The arguments imply adverse impact of advertising on society:

1. High Price to Consumers:

Advertising increases costs of product. Customers have to pay high price for the products heavily advertised. Companies do not forgo their profits. Thus, businessmen can earn more at a cost of customers.

2. Wastage of National Resources:

Due to excessive use or proliferation of advertising, valuable national resources are wasted. In many cases, companies undertake rigorous advertising efforts without specific needs.

3. Impulsive Buying:

It creates unnecessary needs. People are emotionally forced to buy the products. Sometimes, it instigates people to buy unnecessary products.

4. Materialist Implications:

It promotes materialism. It makes people mad after things, whether useful or not.

5. Fraud to Customers:

It has misleading/deceptive implications. Most claims are exaggerated. Advertising has a little truth and a lot false.

6. Erotic, Unrealistic and Exaggerated:

It is difficult to justify the company's claims made in advertisement. Some claims or appeals are completely baseless. Advertising appeals related to biscuits, tonic foods, and herbal and pharmaceutical products are far from reality. Some advertisements are so vulgarly presented that have only erotic appeal than commercial.

7. Company-oriented:

It is erroneous to believe that advertisement is always useful to customers. In most cases, it benefits only to advertisers, sometimes, even at a cost of buyers.

8. Creation of Monopoly:

Effective advertising campaign creates permanent place for certain brands in the market. It blocks the entry of other competitors. Monopoly always has ill-effect on buyer's interest.

9. Compulsion to Customers to View, Read or Hear:

It is a disturbance to people. Advertising carries nuisance value. People are not interested to watch, read or hear commercial ads, but they have to do it.

10. Source of Confusion and Stress:

Due to over bombarding of advertising on different mass media, people are confused and feel stress in regard to selection of products.

Q4. Discuss the pervasiveness of risk in business. Describe briefly the management of business risks. (10+10)

Ans.

PERVASIVENESS OF RISKS IN BUSINESS

Different risks pervade all kinds of business activities. Many failures of management can be traced to failure to recognise and deal with risks. It is the normal tendency for the managers to over emphasize the profit aspect of enterprise and under mind therisk factors. Let us understand how risk pervades all aspects of business. Let us examine how risk prevails in all the following main aspects of business:

(1) property I,and personnel,

(2) marketing,

(3) finance,

(4) production, and

(5) environment.

Property and Personnel Risks: Every business firm is confronted by potential loss to its property and personnel through common perils such as fire, explosion,

wind storm, flood, theft, business liability damage suits, earth quake and death or disability of its personnel. These perils may cause direct loss by damaging property or killing personnel. Losses may occur to business from the occurrence of some of these perils.

Marketing Risks: Marketing activity includes all those business activities necessary to move goods fromproducers to consumers. The major functions include buying, selling, transportation and storage. Activities like standarization, market information and research are also other important functions of marketing activities. There is an element of risk in all these activities. For instance, you may not be able to sell your products at the prices you want. Due to market conditions, you may be forced to sell at lower prices and incur losses. Similarly, due to sudden spurt in the raw material prices, your cost of production may go up and you may incur losses. Goods may be stolen, damaged or destroyed in transit from perils for which the transporter is not - liable. Similarly, improper facilities for storage may cause unexpected losses. Normal perils such as fire, floods, storm, explosion, theft, etc., can cause extensive damage to goods in the storage. For instance, the fire due to electric short circuit may cause extensive damage to the goods in the storage.

Financial Risks: All business firms borrow money and also extend credit to customers. There is always scope for loss from both credit received as well as credit extended. Bad debts due to insolvency of customers is a continuous problem in business. Similarly, creditors like banks and financial institutions may fail or cancel the loans due to bad business conditions. This can cause financial loss to the firm due to curtailed operations. Similarly, unexpected rise in interest rates on bank loans may reduce profits. Business firms' investments in stocks and bonds always face risk.

Production Risks: Manufacturing enterprises face the problems such as production I losses due to breakdown of machinery, defective products due to faulty machinery or poor quality of raw material, under utilisation of installed capacity, inventory build up to levels much higher than current demand, improper plant layout, uneconomical plant capacity, etc. Such production risks may be minimized by careful planning.

Environmental Risks: Business environment is a crucial factor for every enterprise. Environmental factors such as competition, changing tastes and preferences of consumers, technological developments, governmental policies, ecological issues, political developments, etc., have lot of impact on each and every business firm. All these environmental problems pose risks to business firms.

Risk management involves five basic steps:

1. Risk identification is the first step and also the most difficult function. Failure to identify all the loss exposers of the firm means you will not be in ! a-position to deal with those risks. Therefore, as a first step you should identify all types of loss exposers of your business.

2. After identifying the risks, you should assess the intensity of financial loss associated with each of those risks. At this stage you have to determine two aspects :

(a) probability of the occurance of each of the perils or risk identified in the first stage, and

(b) extent of financial loss to the firm, if that peril occur. With this assessment, you can identify the relatively more serious risks and can pay more attention to them.

3. After risk identification and proper measurement, at the third stage you should consider various tools of risk management and decide upon the best combination of the tools to be used for attacking the problem. There are basically six tools of risk management viz.,

(a) assumption (or retention)

(b) loss prevention,

(c) avoidance,

(d) transfer (insurance),

(e) separation, and

(f) combination.

Business firms may adopt any one of these six methods or a combination of them. Let us discuss these methods briefly.

a) Risk Assumption or Retention: This is a common way of handling risks. Business enterprises assume or retain risks consciously (intentionally) or unconsciously (unintentionally). Under conscious assumption, one is aware of the risk to which hisher business is exposed, but essentially does nothing to avoid it. A manager of a business who consciously assumes risk is doing something about it by the very act of being aware of those perils and hazards which may cause loss. Being aware of risk, he may knowingly or unknowingly make adjustments in operations which will help to alleviate the impact of that risk. Awareness of risk itself is a significant achievement in better management. In the case of unconscious risk assumption, risk is not recognised. As you are not even aware of the existence of some risk, losses stemming from it can cause disastrous surprises teyour business.

b) Loss Prevention: Another method of handling risk is to take appropriate measures to prevent the occurance of a peril, or minimise its financial impact on business. This approach is known as loss prevention. For instance, by using fire resistant building material, you can prevent the occurance of fire in the building. However, in most cases loss prevention measures may not totally eliminate the risk, but can reduce its probability in terms of frequency as well as severity.

C) Avoidance: Avoiding situations which have the potential to cause loss, is another approach. For instance, a firnl can avoid the risk of loss due to bad debts by simply stopping credit sales. Similarly, a firm may avoid operations in certain areas which are known for some perils like terrorism.

d) Transfer: Transferring the risk to another party is a very widely followed approach to handle risks. Insurance is the most common method of transferring'pure risks sucll as fire, windstorm, flood, riot, theft, etc. Business enterprises normally transfer the pure risks to the insurance company and devote their full efforts to their nornlal business.

e) Separation: Fifth method of risk control is separation of the firm's exposers to loss instead of concentrating them at one location where all of them might be involved in the same loss. For example, when a firm keeps its entire raw material in one warehouse, the entire raw material may be damaged if fire occur in that warehouse. Therefore, the firm may decide to store the raw material in ten separate warehouses. If fire occur in one warehouse, inaterials stored in that warehouse are damaged and the remaining nine warehouses are safe. Here through separation the firm increases the number.of independent exposere units under its control. This methods is also a kind of loss prevention.

f) Combination: Strategies like diversification of products, law of large numbers, formation of more conlpanies with unrelated lines of business, etc., come under this method. For example, if a firm is engaged in more products, the losses incurred in one product may be upset by the gains in another product. Similarly, if there are more companies, the losses incurred by one company may be upset by the.gains by the other companies. Insurance companies work on this combination principle where a sufficiently large number of similar objects are combined to make the loss predictable within narrow limits.

Subjective risks can be reduced by having more knowledge about such perils. A person with better knowledge of the perils can handle them more easily than a person who do not have the knowledge. Therefore, subjective risks may be reduced through knowledge and research. An important aspect you should remember here is that while managing risks you should not just rely on any one method, instead you should usually employ some , combination of various methods.

4. After taking a decision regarding the combination of risk management tools, the next step is the implementation of the decision made. For instance, if you have decided in the previous stage to transfer the risk, you have to get the insurance policy at this stage.

5. Finally, you have to evaluate the effectiveness of the risk management tools you have implemented.

Q5. Comment briefly on the following statements: (4 x 5)

a) An entrepreneur is a good judge of which products will sell.

Ans.

Entrepreneurs tend to think of themselves as inventors and managers, but the only way to get a business off ground and growing is to **sell the vision, sell the prototype, sell the product, and sell top performers on the idea of joining your team**.

Entrepreneurs can't sell their product or service if no one knows about it. Vision and innovation means little if entrepreneurs don't communicate why their business stands out in the crowd of competitors. Use good communication skills in talking about your business. Activate networks of potential customers through good word of mouth and creative use of social media tools. Study marketing and communications techniques used by other successful entrepreneurs. Put them to work growing your own business.

An entrepreneur that sells products is offering tangible objects of various quantities to customers. Ones offering services sell their skills and time to customers continually — like subscriptions.

b) Stock exchange plays a very important role in the economic development of a country.

Ans. Stock exchanges play a prominent role in the consolidation of the national economy and also help in the development of industrial sector especially. India is a developing economy, and in such countries, these exchanges play a cardinal role. They help in mobilizing the savings and ensure safety at the same time.

1. **Role of an Economic Barometer:** Stock exchange serves as an economic barometer that is indicative of the state of the economy. It records all the major and minor changes in the share prices. It is rightly said to be the pulse of the economy, which reflects the state of the economy.
2. **Valuation of Securities:** Stock market helps in the valuation of securities based on the factors of supply and demand. The securities offered by companies that are profitable and growth-oriented tend to be valued higher. Valuation of securities helps creditors, investors and government in performing their respective functions.
3. **Transactional Safety:** Transactional safety is ensured as the securities that are traded in the stock exchange are listed, and the listing of securities is done after verifying the company's position. All companies listed have to adhere to the rules and regulations as laid out by the governing body.
4. **Contributor to Economic Growth:** Stock exchange offers a platform for trading of securities of the various companies. This process of trading involves continuous disinvestment and reinvestment, which offers opportunities for capital formation and subsequently, growth of the economy.

c) There are various reasons of the government participating in business.

Ans.

Reasons why government participates in business enterprises are:

(i) **To provide essential services:** The government prefers to handle the provision of essential services in order to reduce costs. ...

(ii)**To prevent monopoly:** Government participates in business to prevent the exploitation of the people.

(iii) Capital involvement: Some enterprises require huge capital which private individuals cannot provide.

(iv)To prevent foreign control of the economy: The management of some corporations must be handled by the government to avoid them falling into the hands of foreigners.

(v) Strategic reasons: Some corporations e.g. airport, seaports, etc are strategically important to the economy, hence private hands cannot be allowed

(vi) Revenue generation: Government participates in order to generate revenue from them.

(vii) Employment opportunities: Government embarks on business in order to create employment opportunities

(viii)To monitor the industry: Government may like to co-operate with private bodies in such ventures like insurance and banking to enable government monitor the activities of such business.

d) The government company form of organization suffers from certain limitations.

Ans. The government companies suffer from the following limitations:

1. Lack of Initiative

The management of government companies always has a fear of public accountability. As a result, they lack initiative in taking the right decisions at the right time.

Moreover, some directors may not take a real interest in the business for fear of public criticism.

2. Lack of Business Experience

In practice, the management of the companies is generally put into the hands of administrative service officers who often lack experience in managing the business organization on professional lines.

So, in most cases, they fail to achieve the required efficiency levels.

3. Change in Policies and Management

The policies and management of these companies generally keep on changing with the change of government. Frequent change of rules, policies, and procedures leads to an unhealthy situation of business enterprises.